IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the Base Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Base Prospectus or make an investment decision with respect to the securities, investors must be either (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) that are also Qualified Purchasers ("**QPs**") as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended, or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the United States. The Base Prospectus is being sent at your request and, by accepting the e-mail and accessing the Base Prospectus, you shall be deemed to have represented to us that (1) you are (or, if you are acting for the account of another person, such person is) either (a) a QIB that is also a QP or (b) not a U.S. person and that the electronic mail address that you gave us and to which the Base Prospectus has been delivered is (or, if you are acting for the account of another person, that such person is) not located in the United States and (2) you consent (and, if you are acting for the account of another person, such person consents) to delivery of the Base Prospectus by electronic transmission.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. The Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply.

If a jurisdiction requires that the offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of JSC National Company KazMunayGas or KazMunaiGaz Finance Sub B.V. (as the case may be) in such jurisdiction.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Dealers (as defined in the Base Prospectus) nor any person who controls them nor any director, officer, employee nor agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from any such Dealer.

JSC National Company KazMunayGas

(A joint stock company incorporated in the Republic of Kazakhstan)

and

KazMunaiGaz Finance Sub B.V.

(A limited liability company incorporated in the Netherlands)

unconditionally and irrevocably guaranteed by

JSC National Company KazMunayGas

(*A joint stock company incorporated in the Republic of Kazakhstan*)

U.S.$10,500,000,000
Global Medium Term Note Programme

JSC National Company KazMunayGas, a joint stock company incorporated in the Republic of Kazakhstan (the "**Company**"), and KazMunaiGaz Finance Sub B.V., a company incorporated with limited liability in the Netherlands ("**KMG Finance**"), have established a U.S.$10,500,000,000 Global Medium Term Note Programme (the "**Programme**"), pursuant to which the Company or KMG Finance, as the case may be (each in such capacity, an "**Issuer**"), may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the relevant Issuer, together, if applicable, with the Company, and the relevant Dealer(s) (as defined below). The Notes will be constituted by and have the benefit of an amended and restated trust deed dated 1 November 2010, as supplemented by a supplemental trust deed dated 15 April 2013 (as may be further supplemented, amended or restated from time to time, the "**Trust Deed**"), among the Company, KMG Finance and Citigroup Trustee Company Limited (the "**Trustee**", which term shall include any successor trustee under the Trust Deed).

Where KMG Finance acts as the Issuer of Notes under the Programme, the payment of all amounts owing by KMG Finance in respect of such Notes will be unconditionally and irrevocably guaranteed by the Company (in such capacity, the "**Guarantor**") pursuant to a guarantee (the "**Guarantee**") contained in the Trust Deed.

Effective 15 April 2013, the Company and KMG Finance increased the size of the Programme from U.S.$7,500,000,000 to U.S.$10,500,000,000. The maximum aggregate nominal amount of Notes outstanding under the Programme will not exceed U.S.$10,500,000,000 (or its equivalent in other currencies), subject to increase as described in the Dealer Agreement referred to herein.

This Base Prospectus supersedes the Base Prospectus dated 1 November 2010 relating to the Programme.

Application has been made (i) to the Financial Conduct Authority (in such capacity the "**UK Listing Authority**"), in its capacity as the competent authority under the Financial Services and Markets Act 2000, as amended (the "**FSMA**"), for Notes issued under the Programme during the period of twelve months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the "**Official List**") and (ii) to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Regulated Market**"). References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Notice of the aggregate nominal amount of, interest (if any) payable in respect of, the issue price of, and the completion of certain other terms and conditions which are applicable to, each Tranche (as defined below) of Notes will be set forth in a final terms (the "**Final Terms**"), which, with respect to Notes to be admitted to the Official List and to be admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and to the London Stock Exchange on or before the date of issue of the Notes of such tranche. In addition, unless otherwise agreed with the relevant Dealer(s) (as defined below) and provided for in the Final Terms, the Company will use its reasonable endeavours to cause all Notes issued by the Company and KMG Finance under the Programme to be admitted to the "rated debt securities (highest category) "category of the "debt securities" sector of the official list of the Kazakhstan Stock Exchange (the "**KASE**") as from (and including) the date of issue of the relevant Notes (the "**Issue Date**"). Neither the Company nor KMG Finance can give any assurance that any such listing will be obtained. In addition, no Notes may be issued or placed without the prior consents of the Committee for the Control and Supervision of the Financial Market and Financial Organisations of the National Bank of Kazakhstan (the "**FMSC**").

Factors which may affect the ability of the Company and KMG Finance to fulfil their obligations under the Programme and factors which are material for the purposes of assessing the risks associated with Notes issued under the Programme are set out under "Risk Factors" beginning on page 1.

Neither the Notes nor the Guarantee has been or will be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. Notes may be offered and sold (i) within the United States to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) that are also qualified purchasers ("**QPs**") as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the "**Investment Company Act**"), in reliance on the exemption from registration provided by Rule 144A ("**Rule 144A Notes**") and (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S ("**Regulation S**") under the Securities Act ("**Regulation S Notes**" and, together with Rule 144A Notes, "**Notes**"). Prospective purchasers are hereby notified that sellers of Notes may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The minimum denomination of any Notes issued under the Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Subject thereto and in compliance with all applicable legal, regulatory or central bank requirements, Notes will be issued in such denominations as may be specified in the relevant Final Terms.

The long-term foreign currency debt of the Company has been rated BBB- by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), BBB by Fitch Ratings Limited ("**Fitch**") and Baa3 by Moody's Investors Service Limited ("**Moody's**"). Each of S&P, Fitch and Moody's is established in the European Economic Area and is registered under Regulation (EU) № 1060/2009, as amended (the "**CRA Regulation**"). Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Such rating will not necessarily be the same as the rating assigned to the Company by the relevant rating agency. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Joint Arrangers and Dealers

Barclays | BofA Merrill Lynch | Halyk Finance | Visor Capital

The date of this Base Prospectus is 15 April 2013

This Base Prospectus should be read and construed together with any supplements hereto and, in relation to any Tranche of Notes, should be read and construed together with the relevant Final Terms. This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State as defined below), and includes any relevant implementing measure in the Relevant Member State; and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview—Overview of the Programme*" and any additional Dealer or Dealers appointed under the Programme from time to time by the Issuer and the Guarantor (if applicable) (each, a "**Dealer**" and, together, the "**Dealers**"), which appointment may be for a specific issue of Notes or an ongoing basis. In the context of a discussion of an issue of a particular Tranche of Notes, reference in this Base Prospectus to "**relevant Dealer**" or "**relevant Dealers**" shall be to the Dealer or Dealers agreeing to subscribe for the particular Tranche of Notes.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Company or KMG Finance or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Company, KMG Finance, the Trustee or any Dealer.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Company, KMG Finance, the Dealers or the Trustee that any recipient of this Base Prospectus, or any other information supplied relating to the Programme or any Notes, should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Company and KMG Finance. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Company or KMG Finance or any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes in any jurisdiction where such offer or invitation is prohibited.

No representation or warranty is made or implied by the Dealers, the Trustee or any of their respective affiliates, and none of the Dealers, the Trustee nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Company or KMG Finance since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Furthermore, none of the Company, KMG Finance, the Dealers or the Trustee makes any comment about the treatment for taxation purposes of payments or receipts in respect of any Notes received by any Noteholder. Each investor contemplating acquiring Notes under the Programme must seek such tax or other professional advice as it considers necessary for the purpose.

Each potential investor in Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of Notes, the merits and risks of investing in Notes and the information contained or incorporated by reference in this Base Prospectus and any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in Notes and the impact Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's home currency;

- understand thoroughly the terms of Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes, which are complex financial instruments, unless it has the expertise (either alone or with a financial advisor) to evaluate how Notes will perform under changing conditions, the resulting effects on the value of Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to applicable legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

The distribution of this Base Prospectus, any supplement and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus, any supplement or any Final Terms comes are required by the Company, KMG Finance and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus, any supplement or any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

This Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

NEITHER THE NOTES NOR THE GUARANTEE HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE GUARANTEE OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation or over allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ADDITIONAL INFORMATION

Neither the Company nor KMG Finance is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). For so long as neither the Company nor KMG Finance is a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3 2(b) thereunder, the Company and KMG Finance will, upon request, furnish to each holder of Notes that are "restricted securities" (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder upon request of such holder or prospective purchaser, in connection with a transfer or proposed transfer of any such Rule 144A Notes under the Securities Act, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. As long as the relevant Notes are represented by a Rule 144A Global Note, for the purposes of this paragraph the expression "holder" shall be deemed to include account holders in the clearing systems who have interests in the relevant Rule 144A Global Note.

U.S. INFORMATION

This Base Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs that are also QPs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Notes may be offered or sold within the United States only to QIBs that are also QPs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Notes is hereby notified that the offer and sale of any Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Rule 144A Global Note or any Notes issued in exchange or substitution therefor (together "**Legended Notes**") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale*" and "*Transfer Restrictions*".

PRESENTATION OF FINANCIAL, RESERVES AND CERTAIN OTHER INFORMATION

Financial Information

The independent auditors of the Company (as defined in "*Appendix I—Glossary of Frequently Used Defined Terms*"), Ernst & Young LLP, issued an audit opinion dated 13 March 2013 relating to the Company's consolidated financial statements as at and for the year ended 31 December 2012, which include comparative data as at and for the year ended 31 December 2011 (the "**2012 Financial Statements**"), and an audit opinion dated 26 March 2012 relating to the Company's consolidated financial statements as at and for the year ended 31 December 2011, which include comparative data as at and for the year ended 31 December 2010 (the "**2011 Financial Statements**" and, together with the 2012 Financial Statements, the "**Financial Statements**").

Ernst & Young LLP's audit opinions in respect of the Financial Statements appear on pages F-5 and F-81 of this Base Prospectus. The financial information set forth herein relating to the Company, unless otherwise indicated, has been extracted without material adjustment from the Financial Statements and the notes thereto contained in this Base Prospectus beginning on page F-1.

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The Financial Statements contained elsewhere in this Base Prospectus are presented in Tenge. However, for convenience some financial information in this Base Prospectus is presented in U.S. Dollars, which information is based on the Tenge amounts contained in the Financial Statements as translated at the exchange rates indicated. Such translation should not be construed as a representation that the Tenge amounts have been or could be converted into U.S. Dollars at these rates or any other rate.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Restatements

The Company made certain restatements to its 2011 consolidated statement of financial position and consolidated statement of comprehensive income due to the recognition of "Aysir Turizm ve Inshaat AS" ("**Aysir**") as a discontinued operation in December 2012 and the contribution of 100% of the shares in JSC Arkagaz ("**Arkagaz**") by JSC "Sovereign Wealth Fund" "Samruk-Kazyna" to the Company in exchange for an issuance of shares in the Company in June 2012; this acquisition was accounted for using the pooling of interest method. Accordingly, the 2011 figures included in this Base Prospectus may differ from figures published elsewhere. The Company believes that these restatements had no material impact on the financial position, results of operations or equity of the Company. See Notes 8 and 6 to the 2012 Financial Statements.

The following tables set forth the restatements referred to above and the effects on the relevant line items:

	As at 31 December 2011
	Restatement
	(*KZT millions*)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	
Increase in property, plant and equipment	3,746.5
Increase in non-current assets	**3,746.5**
Increase in inventories	18.8
Increase in VAT recoverable	4.5
Increase in income taxes prepaid	0.6
Increase in trade accounts receivable	34.8
Increase in other current assets	27.8
Increase in cash and cash equivalents	40.7
Increase in current assets	**127.2**
Increase in trade accounts payable	1.0
Increase in other current liabilities	12.9
Increase in current liabilities	**13.9**
Increase in net assets	**3,859.8**
Attributable to:	
Equity Shareholder of the Company	3,859.8
Minority interest	—

	As at 31 December 2011
	Restatement
	(*KZT millions*)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	
Increase in revenue	755.7
Increase in costs of Sales	(714.2)
Increase in general and administrative expenses	(110.8)
Increase in transportation and selling expenses	(6.2)
Increase in other operating income	1.1
Increase in other operating expenses	(1.9)
Decrease in net profit for the year	**(76.4)**

Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates

Subsidiaries are entities over which the Company directly or indirectly has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company or one of its subsidiaries. Unless otherwise indicated, in this Base Prospectus, information presented for the Company's direct and indirect subsidiaries relating to production and reserves and other similar information reflect the subsidiaries' total interest therein, irrespective of the Company's percentage ownership thereof.

In September 2006, the Company sold 42.05% of the common shares of JSC KazMunaiGas Exploration Production ("**KMG EP**"), its principal onshore exploration and production company, and KMG EP listed (i) its common shares on the Kazakhstan Stock Exchange and (ii) global depositary receipts representing its common shares (the "**KMG EP GDRs**") on the London Stock Exchange. As at 31 December 2012, the Company owned 61.36% of the ordinary voting shares of KMG EP. The financial position and results of operations of KMG EP are consolidated with those of the Company in the Financial Statements, and such Financial Statements reflect the amounts attributable to the public minority interest. Unless otherwise indicated, data presented for KMG EP relating to production and reserves and other similar data reflect KMG EP's entire ownership interest.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures of the Company exist in two forms: jointly-controlled entities and jointly-controlled assets. A jointly-controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. Joint ventures in the form of jointly-controlled assets do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves; rather, each venturer has control over its share of future economic benefits through its share of the jointly-controlled asset.

Under IAS 31, which applies specifically to interests in joint ventures, jointly-controlled entity participants have traditionally been given a choice between two methods of accounting for their interests in their jointly-controlled entities in their consolidated financial statements: "proportionate consolidation" or "equity method" accounting. The interests of the Company and its subsidiaries in jointly-controlled entities are accounted for in the Financial Statements using the equity method of accounting. Under the equity method, the Company's consolidated statement of comprehensive income simply reflects the share of the Company and its subsidiaries' of the net profit or loss of the jointly-controlled entity as a single line item.

Interests in jointly-controlled assets are accounted for in the Financial Statements under the proportionate consolidation method as this is the only method allowed by IFRS for jointly-controlled assets. The Company's significant interest in jointly-controlled assets is represented by its interest in the North Caspian Project (Kashagan Field). Recognising that Karachaganak Petroleum Operating B.V. ("**KPO**") is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method.

Associates are entities over which the Company directly or indirectly has significant influence, but not control, generally accompanying a shareholding of between 20 and 50% of the voting rights. Investments in associates, as is the case with investments in jointly-controlled entities, are accounted for using the equity method of accounting. The Company's and its subsidiaries' interests in associates are limited to their share of the net profit or loss of such associates and are reflected as a single line item in the Company's consolidated statement of comprehensive income of the Financial Statements.

Unless otherwise indicated, information presented in this Base Prospectus with respect to production and reserves and other similar information of joint ventures of the Company or its subsidiaries reflects the Company's or the relevant subsidiaries' proportionate interests in the joint ventures. Similarly, information presented in this Base Prospectus relating to production and reserves and other similar information of associates reflects the Company's and its subsidiaries' proportionate interest in the associates. In certain sections of this Base Prospectus, the Company has provided information on production and reserves and other similar information of the Company and its subsidiaries and jointly-controlled assets separately from the production and reserves and other similar information of jointly-controlled entities accounted for under the equity method in order to permit some correlation to the financial accounting for the respective entities.

The Company acquired a 50% interest in CITIC Canada Energy Limited ("**CCEL**") in December 2007. Due to the way the transaction was structured and the arrangements entered into between the Company and its joint venture partner, the Company (i) retains no equity in CCEL for the purposes of its Financial Statements and (ii) is guaranteed the payment of a dividend. As a result, the Company does not recognise any income from CCEL in the line item "*Share of income of joint ventures and associates*", as it does with other jointly-controlled entities, but the Company does recognise income from CCEL in the line item "Finance income". Because the Company exercises joint control over the operations of CCEL, data relating to CCEL's production and reserves and other similar data are separately presented in this Base Prospectus, although all references in this Base Prospectus to the A+B+C1 reserves or the production of the Company and its subsidiaries, joint ventures and associates do not include CCEL's reserves or production, as the case may be.

In this Base Prospectus, "**A+B+C1 reserves**" refers to reserves of crude oil and gas classified as category A, B and C1 under Kazakhstan methodology, "**Company's A+B+C1 reserves**" refers to the A+B+C1 reserves of crude oil and gas of the Company and its subsidiaries and the Company's and the Company's subsidiaries' proportionate share in the A+B+C1 reserves of crude oil and gas of their respective joint ventures and associates, collectively, and "**Company's production**" refers to the crude oil and gas production of the Company and its subsidiaries and the Company's and the Company's subsidiaries' proportionate share in the crude oil and gas production of their respective joint ventures and associates, collectively. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations—Acquisitions*" and "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*".

See Notes 3 and 35 of the Financial Statements for additional information regarding how the Company accounts for its subsidiaries, joint ventures and associates.

Certain Reserves Information

The Company calculates its reserves using Kazakhstan methodology, a system employed in the former Soviet Union, which differs significantly from both (i) the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers (the "**PRMS**") and (ii) the reserves classifications permitted by the SEC ("**SEC Standards**"), in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

While Kazakhstan methodology permits the inclusion of highly speculative reserve quantities attributable to highly speculative acreage, the Company has elected to include only A+B+C1 reserves in the reserves figures calculated using Kazakhstan methodology included in this Base Prospectus. Even so, estimates derived according to Kazakhstan methodology may be substantially higher than those derived in accordance with PRMS and the SEC Standards because Kazakhstan methodology differs in significant ways from those standards. Effective from 1 January 2010, the SEC Standards were revised to be more consistent with PRMS, including allowing for the voluntary disclosure of probable and possible reserves in addition to proven reserves. Reserves are measured only on an annual basis and, accordingly, as at the date of this Base Prospectus, no reserve information is available as at any date subsequent to 31 December 2012. For a detailed discussion of each reserve classification used in the methodology employed by the Company, see "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*".

The reserves data contained in this Base Prospectus are, unless otherwise stated, taken from reserves analyses prepared in accordance with Kazakhstan methodology by the Company's professional engineering staff. The depreciation, depletion and amortisation data in the Financial Statements is prepared in accordance with IFRS, based on reserves estimates in accordance with PRMS, and were taken from published audited financial statements of certain of the Company's and its subsidiaries' joint ventures, it being noted that the depreciation, depletion and amortisation data for KMG EP as at 31 December 2012 was based on reserves estimates prepared in accordance with PRMS as at 31 December 2011 as no reserves estimates for KMG EP as at 31 December 2012 were available as at the date of its financial statements. Although the Company calculates its reserves using Kazakhstan methodology, some of the Company's subsidiaries and joint ventures calculate their reserves in accordance with PRMS.

Hydrocarbon Data

References in this Base Prospectus to "**tonnes**" are to metric tonnes. One metric tonne equals 1,000 kilograms.

For informational purposes only, certain estimates in this Base Prospectus are presented as follows:

- oil and condensate in barrels and barrels per year. Barrel figures are converted from the Company's internal records presented in tonnes at a rate of 7.6 barrels per tonne. Barrel per day figures have been obtained by dividing annual figures by 365; and

- plant products, which include butane, propane, liquefied petroleum gas ("**LPG**") and liquid hydrocarbons, in barrels. Barrel figures are converted from the Company's internal records presented in tonnes at a rate of 7.6 barrels per tonne. Barrel per day figures have been obtained by dividing annual figures by 365.

For internal record keeping purposes, the Company's information relating to production, transportation and sales of crude oil and gas condensate is recorded in tonnes, a unit of measure that reflects the mass of the relevant hydrocarbon. For convenience, such information is presented in this Base Prospectus as both tonnes and in standard 42 gallon barrels ("**barrels**" or "**bbl**"), converted from tonnes as described above. The actual number of barrels of crude oil produced, shipped or sold may vary from the barrel equivalents of crude oil presented herein, as a tonne of heavier crude oil will yield fewer barrels than a tonne of lighter crude oil. The conversion rates for other companies for converting tonnes into barrels and for converting cubic feet into cubic metres may be at different rates.

Third Party Information Regarding the Company's Market and Industry

Statistical data and other information appearing in this Base Prospectus relating to the oil and gas industry in the Republic of Kazakhstan ("**Kazakhstan**") have, unless otherwise stated, been extracted from documents and other publications released by the National Statistical Agency of Kazakhstan (the "**NSA**"), the Ministry of Finance of Kazakhstan, the Ministry of Energy and Mineral Resources (the "**MEMR**"), the National Bank of Kazakhstan (the "**NBK**") and other public sources in Kazakhstan, including the NBK's Annual Report, the World Bank and International Monetary Fund, as well as from Kazakhstan press reports and publications, edicts and resolutions of the government of Kazakhstan (the

"**Government**") and estimates of the Company (based on its management's knowledge and experience of the markets in which the Company operates). In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Any discussion of matters relating to Kazakhstan in this Base Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—The Company cannot ensure the accuracy of official statistics and other data in this Base Prospectus published by Kazakhstan authorities*".

The information described above has been accurately reproduced and, as far as the Company and KMG Finance are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third party information has been used in this Base Prospectus, the source of such information has been identified.

The Company's estimates have been based on information obtained from the Company's subsidiaries, joint ventures, associates, customers, suppliers, trade and business organisations and other contacts in the markets in which the Company operates. The Company believes these estimates to be accurate in all material respects as at the dates indicated. However, this information may prove to be inaccurate because of the method by which the Company obtained some of the data for these estimates or because this information cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other inherent limitations and uncertainties.

This Base Prospectus contains illustrations and charts derived from the Company's internal information and the internal information of the Company's subsidiaries, joint ventures and associates, which have not been independently verified unless specifically indicated.

Certain Definitions and Terminology

Certain defined terms are used in this Base Prospectus. See Appendix I for a glossary of frequently used defined terms. Additionally, see Appendix II for a glossary of measurement and technical terms used in this Base Prospectus.

FORWARD-LOOKING STATEMENTS

This Base Prospectus, any related supplement and any Final Terms may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and certain of the plans, intentions, expectations, assumptions, goals and beliefs of the Company regarding such items. These statements include all matters that are not historical fact and generally, but not always, may be identified by the use of words such as "believes," "expects," "are expected to," "anticipates," "intends," "estimates," "should," "will," "will continue," "may," "is likely to," "plans" or similar expressions, including variations and the negatives thereof or comparable terminology.

Prospective investors should be aware that forward looking statements are not guarantees of future performance and that the Company's actual results of operations and financial condition and the development of the industry in which it operates may differ significantly from those made in or suggested by the forward-looking statements contained in this Base Prospectus. In addition, even if the Company's results of operations, financial condition and business and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Factors that could cause actual results to differ materially from the Company's expectations are contained in cautionary statements in this Base Prospectus and include, among other things, the following:

- price fluctuations in crude oil, gas and refined products markets and related fluctuations in demand for such products;
- operational limitations, including equipment failures, labour disputes and processing limitations;
- the continuing effects of the global financial crisis, whose duration and magnitude cannot be ascertained;
- the availability or cost of transportation routes and fees charged for arranging transportation;

- overall economic and business conditions, including commodity prices;
- changes in government regulations, including regulatory changes affecting the availability of permits, and governmental actions that may affect the Company's operations or planned expansion;
- unplanned events or accidents affecting the Company's operations or facilities;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- the Company's ability to increase market share for its products and control expenses;
- economic and political conditions in Kazakhstan and international markets, including governmental changes;
- incidents or conditions affecting the export of crude oil and gas;
- reservoir performance, drilling results and the implementation of the Company's oil and gas expansion plans;
- an inability to implement any potential acquisition or an inability to acquire such interests on terms proposed by the Company; and
- the timing, impact and other uncertainties of future actions.

The sections of this Base Prospectus entitled "*Risk Factors*" and "*Management's Discussion and Analysis of Results of Operations and Financial Performance*" contain a more complete discussion of the factors that could affect the Company's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward looking events described in this Base Prospectus may not occur.

Neither the Company nor KMG Finance undertakes any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or KMG Finance or to persons acting on their behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Base Prospectus.

RESPONSIBILITY STATEMENT

This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Company and KMG Finance which, according to the particular nature of the relevant Issuer, together, if applicable, with the Company and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the relevant Issuer, together, if applicable, with the Company and of the rights attaching to the Notes. Where third party information has been used in this Base Prospectus, the source of such information has been identified. Such information has been accurately reproduced and, as far as the Company and KMG Finance are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Company and KMG Finance accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Company and KMG Finance (which have taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

SUPPLEMENT TO THIS BASE PROSPECTUS

Following the publication of this Base Prospectus, a supplement may be prepared by the Company and KMG Finance and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

The Company and KMG Finance will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus that is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

The relevant Issuer together, if applicable, with the Company may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event a supplemental Base Prospectus will be published, if appropriate, which will describe the effect of the agreement reached in relation to such Series of Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published and approved by, filed with or notified to the Financial Services Authority (now the Financial Conduct Authority) shall be incorporated in, and form part of, this Base Prospectus and, for so long as the Programme remains in effect and (in the case of any of the referenced Terms and Conditions of the Notes) Notes to which such Terms and Conditions of the Notes are applicable shall be outstanding, a copy of each such document may be inspected during normal business hours at the specified office of the Paying Agent:

- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 1 November 2010 (pages 181-213 inclusive) prepared by the Company and KMG Finance in connection with the Programme;

- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 15 April 2010 (pages 157-190 inclusive) prepared by the Company and KMG Finance in connection with the Programme;

- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 8 July 2009 (pages 186-223 inclusive) prepared by the Company and KMG Finance in connection with the Programme; and

- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 18 June 2008 (pages 166-203 inclusive) prepared by the Company and KMG Finance in connection with the Programme.

The non-incorporated parts of a document listed above are either not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus. Any documents themselves incorporated by reference in any document incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

ENFORCEMENT OF CIVIL LIABILITIES

The Company is a joint stock company organised under the laws of Kazakhstan and all of its officers and certain of its directors and other persons referred to in this Base Prospectus are residents of Kazakhstan. All or a substantial portion of the assets of the Company and most of such persons are located in Kazakhstan. As a result, it may not be possible (i) to effect service of process upon the Company or any such person outside Kazakhstan, (ii) to enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (iii) to enforce against any of them, in Kazakhstan courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained in respect of the Notes or the Trust Deed in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

KMG Finance is incorporated under the laws of the Netherlands and its managing directors are residents of the Netherlands and Kazakhstan. A substantial portion of the assets of KMG Finance and of its managing directors are located in the Netherlands and Kazakhstan. As a result, it may not be possible (i) to effect service of process upon KMG Finance or any such person outside the Netherlands or Kazakhstan, as the case may be, (ii) to enforce against any of them, in courts of jurisdictions other than the Netherlands or Kazakhstan, as the case may be, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (iii) to enforce against any of them, in the courts of the Netherlands or Kazakhstan, as the case may be, judgments obtained in jurisdictions other than the Netherlands or Kazakhstan, respectively, including judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States. KMG Finance has been advised by its legal counsel in the Netherlands, DLA Piper Nederland N.V., that the Netherlands does not currently have a treaty with the United States providing for

reciprocal recognition and enforcement of judgments (other than arbitral awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon United States federal securities laws, would not be directly enforceable in the Netherlands. If the party in whose favour such final judgment is rendered brings a new suit in a competent court in the Netherlands, however, such party may submit to a Dutch court the final judgment that has been rendered in the United States. If the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on grounds which are internationally acceptable and that proper legal procedures have been observed, the Dutch court will, in principle, give binding effect to the final judgment which has been rendered in the United States unless such judgment contravenes public policy in the Netherlands. The enforcement in a Dutch court of judgments rendered by any federal or state court in the United States is subject to Dutch rules of civil procedure.

The Notes and the Trust Deed are governed by the laws of England and the Company and KMG Finance have agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in London or, at the election of the Trustee or, in certain circumstances, a Noteholder (as defined in "*Terms and Conditions of the Notes*"), to the non-exclusive jurisdiction of English courts. See Condition 18(b) under "*Terms and Conditions of the Notes*". Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, each of Kazakhstan and the United Kingdom are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "**Convention**") and, accordingly, an arbitral award under the Convention should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

The Law of the Republic of Kazakhstan "On International Commercial Arbitration" (№ 23-III, dated 28 December 2004) (the "**Arbitration Law**") was signed by the President of Kazakhstan on 28 December 2004. The Arbitration Law is intended to resolve uncertainty created by prior decisions of the Constitutional Council of Kazakhstan regarding enforcement of the Convention in Kazakhstan that were effective 15 February 2002 and 12 April 2002 and were cancelled by the Constitutional Council in February 2008. The Arbitration Law provides clear statutory guidelines for the enforcement of arbitral awards under the conditions set forth in the Convention.

In February 2010, the Parliament of Kazakhstan (the "**Parliament**") passed legislation amending Kazakhstan laws to provide for certain immunities to government entities, including national companies, such as the Company, in the context of arbitration and foreign court judgments. While these immunities should apply only to government entities to the extent they are performing sovereign functions and not commercial activities, and the issuance of Notes under the Programme should be considered a commercial activity (and, under the Trust Deed, the Company has, to the full extent permitted by applicable laws, waived any immunity that may be attributed to it in respect of the Notes or, if applicable, the Guarantee).

In addition, certain of the assets owned by the Company or its subsidiaries, as well as certain of the shares in the Company's subsidiaries, are considered to be strategic assets of Kazakhstan. Kazakhstan law provides that the State shall have a priority right to purchase the strategic assets of Kazakhstan in the event of their disposition (whether through sale, bankruptcy or receivership).

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RISK FACTORS

Each of KMG Finance and the Company believes that the following factors may affect its ability to fulfil its obligations under Notes and the Guarantee, as applicable, issued under the Programme. Some of these factors are contingencies, which may or may not occur and neither KMG Finance nor the Company is in a position to express a view on the likelihood of any such contingency occurring or not occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below. If any of the risks described below actually materialises, the Company's business, prospects, financial condition, cash flows or results of operations may be materially adversely affected. If that were to happen, the trading price of the Notes may decline, or the relevant Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes and the Company may be unable to honour the Guarantee, if any, and investors may lose all or part of their investment. Furthermore, Notes issued under the Programme may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Each of KMG Finance and the Company believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the relevant Issuer or the Company (as the case may be) to pay interest, principal or other amounts on or in connection with any Notes, or otherwise perform its obligations under any Notes or the Guarantee, if any, may occur for other reasons which may not be considered significant risks by KMG Finance and the Company based on information currently available to them or for reasons which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Risk Factors Relating to KMG Finance

KMG Finance's ability to fulfil its obligations, if any, in respect of Notes issued by it under the Programme is entirely dependent on the Company and, in turn, the Company is dependent on receipt of funds from its subsidiaries, joint ventures and associates.

KMG Finance's principal purpose is to provide funding, through the international capital markets, to the Company. Therefore, KMG Finance's ability to fulfil its obligations under any Notes issued by it is entirely dependent on the performance of the Company and, in turn, the Company is dependent upon its subsidiaries, joint ventures and associates as a source of revenue. As a result, in considering the risks that may affect KMG Finance's ability to fulfil such obligations, potential investors should focus on the risk factor analysis set out below in respect of the Company and its ability to fulfil its obligations under the Guarantee in respect of Notes issued by KMG Finance, which analysis is equally applicable to KMG Finance's ability to fulfil its obligations, including payments of interest, under the Notes. If a prospective investor purchases Notes, it is relying on the creditworthiness of the Company and no other person. In addition, an investment in any Notes involves the risk that subsequent changes in the actual or perceived creditworthiness of the Company may adversely affect the market value of Notes.

The Company's subsidiaries, including KMG Finance, joint ventures and associates are separate and distinct legal entities and they have no obligation to pay any amounts due under the Notes or the Guarantee or to make funds available for that purpose. In recent years, a significant proportion of the Company's cash flow has been derived from dividends paid to the Company by its subsidiaries, joint ventures and associates; however, future dividends to the Company may decrease. The Company can give no assurance that future dividends from the Company's subsidiaries, joint ventures and associates, if forthcoming, will be of a similar magnitude as those received in recent years. In addition, the Company's right to receive assets of any of the Company's subsidiaries, joint ventures or associates upon their liquidation or reorganisation, and consequently the right of the holders of the Guarantee to participate in those assets, will be subordinated to the claims of that subsidiary's, joint ventures' or associates' creditors, including trade creditors. Further, even if the Company were a creditor of any of its subsidiaries, joint ventures or associates, the Company's rights as a creditor would be subordinate to any security interest in the assets of the Company's subsidiaries, joint ventures or associates and any indebtedness of those entities senior to that held by the Company. In the event that dividends from the Company's subsidiaries, joint ventures and associates significantly decrease, the Company may not be able to fulfil its obligations under the Guarantee in respect of Notes issued by KMG Finance.

Risk Factors Relating to the Company's Business

The Company's revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company's control.

Crude oil sales are the Company's material source of revenue, and the price of crude oil is affected by a variety of factors beyond the Company's control, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and petroleum products;
- the impact of recessionary economic conditions on the Company's customers, including reductions in demand for gas and oil products;
- global and regional socioeconomic and political conditions and military developments, particularly in the Middle East and other oil-producing regions;
- weather conditions and natural disasters;
- access to pipelines, railways and other means of transporting crude oil, gas and petroleum products;
- prices and availability of alternative fuels;
- the ability of the members of the Organisation of Petroleum Exporting Countries ("**OPEC**"), and other crude oil producing nations, to set and maintain specified levels of production and prices;
- Kazakhstan and foreign governmental regulations and actions, including export restrictions and taxes; and
- market uncertainty and speculative activities.

Historically, crude oil prices have been highly volatile. World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand, which is entirely outside of the Company's control. The Company's revenue and net income fluctuate significantly with changes in crude oil prices. Crude oil prices have been particularly volatile in recent years, declining in mid-2010 before recovering later in the year and into 2011. While crude oil prices declined again in June 2012, prices recovered in July 2012 and crude oil prices in 2012 generally remained high overall for the second year in a row. According to the U.S. Energy Information Agency (the "**EIA**"), the spot price of Brent crude oil averaged U.S.$111.67/bbl in 2012, as compared to an average of U.S.$111.26/bbl in 2011 and U.S.$79.61/bbl in 2010. As at the date of this Base Prospectus, the price of crude oil remains high, although still below the record high average monthly price of U.S.$132.72/bbl recorded in July 2008. As at 8 April 2013, the spot price for Brent crude oil was U.S.$103.16/bbl.

The Company's profitability derived from crude oil sales is determined in large part by the difference between the income received for the crude oil the Company produces and its operating costs, as well as costs incurred in transporting and selling its crude oil. The Company's business, prospects, financial condition, cash flows and results of operations are heavily dependent on prevailing crude oil prices. Historically, high oil prices have had a considerable positive impact on the Company's business, prospects, financial condition, cash flows and results of operations, while, lower crude oil prices may reduce the amount of crude oil that the Company is able to produce economically or may reduce the economic viability of the production levels of specific wells or of projects planned or in development because production costs would exceed anticipated income from such production. While oil prices have recovered since the 2010 levels, there can be no assurance as to the level of oil prices that will be generally maintained in the future or as to whether the Company will continue to receive (or better) the improved prices per barrel for crude oil it currently receives. Any reversal in the increase (even relatively modest declines) in oil prices or any resulting curtailment in the Company's overall production volumes may result in a reduction in net income, impair the Company's ability to make planned capital expenditures or to incur costs necessary for the development of the Company's fields and may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

The Company is relatively highly leveraged and has embarked on long-term growth plans that may entail an increased debt burden over the coming years.

As a result of the Company's acquisition-driven growth strategy and large capital expenditures programme, the Company is relatively highly-leveraged, with short-term and long-term debt outstanding of KZT 1,593.7 billion and KZT 469.9 billion, respectively, as at 31 December 2012.

The Company is currently engaged in a number of capital expenditure-intensive programmes, including the North Caspian Project (Kashagan Field), investment for which must be funded by the Company in proportion to its 16.81% interest in the North Caspian Project Consortium ("**NCPC**"), and transportation projects with joint ventures, in particular the Beineu-Bozoi-Shymkent Gas Pipeline and the Asia Gas Pipeline (as defined below). The Company expects that such programmes may require the Company to assume additional debt and may be a drain on the Company's cash resources. In addition, although Tengizchevroil LLP ("**TCO**") expects to fund its capital expenditures out of its own cash flows or non-recourse external financings, there can be no assurance that the Company will not at some point be required to provide cash or guarantees to cover all or a portion of such capital expenditures. No assurance can be given that the Company will be able to fund all or most of its capital expenditure programmes through the Company's cash resources, intragroup financings or external financing.

There can also be no assurance that the Company's debt levels will not continue to increase in the future or that the Company will be able to refinance its indebtedness at maturity on terms that are favourable or acceptable to the Company, or at all. Any failure by the Company's subsidiaries to refinance their outstanding indebtedness may result in a reduction of dividends paid to KMG, which could, in turn, affect the Company's income and cash flow. In addition, failure by the Company to refinance its outstanding indebtedness could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Labour unrest may materially adversely affect the Company's business.

Approximately 20% of the Company's employees are represented by trade unions. In March 2010, the workers of KMG EP at the Ozenmunaigaz production unit were involved in a 19-day strike, which resulted in a loss of production at the unit of 27,600 tonnes of crude oil. Between 26 May 2011 and 26 August 2011, transportation workers of KMG EP at the Ozenmunaigaz production unit were involved in a further strike, which resulted in an overall loss of production of 866,000 tonnes of crude oil, or 10.0% of the consolidated production volume of KMG EP for 2011.

In August 2011, KMG EP dismissed approximately 2,000 of the workers involved in the strike and hired replacement workers in an effort to stabilise production. In response to this action, there was a disturbance in December 2011 in the city of Zhanaozen during which 14 people were killed and 99 were injured, according to a statement by the Prosecutor General of the Republic of Kazakhstan released in December 2011. The administrative building of the Ozenmunaigaz production unit was set on fire and looted during the disturbance, resulting in the destruction of office equipment and documentation. Following this incident, Mr. Kulibayev resigned as Chairman of the Board of Directors of the Company, Mr. Akchulakov resigned as Chairman of the Management Board of the Company and Mr. Balzhanov resigned as Chairman of the Management Board of KMG EP.

As a result of the 2011 strike, well pressure dropped and capital expenditure programmes and maintenance were delayed at the Ozenmunaigaz production unit. Consequently, production from the Ozenmunaigaz production unit declined in 2012 as compared to previous years. The total overall direct loss of production at Ozenmunaigaz as a result of this strike compared to the consolidated annual plan was 866,000 tonnes of crude oil, or 10.0% of the consolidated production volume of KMG EP, and the Company recognised a KZT 76.3 billion impairment charge as a result of the interruption. As a result, KMG EP is expending considerable financial resources to take remedial efforts to restore production at the Ozenmunaigaz production unit to previous levels.

There can be no assurance that strikes of a similar or larger scale will not occur in the future, that there will be sufficient alternative staff and employees to run production activities in the event of a further strike, that any such labour unrest will be satisfactorily resolved and that further disturbances will not arise. In addition, there can be no assurance that any future strike would not result in ongoing reductions in production or a need to devote significant financial resources to restore production. Labour unrest may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations as a result of a disruption in production.

The Company relies heavily on oil and gas transportation systems to transport its products and its customers' products to markets outside Kazakhstan.

Kazakhstan's crude oil for export is transported primarily through international pipelines and, to a lesser extent, by rail and sea routes through other countries. The Company currently exports its crude oil through Russian pipelines to Black Sea ports for shipment to Europe and through Azerbaijan by rail to the Batumi Port and Oil Terminal Facilities (as defined below) for shipment to Europe. Therefore, the Company is largely dependent upon intergovernmental agreements between Kazakhstan and other countries to transport its oil and upon such governments' adherence to such agreements, both of which are entirely outside of the Company's control.

In addition, any reduction or cessation in the availability of the Company's export routes, whether due to maintenance breakdowns, security issues, political developments, natural disasters or disagreements with the Company's partners,

among other things, would materially adversely affect exports, which, in turn, would have a material adverse impact on the Company's business, prospects, financial condition, cash flows or results of operations. Significant transportation disruptions could also result in reductions in, or interruptions of, production, which, together with the costs of resuming production and restoring production to pre-reduction or interruption levels, could have a material adverse impact on the Company's business, prospects, financial condition, cash flows or results of operations.

As a result of its purchase of a 49.9% interest in Kazakhstan Pipeline Ventures LLC ("**KPV**") from BP plc ("**BP**") in April 2009, which resulted in an increase in its effective beneficial interest in the Caspian Pipeline Consortium ("**CPC**") to 20.75%, the Company's throughput rights in CPC have substantially increased, together with the corresponding amounts paid by the Company to utilise those rights. Despite increased throughput rights, the Company cannot be certain that it will be successful in obtaining sufficient CPC Pipeline (as defined below) capacity allocation to meet anticipated production volumes at the Kashagan Field. Failure to access additional CPC Pipeline capacity and any further material increase in the tariff for the use of the CPC Pipeline (or other export routes) could materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

Users of the gas transportation network operated by JSC Intergas Central Asia ("**ICA**"), the Company's international natural gas transportation subsidiary, are, in addition, dependent upon connections to third-party pipeline networks in Turkmenistan, Uzbekistan and Russia to receive and deliver natural gas. Accordingly, a reduction in the allocation of usage rights capacity of third-party pipelines located in Turkmenistan, Uzbekistan and Russia, due to maintenance breakdowns, security issues, disputes, political developments or natural disasters, among other things, could result in the reduction of volumes of gas transported by ICA and have a corresponding material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

A number of the Company's production fields are mature.

KMG EP is the Company's largest subsidiary in terms of reserves and production. Many of KMG EP's fields are mature, as a result of which stable production is only achievable through various field stimulation and rehabilitation projects, including drilling and completing new wells, completing well workovers and introducing various secondary enhancement well stimulation and recovery techniques. Such efforts require significant funding and may not yield certain results. The failure of the Company to implement these techniques at all or in a cost-efficient manner could result in decreases in production or the profitability of such production, which could, in turn have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Many of the Company's transportation and refining facilities were constructed many years ago and will require significant further investment, in particular, to meet required ecological standards.

The Company's production, transportation and refining facilities largely rely on old infrastructure, which could materially adversely affect the Company's activities. The natural gas transportation systems operated by ICA, including the pipelines and compressor stations, were, for the most part, constructed over 30 years ago. Most of the pipelines are over 25 years old with some parts of the pipelines being more than 35 years old. Considerable sums of money have been invested by the Company to overhaul and improve the pipeline network and compressor stations to bring them in compliance with internationally accepted standards. There can be no assurance that there will not be any delays or curtailments of the supply of oil and natural gas to the Company's customers in the future due to the stress and corrosion of pipelines, defective construction of compressor stations, problems associated with harsh climate, the insufficient maintenance or refurbishment of the network or the breakdown or failure of equipment or processes leading to performance below expected levels of output or efficiency.

The Atyrau Refinery in Western Kazakhstan was commissioned in 1945 and is the oldest of the three operating refineries in Kazakhstan. The Atyrau Refinery only operates at slightly above the break-even point and the low utilisation rate primarily results from plant and equipment constraints. Although over the past ten years, a number of refurbishment and modernisation works have been undertaken at the Atyrau Refinery, as well as at the Shymkent Refinery and the Pavlodar Refinery, as a result of which much of the outdated equipment at the three refineries has been replaced and technological processes and equipment have been updated, significant further works are ongoing and considerable investment remains to be made by the Company to improve utilisation rates, profitability and the quality of the refined oil products at the refineries. In addition, as a result of rules imposed by the Customs Union of Russia, Belarus and Kazakhstan (the "**Customs Union**"), the Company's refineries are required to comply with Euro 4 and Euro 5 ecological standards by 2015 and 2016, respectively. If the Company is not able to undertake such further works, comply with such standards, find sources of funding for such works on favourable terms or at all or control the costs of such works, there could be a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company's production and other activities could be reduced by adverse weather events.

Kazakhstan's climate is characterised by harsh winters and hot summers. A large number of the Company's facilities and large segments of its networks are located in areas that experience severe weather conditions, particularly in winter, and extreme variability in winter and summer weather, which can accelerate wear and tear on pipelines and related equipment. Extremely harsh weather conditions and the remoteness of certain of the Company's facilities may make it difficult to gain access to conduct repair or maintenance quickly. In addition, winter storms have negatively affected the Company's production levels due to the inability of staff and equipment to reach drilling sites and other facilities. For example, production was reduced at the the Ozenmunaigaz production unit in early 2012 due to large snowfall. There can be no assurance that further such events or other significant weather events will not negatively affect the Company's operations in the future, which could, in turn, have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

The Company's business requires significant capital expenditures and the Company may be unable to finance its planned capital expenditures.

The Company's business requires significant capital expenditures related to exploration and development, production, transportation, refining and trading and compliance with environmental laws and regulations. In response to the global financial crisis, as well as the under-performance of investments in certain projects by JSC KazMunaiGaz Refining and Marketing ("**KMG RM**"), the Company had lower levels of capital expenditure in 2010 than historically. The Company returned to higher levels of capital spending and investment in 2011 and 2012. In 2013, the Company expects to increase its capital expenditure programme significantly, primarily (i) to implement an accelerated modernisation programme, including, *inter alia*, in respect of the Company's refineries and pipelines, (ii) to meet funding obligations in respect of the Kashagan and Karachaganak fields and (iii) to provide improved social benefits for the Company's workers. The Company expects investment to continue in this manner for the near to medium term, and the Company plans to spend U.S.$12.4 billion over the next five years on capital expenditures, including, *inter alia*, for the general purposes outlined above and, in particular, to finance the projects described below.

Increased oil production from the Tengiz Field and commencement of commercial production at the Kashagan Field will require increased capacity of the transportation infrastructure. Among other things, it is planned that the CPC Pipeline will be expanded to provide enhanced production capacity for the Tengiz Field and Kashagan Field. As at the date of this Base Prospectus, the estimated capital expenditures for expanding the CPC Pipeline is up to U.S.$5.4 billion. While CPC expects to pay the total cost of the project out of its own cash flows from the proceeds of oil transportation services provided to the CPC shareholders pursuant to their preferential capacity rights and excess capacity rights on a ship-or-pay basis and, to the extent necessary, through non-recourse external financings, there can be no assurance that CPC will not seek funding or guarantees for external funding from its shareholders, including the Company.

TCO is continuing its ongoing future generation expansion project (the "**FGP**") in the Tengiz Field to further increase TCO's oil field production and plant processing capacity using the technologies from the existing second generation plant and sour gas injection project completed in 2008. In addition to the FGP, TCO is implementing a wellhead pressure management project (the "**WPMP**"). The FGP and WPMP projects are being executed as an integrated project, in order to realise synergies in design and execution and are expected to cost an aggregate of U.S.$19.3 billion (excluding the cost of the drilling programme and assuming a design capacity of 12 million tonnes per year). Work on the projects is expected to be completed by 2018, although there can be no assurance that costs will not rise or delays will not occur. While TCO expects to pay the total cost of the project out of its own cash flows and, to the extent necessary, through non-recourse external financings, there can be no assurance that TCO will not seek funding or guarantees for external funding from its shareholders, including the Company.

As a result of the Company's interest in NCPC, the Company is responsible for a share in the capital expenditures programme for the Kashagan Field. Pursuant to the amendment to the development plan and budget made in May 2012 as a result of the delay to the commencement of commercial production, the capital expenditure for the first phase of the project has been increased by a further U.S.$6.9 billion to a total of U.S.$45.6 billion. Commercial production at the Kashagan Field is now expected to commence in the second quarter of 2013, although there can be no assurance that the project will not be subject to further delays and additional potential cost over-runs.

As a result of the Company's interest in the project (the "**N Block Project**") for exploration and development in the Nursultan block (the "**N Block**"), the Company is responsible for a share in the capital expenditures programme for the project. Pursuant to the initial joint operation agreement, until commercial discovery, the N Block Project was to be financed solely by ConocoPhillips and Mubadala Development Company (Oil and Gas N Block Kazakhstan) GmbH ("**Mubadala**"), although the Company was going to recognise its share in the accrued exploration expenses of N Operating Company LLP in line with its ownership interest as a debt to its co-venturers. Since the Company's acquisition of a 24.5% interest in the N Block Project from ConocoPhillips in January 2013, the Company also has an obligation to

finance the exploration expenses that were attributable to ConocoPhillips, as set out in the joint operation agreement. The Company's share in exploration expenses at N Block is expected to be KZT 7,589 million in 2013. Commercial production at the N Block is expected to begin in 2016. There can be no assurance that exploration expenses will not increase or that commercial production will not be delayed.

In addition, as a result of the Company's interest in KPO, the Company is responsible for a share in the capital expenditures programme for the Karachaganak Field. KPO is currently in the process of implementing a third phase of development at the field, which is expected to increase gas production at the Karachaganak Field by up to three times and be completed by 2020. There can be no assurance that this phase of development will be completed on the expected schedule or within the expected budget.

The Comprehensive Plan to Develop the Refineries of the Republic of Kazakhstan for 2009-2015 (the "**Plan**") was approved by the Government in May 2009 and is currently being implemented. In line with the Plan, the Company intends to invest U.S.$2.7 billion, U.S.$1.8 billion and U.S.$1.7 billion to upgrade, modernise and expand its Atyrau, Shymkent and Pavlodar Refineries, respectively, in order to enhance production and to comply with new ecological standards (Euro 4 and Euro 5 standards). There can be no assurance that the Company will be able to implement the Plan on the expected schedule or within the expected budget. In particular, in the event that the works to ensure compliance with Euro 4 and Euro 5 standards are not completed prior to the 2015 and 2016 deadlines set by the Customs Union, the Company may be forced to close the refineries while such works are completed. Any closure of the refineries, even if temporary, could result in the Company suffering substantial losses.

The Company's investments into hydrocarbon exploration projects (whether on its own or in a joint venture) pursuant to certain Subsoil Use Agreements that failed to yield commercial discoveries or reserves are generally at the Company's sole risk and, due to applicable tax ring-fencing rules, are not recoverable from revenue streams generated from the Company's other projects (except where this risk is contractually borne by the Company's joint venture partners).

The Company expects to fund a substantial part of its capital expenditures out of intragroup financings and net cash provided by its operating activities, although the Company itself has limited direct access to cash flows and is largely dependent on dividends from its subsidiaries and joint ventures. If (among other things) global oil prices decline, the Company may have to finance more of its planned capital expenditures from outside sources, including bank borrowings and offerings of debt securities, such as the Notes, in the domestic and international capital markets, which could be more expensive. The Company may be unable to raise the financing required for its future capital expenditures, on a secured basis or otherwise, on acceptable terms or at all. Lack of sufficient funds in the future may require the Company to delay or terminate some of its anticipated projects.

If the Company is unable to raise necessary financing either from Samruk-Kazyna, the Government, international or domestic banks or the capital markets, it may reduce planned capital expenditures or curtail or abandon certain projects, which could adversely affect its operating results and financial condition. Any such reduction in capital expenditures could adversely affect the Company's ability to expand its business, and if the reductions are severe enough, could adversely affect its ability to maintain its production and operations at current levels.

The Company is exposed to the Kazakhstan banking sector.

In recent years, the Company has distributed its excess liquidity approximately evenly among international banks (including local branches of international banks) and Kazakhstan banks. As a result, the Company has maintained substantial deposits with JSC BTA Bank ("**BTA Bank**"), JSC Halyk Bank of Kazakhstan ("**Halyk Bank**") and JSC Kazkommertsbank ("**Kazkommertsbank**"), among others. Each of BTA Bank and Kazkommertsbank and, to a lesser extent, Halyk Bank encountered considerable financial difficulties during the recent global financial crisis, and BTA Bank was the subject of two restructuring transactions. Although the Company's bank deposits were not at any time legally frozen, the Company's management believed from time-to-time that the Company's ability to access these deposits was limited in practice, in particular with respect to deposits held by BTA Bank. Accordingly, in September 2010, in order to gain access to funds on deposit in the major Kazakhstan banks that had experienced financial difficulties during the global financial crisis, the Company applied (i) deposits at Halyk Bank to repay KZT 75.05 billion of the KZT 180.5 billion original principal amount of the KZT 180.5 billion loan from the NBK (the "**NBK Loan**"), (ii) deposits at BTA Bank (in the amount of KZT 142 billion) and at Kazkommertsbank (in the amount of KZT 48 billion) to redeem the Company Bonds in the amount of KZT 190 billion, and (iii) deposits at BTA Bank (in the amount of KZT 142 billion) and Kazkommertsbank (in the amount of KZT 10 billion) to make the Loan to S-K (as defined below). The Company expects that Samruk-Kazyna will instruct all of the entities that it controls, including the Company, to limit their deposits in international banks to 10% of total deposits by 1 January 2015. If implemented, the Company's exposure to the Kazakhstan banking sector will increase. In the event that the Kazakhstan banking sector encounters difficulties, it could result in a *de facto* or *de jure* freezing of all or a portion the Company's cash, which could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company operates in remote or otherwise inaccessible areas.

Because of the remote location of many of the Company's operations, the Company generally does not have ready access to equipment or facilities to address problems such as, among other things, equipment breakdown or failures, and delays may occur in accessing required materials or supplies in order to carry out necessary repairs or maintenance. In addition, equipment breakdown or failures affecting certain key parts of the Company's facilities, such as the Company's transportation operations and the interface between the field gathering system and its processing facilities, might affect the Company's ability to use all of its facilities and substantially curtail or stop production. Similarly, operating in remote areas exposes the Company's operations to risks caused by poor infrastructure, such as power outages, which can reduce oil production. The remote location of many of the Company's operations also makes its assets and infrastructure susceptible to acts of terrorism or sabotage and natural disasters. As a result, the Company may not be able to immediately respond to or repair damage resulting from such acts, which could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Sustained periods of high inflation could adversely affect the Company's business.

The Company's operations are located principally in Kazakhstan and a majority of the Company's costs are incurred in Kazakhstan. Since the majority of the Company's expenses are denominated in Tenge, inflationary pressures in Kazakhstan are a significant factor affecting the Company's expenses. For example, employee and contractor wages, consumable prices and energy costs have been, and are likely to continue to be, particularly sensitive to monetary inflation in Kazakhstan. According to the NBK, annual consumer price inflation for the years ended 31 December 2012 and 2011 was 6.0% and 8.3%, respectively. In a low oil price environment, the Company may not be able to sufficiently increase the prices that it receives from the sale of crude oil, gas and oil products in order to preserve existing operating margins, particularly in the case of the Company's domestic crude oil and oil product sales.

The Company relies on the services of third parties.

The Company relies to a large extent on external contractors to carry out maintenance of the Company's assets and infrastructure. For example, although the Company is actively seeking to perform more of these services internally, a significant majority of the maintenance work relating to upstream and midstream operations performed by the Company is carried out by external contractors. The Company relies on external contractors in all regions of Kazakhstan to perform major works, such as wells workovers and maintenance, repairs and maintenance of equipment, drilling, repairing pumping units, pipe isolation systems and electrochemical protection systems, maintaining and replacing pipe and other general building and structure maintenance. As a result, the Company is largely dependent on the satisfactory performance by its external contractors and the fulfilment of their obligations. If an external contractor fails to perform its obligations satisfactorily, this may lead to delays or curtailment of the production, transportation, refining or delivery of oil and gas and related products, which could have an adverse effect on the Company's results of operations.

The Government, which indirectly controls the Company, may cause the appointment or removal of members of the Company's management team.

The Government is in a position to appoint and remove, or influence the appointment and removal of, the members of management of the Company and its subsidiaries. By way of example, on 6 February 2012, Mr. Mynbayev replaced Mr. Shukeyev as Chairman of the Board of Directors of the Company. Mr. Kiinov was reappointed as a member of the Board of Directors and as Chairman of the Management Board as the replacement of Mr. Bolat Akchulakov on 22 December 2011. In addition, on 21 July 2011 and on 2 October 2012, Mr Malik Salimgereev and Mr Nurlan Rakhmetov, respectively, were appointed to the Board of Directors as representatives of Samruk-Kazyna. There can be no assurance that the Government will not make further or frequent management changes at the Company, which could be disruptive to its operations.

The Government, which indirectly controls the Company, may cause the Company or a subsidiary, joint venture or associate of the Company to engage in business practices that may not be in the interests of the Noteholders.

The Company was established as the national oil and gas company of Kazakhstan. The Government, through Samruk-Kazyna, indirectly wholly owns the Company and, therefore, controls the Company. There can be no assurance that the Government will not cause the Company to engage in business practices that may materially affect the Company's ability to operate on a commercial basis or in a way that is consistent with the best interests of the Noteholders. As has been the case in the past with other Government-owned companies, the Government may cause the Company, and specifically its transportation subsidiaries, to indirectly subsidise local communities through regulated domestic transportation tariffs at rates lower than market rates. In addition, the Company may be forced by the Government to sell gas at below market prices, engage in activities outside of its core activities or acquire assets not on an arm's length basis. The Government may also impose other social duties, such as construction of social and recreational

infrastructure, charitable activities and implementation of community development programmes on the Company, which will increase the Company's capital expenditures.

The Government has in the past and may in the future require the Company to make deliveries of crude oil to domestic refineries at prices that may be materially below international market prices in furtherance of the implementation of the Government's social and economic development programmes.

The Government has in the past and may in the future require all oil producers in Kazakhstan to supply a portion of their crude oil production to domestic refineries to meet domestic energy requirements, primarily in the agriculture sector. Additionally, since the Government, through the Company and its subsidiary, KMG RM, owns more than a 50% interest in the Atyrau Refinery, the refinery must procure its feedstock pursuant to an annual public tender in conformity with the Rules for Conducting of Procurement of Goods, Works and Services by Samruk-Kazyna and Entities 50 and More Percent of Voting Shares (Participatory Interests) in Which are Directly or Indirectly Owned by JSC Samruk-Kazyna on the Basis of a Right of Ownership or Trust Management, adopted by resolution № 80 of the board of directors of Samruk-Kazyna dated 26 May 2012 (the "**S-K Rules**"). KMG EP is obligated to participate in these tenders until 2015. Pursuant to these tenders, KMG EP provides oil to the Atyrau Refinery at prices that are significantly below those prevailing on the open market. In addition, the Government regulates the prices of certain refined oil products that the Company sells at below-international market prices, as well as the quantities of such products to be sold, and the customers to whom such projects are to be sold, which may not be in line with a profitable output balance for the refineries.

As domestic consumption of oil and refined oil products rises, the Company may be compelled by the Government to sell an increasingly larger portion of its production in furtherance of socially mandated policies. Between June 2008 and January 2013, the Government instituted a number of temporary bans on the export of gasoline and diesel fuel from Kazakhstan in order to stabilise the prices of oil products in the domestic market. These bans have continued, and there can be no assurance that additional bans will not be imposed, despite the increased demand for refined oil products. The Government also sets the maximum retail prices for certain types of gasoline and diesel fuel. When the Company supplies crude oil and produces oil products pursuant to socially mandated policies or a request by the Government or is subject to an export ban, these sales usually generate substantially less revenue than sales of crude oil and oil products in the export market at international market prices and the Company's business, prospects, financial condition, cash flows or results of operations may be materially adversely affected.

The operations of the Company's subsidiaries, joint ventures and associates are dependent on compliance with the obligations under their respective licences, contracts and field development plans.

The Company's operations must be carried out in accordance with the terms of its Subsoil Use Agreements and annual working programmes and budgets as set forth in the Subsoil Use Agreements. The law provides that fines may be imposed and a Subsoil Use Agreement may be suspended or terminated if a licence holder or party to the contract fails to comply with its obligations under such Subsoil Use Agreement, or fails to make timely payments of levies and taxes for the subsoil use, provide the required geological information or meet other reporting requirements. The New Subsoil Law, which replaced the previous law, was adopted by the Parliament in June 2010. This law tightens the Government's control over the natural resources industry, including oil and gas production.

The authorities in Kazakhstan can, and do from time to time, inspect the Company's compliance with its Subsoil Use Agreements and relevant laws. There can be no assurance that the views of the Government agencies regarding the development of the Company's fields or compliance with the terms of its Subsoil Use Agreements, will coincide with the Company's views, which might lead to disagreements that cannot be resolved. The suspension, revocation or termination of any of the Company's Subsoil Use Agreements, as well as any delays in the continuous development of or production at the Company's fields caused by these disagreements, could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The reported quantities or classifications of the Company's crude oil and gas reserves may be lower than estimated because of inherent uncertainties in the calculation of reserves and because of the use of Kazakhstan methodology.

There are numerous uncertainties inherent in estimating the quantity of reserves and in projecting future rates of production, including many factors beyond the Company's control. Estimating the quantity of reserves is a subjective process, and estimates made by different experts often vary significantly. In addition, the results of drilling, testing and production subsequent to the date of an estimate may result in revisions to that estimate. Accordingly, reserves estimates may be different from the quantity of crude oil and natural gas that is ultimately recovered and, consequently, the revenue therefrom could be less than that currently expected. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they are based, the quality of the information available and the ability to verify such information against industry standards.

The reserves data contained in this Base Prospectus are, unless otherwise stated, taken from reserves analyses prepared in accordance with Kazakhstan methodology by the Company's professional engineering staff, while the reserves data used to calculate the Company's consolidated depreciation, depletion and amortisation expenses for financial reporting purposes are taken from reserves reports prepared in accordance with PRMS prepared by independent petroleum engineering consultants. As it has done in prior years, in 2012, KMG EP initiated an open tender to engage a consultant to report on its reserves in accordance with PRMS. As a result of this tender process, the consultant engaged by KMG EP for 2012 is a different consultant than the one engaged in 2011. As at the date of KMG EP's 2012 financial statements, a final report was not available and, accordingly, the depreciation, depletion and amortisation data for KMG EP as at 31 December 2012 was based on reserves estimates prepared in accordance with PRMS as at 31 December 2011.

As discussed above, calculating reserves is an inherently uncertain exercise and different consultants analysing the same data may reach materially different conclusions. As at the date of this Base Prospectus no final report by the new consultant engaged by KMG EP is available. There can be no assurances that the new consultant will utilise the same assumptions and estimations in determining KMG EP's reserves as were utilised by the previous consultant and, accordingly, the reserves data ultimately reflected in the final report prepared by the new consultant, when and as issued, may be materially different from the reserves data reported by the previous consultant and utilised by the Company.

Estimates derived using Kazakhstan methodology may differ substantially from those derived using PRMS, SEC Standards and other international standards, in particular, with respect to the manner in which, and the extent to which, commercial factors are taken into account in calculating reserves. In particular, to the extent that reserves data contained in this Base Prospectus is based on Kazakhstan methodology rather than PRMS or SEC Standards, such data may, by international standards, significantly overstate the Company's recoverable reserves. In any case, all reserves data comprises estimates only and should not be construed as representing exact quantities. These estimates are based on production data, prices, costs, ownership, geological and engineering data, and other information assembled by the Company's subsidiaries, joint ventures and associates, and assume, among other things, that the future development of the Company's oil and gas fields and the future marketability of the Company's oil and gas products will be similar to past development and marketability. These assumptions may prove to be incorrect. Moreover, the reserves data used to calculate the Company's consolidated depreciation, depletion and amortisation expenses for financial reporting purposes may differ substantially from the reserves data contained in this Base Prospectus as a result of the differences between Kazakhstan methodology and PRMS and SEC Standards. Potential investors should not place undue reliance on the forward looking statements contained herein concerning the Company's reserves or production levels.

If the assumptions upon which the Company's or any consultant's estimates of reserves of crude oil or gas have been based are incorrect, the Company may be unable to produce the estimated levels of crude oil or gas set out in this Base Prospectus and the Company's business, prospects, financial condition or results of operations could be materially adversely affected.

The Company may not be able to achieve its strategic objective to increase overall production levels.

As at 31 December 2012, 35% of the Company's reserves, in particular the fields operated by JSC Ozenmunaigaz ("**OMG**") (formerly the Ozenmunaigaz production unit) and JSC EmbaMunaiGas ("**EMG**") (formerly the EmbaMunaiGas production facility), wholly-owned subsidiaries of KMG EP, and located in the Mangistau and Atyrau oblasts in Western Kazakhstan, were mature, production from those reserves is declining and production from certain fields is no longer commercially viable. The Company intends to attempt to maintain production levels by various field development and rehabilitation projects, including drilling and completing new wells, completing well workovers and introducing secondary enhanced and well stimulation techniques. The Company also intends to increase overall production levels by replacing reserves through new discoveries over the long-term and making new acquisitions of producing oil and gas fields, both in Kazakhstan and internationally. Such activities typically involve significant levels of capital expenditures in new technologies and alternative methods of extracting reserves from such fields. No assurance can be given that the Company will be successful in achieving these strategic objectives, and the Company's business, prospects, financial condition or results of operations could be materially adversely affected if the Company is not successful in achieving these objectives.

The Company's natural gas transportation revenue is heavily dependent upon the volumes of natural gas transported by Gazprom, which volumes are in turn dependent on the international demand for natural gas.

The Company's natural gas transportation subsidiary, ICA, lacks a diversified customer base. ICA's revenue is heavily dependent on the volumes of natural gas that it transports through Kazakhstan's natural gas transportation system for Gazprom (the Russian state owned oil and gas company), which is ICA's single largest customer, accounting for 74.0%, 75.0% and 86.0% of the gas transportation fees of ICA for 2012, 2011 and 2010, respectively. Gazprom's volume requirements for Turkmen, Uzbek and Kazakhstan gas transit are determined by demand for gas in Russia, the Ukraine, Eastern Europe and, to a lesser extent, Western Europe. Factors affecting natural gas consumption in these countries,

including weather (demand increases in winter months), electricity generation from gas and other end uses of gas, may have a significant effect on demand from these countries. Natural gas prices may also have an effect on demand for natural gas.

International natural gas prices are typically linked to global prices for oil products, which fluctuate and over which the Company has no control. These include factors such as economic and political developments in oil producing regions, particularly in the Middle East; global and regional supply and demand and expectations regarding future supply and demand for oil products; the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels; other actions taken by major crude oil producing or consuming countries to increase or decrease oil supply or demand; prices and availability of alternative fuels; global economic and political conditions; prices and availability of new technologies; and weather conditions. For example, the volume of gas transported in 2009 was adversely affected by a disagreement between Russia and Turkmenistan over gas purchase prices and other conditions, which resulted in Russia restricting the volume of gas imported from Turkmenistan into Russia. A decline in global prices for oil products, a change in international demand or a change in Gazprom's demand for natural gas, in Gazprom's arrangements with its suppliers in Turkmenistan, Uzbekistan or Kazakhstan or in the terms of ICA's contracts with Gazprom could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Regulated oil and gas transportation tariffs may be set by the Government at below market rates.

The Company's tariffs for oil and, to a lesser extent, natural gas transportation are subject to regulation and approval by the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies (the "**Natural Monopolies Agency**"). JSC KazTransOil ("**KTO**"), which is classified as a natural monopoly in Kazakhstan, charges the Company's subsidiaries, joint ventures and associates and other shippers flat tariffs for shipments through its pipeline systems. Once approved, the tariffs remain in effect subject to the Company's right to apply to the Natural Monopolies Agency with a request to review and modify such tariffs. The Natural Monopolies Agency also has the right to initiate a review of the transportation tariffs. KTO's domestic transportation tariffs are significantly affected by social and political considerations and have historically been kept at artificially low levels. No assurance can be given that any actions of the Natural Monopolies Agency in setting domestic oil and gas transportation tariffs at lower than market rates will not have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company conducts several of its significant operations through jointly-controlled entities in which it has a non-controlling interest.

The Company directly, or through its subsidiaries, is party to several jointly-controlled entities, some of which are a significant part of the Company's current and prospective net profit, such as TCO, JV KazRosGas LLP ("**KazRosGas**"), NCPC, JV Kazgermunai LLP ("**Kazgermunai**"), JSC Mangistaumunaigas ("**MMG**") and, since June 2012, the Company has had a 10.0% interest in KPO, a consortium operating under a joint operating agreement. The Company may in the future enter into additional jointly-controlled entities as a means of conducting its business. The Company cannot fully control the operations or the assets of these entities, nor can it unilaterally make major decisions with respect to such entities. This lack of control constrains the Company's ability to cause such entities to take an action that would be in the best interests of the Company or refrain from taking an action that would be materially adverse to the interests of the Company.

In recent years, the Company and its subsidiaries have become party to several significant jointly-controlled entities or investments with Chinese government-controlled entities as China continues to enhance its presence in Kazakhstan's oil and gas industry. Additionally, Chinese government-controlled entities have also provided financing or guaranteed the financing required to fund certain of these projects. These jointly-controlled entities and associates include, among others, (i) PetroKazakhstan Inc. ("**PKI**"), an oil producer which is majority owned by China National Petroleum Corporation ("**CNPC**"); (ii) CCEL, a joint venture with CITIC Resources Holding Limited ("**CITIC**"); (iii) Kazakhstan China Pipeline JV LLP ("**KCP**"), a jointly-controlled entity with China National Oil and Gas Exploration and Development Corporation ("**CNODC**") formed to construct and operate the Kazakhstan-China pipeline network (the "**KC Pipeline**"); (iv) Asia Gas Pipeline LLP ("**AGP**"), a jointly-controlled entity with CNPC to construct the Turkmenistan-China gas pipeline across Kazakhstan, which transmits gas from the other Central Asian Republics to major population centres in Southern Kazakhstan and to China; (v) Beineu-Shymkent Gas Pipeline LLP ("**BSGP**"), a joint venture between JSC KazTransGas ("**KTG**") and CNPC to construct and operate the Beineu-Bozoi-Shymkent Gas Pipeline (vi) MMG, an oil producer owned by Mangistau Investments B.V. ("**MIBV**"), a 50-50 joint venture with CNPC Exploration and Development Company Ltd ("**CNPC E&D**"); and (vii) JSC MunayTas North West Pipeline Company JV ("**MunayTas**"), which operates the Kenkiyak-Atyrau pipeline and in which CNPC E&D owns a 49.0% interest. Chinese entities, whether privately or publicly owned, exercise considerable control over these projects. Although relations between the Company and its Chinese partners are currently positive and the Company's management does not foresee any deterioration in its relationship with its Chinese partners, the Company cannot be sure that relations will remain so in the future. In addition, Kazakhstan's National Security Law permits restrictions on investments if such investments may

harm national security. Consequently, a deterioration in the Company's relationship with its Chinese partners or a deterioration in the Government's relationship with the Chinese government could have a material adverse impact on these various jointly-controlled entities and, accordingly, the Company's business.

The Company's operations in the ordinary course of business subject it to developing and uncertain environmental and operational health and safety regulations and requirements to comply with ecological standards, non-compliance with which could result in severe fines and suspension or permanent shut down of activities.

The Company's operations are subject to the environmental risks inherent in all aspects of its business, including oil and gas exploration, production, transportation and refining. There are environmental issues with current and past sites of operations caused by the Company's subsidiaries, joint ventures and associates and their predecessors. The Company's primary environmental liabilities currently result from land contamination, gas flaring, the disposal of waste water and oil spills.

Although the level of pollution and potential clean up costs is difficult to assess, the Company's subsidiaries, joint ventures and associates, like most other oil and gas companies operating in the Commonwealth of Independent States ("**CIS**"), are burdened with a Soviet era legacy of environmental mismanagement. There are problems relating to the maturity of fields at past production sites, some of which have been exploited for more than 30 years. Poor environmental awareness in the past allowed a number of incidents of oil leakage due to pipeline failures. Temporary reservoirs for the storage of drilling mud, liquid waste and oil were not repaired or disposed of properly causing severe pollution of the Atyrau and Mangistau regions. More than 500 oil reservoirs in these regions contain 3.7 to 7.3 million barrels of oil production waste and saturation of the topsoil in some places is 10 to 15 centimetres deep. In total, an area of 2.0 km^2 is polluted by hydrocarbon waste products in the Atyrau and Mangistau regions.

The legal framework in Kazakhstan for environmental protection and operational health and safety is developing. Stricter environmental requirements, such as those governing discharges to air and water, the handling and disposal of solid and hazardous wastes, land use and reclamation and remediation of contamination, are being imposed and environmental authorities are moving towards a stricter interpretation of environmental legislation. In addition, the Customs Union has imposed deadlines for compliance with Euro 4 and Euro 5 standard ecological requirements by 2015 and 2016, respectively. There can be no assurance that either the Kazakhstan regulators or the Customs Union will not impose additional, more stringent, environmental requirements on the Company. Compliance with such environmental requirements may make it necessary for the Company, at costs which may be substantial, to undertake new measures in connection with the storage, handling, transport, treatment or disposal of hazardous materials and wastes and the remediation of contamination.

The costs of environmental compliance in the future and potential liability due to any environmental damage that may be caused by the Company could be material. Moreover, the Company could be adversely affected by future actions and fines imposed on a subsidiary, joint venture or associate of the Company by the environmental authorities, including the potential suspension or revocation of one or more of the Company's subsoil licences or environmental permits. To the extent that any provision in the Company's accounts relating to remediation costs for environmental liabilities proves to be insufficient, this could have a material adverse effect on the Company's business, prospects, financial condition or results of operations.

Although the Company is obliged to comply with all applicable environmental laws and regulations, it cannot, given the changing nature of environmental regulations, guarantee that it will be in compliance at all times. Any failure to comply with these environmental requirements could subject the Company to, among other things, civil liabilities and penalty fees and possibly temporary or permanent shutdown of the Company's operations. Moreover, the Company cannot be certain that its environmental liabilities will not increase due to recent and future acquisitions, including the Batumi Port and Oil Terminal Facilities, the Shymkent Refinery, the Petromidia Refinery and the Pavlodar Refinery. Any imposition of environmental fines, increase in the costs associated with compliance or suspension or revocation of licences or contracts could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

In addition, in March 2009, the President of Kazakhstan signed the law on the ratification of the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "**Kyoto Protocol**"), which is intended to limit or discourage emissions of greenhouse gases such as carbon dioxide. Implementation of the Kyoto Protocol in Kazakhstan may have an impact on environmental regulation in Kazakhstan. The effect of such ratification in other countries is still unclear; accordingly, potential compliance costs associated with the Kyoto Protocol are unknown and may be significant. Nonetheless, the likely effect will be to increase costs for electricity and transportation, restrict emissions levels, impose additional costs for emissions in excess of permitted levels and increase costs for monitoring, reporting and financial accounting. Increases in such costs could have a material adverse effect on the Company's business, prospects, financial condition, cash flows and results or operations.

Oil at several of the Company's fields has a high sulphur content and produces a high level of sulphur by product that must be managed in an environmentally sensitive manner.

Several of the fields operated by the Company's subsidiaries and jointly-controlled entities and associates contain significant amounts of hydrogen sulphide. The production of oil and gas with high hydrogen sulphide content requires additional processing to convert the hydrogen sulphide into elemental sulphur, a useful product. Elemental sulphur is stored in block form until it can be sent to market. TCO estimates that as at 31 December 2012, 2.7 million tonnes of sulphur by-product were stored in the form of large sulphur blocks. TCO aims to store block sulphur according to internationally accepted practices and has included the storage of sulphur in its annual environmental use permits and pays fees accordingly. The potential environmental and health impacts from open storage of sulphur has been studied by various institutes selected by an interdepartmental coordination council made up of the Ministry of Environmental Protection of Kazakhstan (the "**MEP**"), the MEMR and the Ministries of Health and Emergency Situations. The results of this study were presented in a public hearing in Atyrau and have been expertised by the MEP. The conclusions of this study confirmed that the impact from open storage of sulphur beyond the immediate area of the blocks is insignificant.

Since 2008, TCO has sold sulphur to third parties in order to decrease the amount of sulphur that it is required to store and thereby reduce the risk of incurring fines connected to sulphur storage in the future. TCO sold 3.5 million tonnes of sulphur and produced 2.1 million tonnes of sulphur in 2012. Although all matters with respect to fines imposed on TCO in the past in respect of sulphur storage have been resolved, there can be no assurances that TCO will not incur penalties in the future, in which case, there may be a material adverse effect on the Company's business prospects, financial condition, cash flows or results of operations in the future.

The Company faces drilling, exploration and production risks and hazards that may affect the Company's ability to produce crude oil and gas at expected levels and costs.

The Company's future success will depend, in part, on its ability and the ability of its subsidiaries, joint ventures and associates to develop crude oil and gas reserves in a timely and cost effective manner. The Company's drilling activities may be unsuccessful and the actual costs incurred to drill and operate wells and to complete well workovers will have an impact on the Company's profits. Due to the geological complexity of the Caspian basin, as well as the fact that the Caspian Sea has no outlet to the ocean, there are few service providers in the region that have suitable offshore drilling equipment. Oil operators in the region currently are experiencing long lead times to get use of existing off shore drilling rigs in the Caspian Sea. Lack of availability of service equipment, including drilling platforms, could slow exploratory work, particularly with respect to the Kashagan Field.

The Company may be required to curtail, delay or cancel any drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, premature declines in reservoirs, blowouts, uncontrollable flows of crude oil, natural gas or well fluids, pollution and other environmental risks, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. In addition, certain of the licenses applicable to the Company's exploration activities impose restrictions, such as drilling depth.

In addition, the Company's crude oil and gas exploration programme may result in unproductive wells or wells that are not economically feasible to produce. In particular, first commercial production at the Kashagan Field, which was initially expected to occur in 2005, has been significantly delayed a number of times. Although commercial production is now expected to commence in the second quarter of 2013, there can be no assurance that further delays, either at the Kashagan Field or elsewhere, will not occur.

The Company's production operations are also subject to risks associated with natural disaster, fire, explosion, blowouts, encountering formations with abnormal pressure, the level of water cut, cratering and crude oil spills, each of which could result in substantial damage to the crude oil wells, production facilities, other property, the environment or result in personal injury or death. Any of these risks could result in loss of crude oil and gas or could lead to environmental pollution and other damage to the Company's properties or surrounding areas, and increased costs or claims against the Company's subsidiaries, joint ventures or associates.

Any of these drilling, production and exploration risks and hazards could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Significant deficiencies in the Company's accounting systems and internal controls may adversely affect its ability to comply with financial reporting under IFRS.

In recent periods, the Company has identified, and may in the future identify, areas of internal control over financial reporting that require improvement.

In connection with the audit of the Company's Financial Statements, Ernst & Young LLP, the independent auditors of the Company, reported certain significant deficiencies in the Company's internal controls with respect to the Company's financial statements closing process and proposed several recommendations to improve those internal controls. Specifically, Ernst & Young LLP has advised that it has identified deficiencies in the controls over the Company's preparation of its financial statements in accordance with IFRS and an inadequacy of resources within the Company's IFRS reporting team. Under the applicable international auditing standard, a significant deficiency is a deficiency in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period either by employees in the normal course of performing their assigned functions or by management in the normal course of business. As a result, there is a higher than normal risk that critical business decisions regarding budgeting, planning and other matters may be based on incomplete or inaccurate information and that reporting to management and the Board of Directors and press releases may contain material errors.

While the Company's management believes that the Company's accounting systems and internal controls are more developed than those of its peer companies in Kazakhstan, the Company has not reduced to an acceptably low level the risk that material errors in its consolidated financial statements may occur and may not be detected within a timely period by the Company in the normal course of business.

Despite the steps the Company is taking to address these issues, it may not be successful in remedying these significant deficiencies or preventing future significant deficiencies. In addition, the Company's growth in recent years and its strategy for continued growth may place an additional strain on accounting personnel and make it more difficult for the Company to remedy the identified significant deficiencies or prevent future significant deficiencies. If the Company is unable to remedy these significant deficiencies or prevent future significant deficiencies, it may not be able to prevent or detect a material misstatement in its annual or interim IFRS consolidated financial statements in the future. This could delay the Company's preparation of timely and reliable interim and annual consolidated financial statements, distort its operating results and cause investors to lose confidence in its reported financial information. Notwithstanding these deficiencies, the Company believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

The Company is required to comply with certain financial and other restrictive covenants.

The Company is subject to certain financial and other restrictive covenants under the terms of its indebtedness that limit its ability to borrow and impose other restrictions on the Company. The Company's ability to meet its financial covenants and tests under the terms of its indebtedness are, to an extent, affected by events beyond the Company's control. For example, two subsidiaries of the Company were not in compliance with a financial covenant as at 31 December 2012. See Note 38 to the 2012 Financial Statements. The Company's management cannot give any assurance that the Company will be able to meet the tests imposed by the financial and other restrictive covenants under the terms of its indebtedness. If the Company is unable to comply with the restrictions and covenants in its current or future debt and other agreements, a default under the terms of those agreements may result. In the event of a default under these agreements, the parties may terminate their commitments to further lend to the Company or accelerate the loans and declare all amounts borrowed due and payable triggering events of default in other finance agreements, including pursuant to the Term and Conditions of the Notes. If any of these events occurs, the Company cannot guarantee that its assets would be sufficient to repay in full all of its indebtedness, or that the Company would be able to secure alternative financing. Even if the Company could obtain alternative financing, the Company's management cannot guarantee that such financing would be on terms that are favourable or acceptable to the Company.

The Company's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions.

The Company has a unified insurance programme for substantially all of its subsidiaries and affiliates. This insurance programme covers third party environmental liability, property and business interruption risks relating to production assets, damaged wells, third party liability coverage (including employer's liability insurance and hazardous object insurance) and directors and officers' liability insurance. The amount of such insurance coverage is, however, more limited than that which would normally be acquired by similar companies in more developed economies. For example, the Company does not carry more extensive insurance against environmental damage caused by its own operations,

sabotage or terrorist attacks. The Company can give no assurance that the proceeds of insurance are adequate to cover increased costs and expenses relating to these losses or liabilities. Accordingly, the Company may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage.

Failure to integrate recent or future acquisitions successfully or to complete prospective acquisitions may lead to increased costs or losses for the Company.

The Company has recently expanded its operations significantly through acquisitions and expects to continue to do so in the future. The integration of acquired businesses requires significant time and effort on the part of the Company's senior management and may require additional capital expenditures. Integration of new businesses can be difficult because the Company's operational and business culture may differ from the cultures of the businesses it acquires, cost cutting measures may be required and internal controls may be more difficult to maintain, including control over cash flows and expenditures. Moreover, even if the Company is successful in integrating newly acquired businesses, expected synergies and cost savings may not materialise, resulting in lower than expected profit margins. Any failure to successfully integrate past or future acquisitions, to recruit and retain qualified staff to oversee such acquisitions or to realise synergies or control costs could adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

The Government has appointed KTG as the "national operator" for the transportation of gas.

The Law of the Republic of Kazakhstan "On Gas and Gas Supply" (№ 532-IV, dated 9 January 2012) (the "**Gas Law**") has created the concept of a "national operator" for the transportation of gas and KTG has been appointed as the national operator. As national operator, KTG has been given a priority right to purchase all associated gas produced in Kazakhstan (on behalf of the State) at a set price, which it will then sell on the domestic market at a premium, with a view to using a significant portion of the premium to modernise and extend the domestic network. There can be no assurance, however, that KTG will remain the national operator or what terms and conditions will be imposed on KTG in this capacity by the Government. Accordingly, there is uncertainty as to what impact the creation of the "national operator" will have on KTG and, by extension, the Company in the future. In addition, there is uncertainty as to the effect that the set price will have on the Company's production and development assets in the future. Low prices may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

The Company has conducted and is considering further internal reorganisations.

The Company has reorganised and is considering further reorganising certain aspects of its corporate structure, in order, *inter alia*, to improve operational efficiency and achieve cost savings. For example, in December 2011, the Company completed the restructuring of KMG RM pursuant to which, the entire share capital of KazMunaiGaz PKOP Investment B.V. ("**KMG PKOP**"), an intermediary parent of the Rompetrol Group, was transferred to Coöperative KazMunaiGaz PKI U.A., a wholly-owned subsidiary of the Company. In addition, following the disturbance at the Ozenmunaigaz production unit in December 2011, KMG EP conducted an internal restructuring exercise which involved the transformation of the Ozenmunaigaz production unit and the EmbaMunaiGas production unit into separate legal entities, OMG and EMG, which are both wholly-owned by KMG EP. Such reorganisations have required, and may continue to require, the use of significant internal resources and attention from the Company's management, both of which could otherwise be deployed on other matters and projects. There can be no assurance that any future reorganisations, if implemented, will be successful at improving efficiency or achieving savings or will not face other barriers to completion that the Company has not yet anticipated. Failure to successfully implement any such reorganisations may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operation.

Rompetrol's financial results for each of the years ended 31 December 2012, 2011 and 2010 have been negative and have had an adverse effect on the Company's downstream results of operations and may continue to do so.

Since its acquisition by the Company, Rompetrol has not been profitable. Rompetrol reported net losses of U.S.$155.9 million, U.S.$236.8 million and U.S.$178.1 million for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, respectively. Rompetrol's negative results in 2012, 2011 and 2010 were exacerbated by the volatility of external and domestic prices for raw materials and end products, as well as a decrease in the margin on the refining of end products. Exchange rate fluctuations, labour costs and Rompetrol's ongoing investment programme also adversely impacted Rompetrol's results during the period. While the Company and Rompetrol's management believe these problems have been largely addressed, the Company cannot be certain that Rompetrol will not incur further losses in the remainder of 2013 and beyond, which could continue to adversely affect the Company's business, prospects, financial condition, cash flows and results of operations. In addition, certain debt entered into by Rompetrol may need to be refinanced in the coming years. There can be no assurance that the Company will not be required to provide funding or guarantees to cover all or a portion of such refinancing or that Rompetrol will be able to secure such financing on favourable or acceptable terms, if at all.

The Company may be required to record a significant charge to earnings if it must reassess goodwill or other intangible assets as a result of changes in assumptions underlying the recorded value in use of certain assets.

As at 31 December 2012, the Company had KZT 135.0 billion in goodwill compared to KZT 135.1 billion as at 31 December 2011. Goodwill and other intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill may be impaired.

The Company did not record any impairment of goodwill for the year ended 31 December 2012. The Company recorded KZT 2.4 billion impairment of goodwill for the year ended 31 December 2011 in respect of the acquisition of the Batumi Oil Terminal and the Batumi Sea Port. In performing goodwill impairment tests, the Company is required to estimate the value in use of the related cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows of the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Accordingly, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounted cash flow techniques. Although the Company believes its estimates and projections are appropriate based on currently available information, the actual operating performance of an asset or group of assets, which has been tested for impairment, may differ significantly from current expectations. Moreover, the Company may make changes in the assumptions used in estimating value in use of its cash generating units. In such an event, the carrying value of goodwill may be required to be reduced from amounts currently recorded. Any such reductions may materially adversely affect asset values and the Company's financial condition and results of operations. No assurance can be given as to the absence of significant goodwill impairment charges in future periods.

The Company may not be able to effectively manage its growth and expansion if it cannot hire a sufficient number of experienced managers.

The Company has experienced rapid growth and development in a relatively short period of time and the Company expects to continue to expand its business through internal growth in the future. The Company's management of that growth will require, among other things, stringent control of financial systems and operations, the continued development of the Company's management control, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the continued consistency in the quality of its services. Failure to successfully manage growth and development, including through the retention of qualified and experienced managers, could have a material adverse effect on the overall growth of the Company's business, prospects, financial condition, cash flows or results of operations.

Risk Factors Relating to the Republic of Kazakhstan

The Company is subject to Kazakhstan specific risks, including, but not limited to, local currency devaluation, civil disturbances, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes with respect to taxes, withholding taxes on distributions to foreign investors, changes in anti-monopoly legislation, nationalisation or expropriation of property and interruptions or embargos on the export of hydrocarbons or other strategic material. The occurrence of any of these factors or any of the factors described below could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Emerging markets are generally subject to greater risk than more developed markets and actual and perceived risks associated with investing in emerging economies could dampen foreign investment in Kazakhstan.

The disruptions experienced in recent years due to the impact of the global financial and economic crisis in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets such as Kazakhstan may be particularly susceptible to such disruptions, reductions in the availability of credit and increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by the level of investor confidence in such markets as a whole and, as such, any factors that affect investor confidence (for example, a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within any of these markets.

Investors in emerging markets such as Kazakhstan should be aware that these markets are subject to greater risk than more developed markets, including, in some cases, significant legal, economic and political risks. Investors should also note that emerging economies such as Kazakhstan's are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate.

Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Financial problems or an increase in the perceived risks associated with investing in emerging economies may dampen foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. In addition, during such times, companies operating in emerging markets can face severe liquidity constraints as foreign funding resources are withdrawn. Thus, whether or not Kazakhstan's economy is relatively stable, financial turmoil in any emerging market country, in particular those in the CIS or Central Asian regions which have recently experienced significant political instability (including terrorism), could seriously disrupt the Company's business, which could, in turn, have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Most of the Company's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Company is largely dependent on the economic and political conditions prevailing in Kazakhstan.

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan, under President Nursultan Nazarbayev, has experienced significant changes as it emerged from a centrally controlled command economy to a market-oriented economy. The transition was initially marked by political uncertainty and tension, a stagnant economy marked by high inflation, instability of the local currency and rapid, but incomplete, changes in the legal environment. However, Kazakhstan actively pursued a programme of economic reform designed to establish a free market economy through privatisation of government-owned enterprises and deregulation and it is more advanced in this respect than some other countries of the former Soviet Union. Under President Nazarbayev's leadership, Kazakhstan has moved toward a market-oriented economy, and, as such, was awarded the chairmanship of the Organisation for Security and Co-operation in Europe ("**OSCE**") for the calendar year 2010. If the current administration changes its outlook or, in the event of a change in administration, such future administration has a different outlook, the economy in Kazakhstan could be adversely affected. Changes to Kazakhstan's economy, including in property, tax or regulatory regimes or other changes could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, natural gas, steel, copper, ferro-alloys, iron ore, aluminium, coal, lead, zinc and wheat. Thus, Kazakhstan is dependent upon good relations with its neighbours to ensure its ability to export. Should access to these export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Moreover, adverse economic factors in regional markets may adversely impact Kazakhstan's economy.

In addition, Kazakhstan could be adversely affected by political unrest in the Central Asia region, such as that experienced by the neighbouring country of Kyrgyzstan in 2010. Additionally, like other countries in Central Asia, Kazakhstan could be adversely affected by terrorism or military or other action taken against sponsors of terrorism in the region.

Since the dissolution of the Soviet Union, a number of former Soviet Republics have experienced periods of political instability, civil unrest, military action and popular changes in governments or incidents of violence. Kazakhstan has had only one president, Nursultan Nazarbayev, who is 72 years old as at the date of this Base Prospectus. Under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including the privatisation of state assets, liberalisation of capital controls, tax reforms and pension system development and the country has been largely free from political violence. In 2007, Kazakhstan's Parliament amended Kazakhstan's constitution to allow President Nazarbayev to run in an unlimited number of consecutive re-elections. The 2007 amendment permitted President Nazarbayev to seek re-election at the end of his term in 2011. President Nazarbayev was re-elected with 95.5% of the votes for a new five-year term in elections, which took place in April 2011.

Given that Kazakhstan has not had a presidential succession and that there is no clear successor to Mr. Nazarbayev, there can be no assurance that any succession will result in a smooth transfer of office and economic policies. Thus, should he fail to complete his current term of office for whatever reason or should a new president be elected at the next election, Kazakhstan's political situation and economy could become unstable and the investment climate in Kazakhstan could deteriorate, which would have a material adverse effect on the Company's business, financial condition, results of operations and prospects. As there is currently no clear successor, the issue is a potential cause of instability in Kazakhstan. If a future president is elected with a different political outlook, the business regime in Kazakhstan could change. Political instability in Kazakhstan or changes to its property, tax or regulatory regimes or other changes could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

According to figures compiled by the NSA, the pace of GDP growth slowed to 1.2% in 2009. However, in 2010, GDP began to recover, growing by 7.0%, by 7.5% in 2011 and by 5.0% in 2012. Such figures demonstrate signs of economic recovery, although there can be no assurance that such circumstances will not worsen again or continue indefinitely.

Factors outside Kazakhstan have also had an impact on Kazakhstan's economy, specifically the finance and banking sector. For example, in February 2009, S&P downgraded the credit ratings of five of Kazakhstan's largest commercial banks, while Moody's downgraded the bank financial strength ratings of six banks. At the time, the rating agencies stated that these downgrades were the consequence of the increasingly negative impact of the global economic crisis on the Kazakhstan economy and its financial institutions and specifically mounting asset quality and liquidity problems and the inability of Kazakhstan banks to refinance their large foreign wholesale debt in large part because of the devaluation of the Tenge in February 2009. Several commercial banks in Kazakhstan experienced difficulty in refinancing maturing international debt and, as a result, sought short-term funding from the NBK and substantially limited their issuances of new loans. Pursuant to the terms of financial stability legislation adopted by the Government in February 2009, two of Kazakhstan's largest banks, BTA Bank and JSC Alliance Bank ("**Alliance Bank**"), were effectively nationalised by the Government in the wake of the new fiscal stability legislation. BTA Bank completed its first restructuring on 31 August 2010, whilst Alliance Bank completed its restructuring in April 2010. In January 2012, BTA Bank failed to make an interest payment due to the holders of senior notes issued as part of the restructuring it completed in 2010 and has subsequently agreed terms for a second restructuring completed in 2012. The restructured banks are still in the relatively early stages of their post-restructuring operations, however, and there can be no assurance that the restructuring efforts in respect of the Kazakhstan financial sector will ultimately be wholly successful and it is not clear what impact the crisis and the subsequent restructurings will ultimately have on the prospects of Kazakhstan's banks and their customers, including the Company. The housing and construction industries and small and medium sized enterprises have been particularly affected while larger companies, subsoil use companies and State-owned companies have continued to have access to offshore funding albeit on a more limited basis and on less favourable terms. The Company expects that Samruk-Kazyna will instruct all of the entities that it controls, including the Company, to limit their deposits in international banks to 10% of total deposits by 1 January 2015. If implemented, the Company's exposure to the Kazakhstan banking sector will increase. In the event that the Kazakhstan banking sector encounters difficulties, it could result in a *de facto* or *de jure* freezing of all or a portion the Company's cash, which could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Kazakhstan has maintained a stable credit rating since April 2010. Any downgrade, however, is likely to result in a downgrade of the Company's ratings. Prior to April 2010, the Company's credit rating was affected by changes to the sovereign credit rating and other events in Kazakhstan. For example, Moody's downgraded the Company's credit rating in 2009 following a downgrade of Kazakhstan's local currency rating. In addition, in July 2009, S&P downgraded the Company's long-term credit rating in light of its then heavy exposure to the troubled Kazakhstan banking sector. Similarly, the Company's credit ratings have often been impacted by positive ratings actions in respect of Kazakhstan's credit ratings. In December 2010 and November 2012, S&P and Fitch, respectively, upgraded the Company's long-term credit ratings, following upgrades issued to the sovereign rating. Any future downgrade of Kazakhstan's sovereign credit rating and liquidity problems in Kazakhstan's economy could adversely affect its economic development, which could in turn, materially and adversely affect the Company's prospects, business, financial condition and results of operations.

Additionally, the Company's subsidiaries, joint ventures and associates are in many regions the largest employers in cities in which they operate. While the Company does not have any specific legal obligation or responsibilities with respect to these regions, its ability to reduce the number of its employees may nevertheless be subject to political and social considerations. Any inability to reduce the number of employees or make other changes to the Company's operations in such regions could have an adverse effect on the Company's business, prospects, financial condition or results of operations.

In August 2009, Kazakhstan enacted a new currency control law that may affect the Company's foreign currency dealings.

In July 2009, the President of Kazakhstan signed a law on the introduction of various amendments to Kazakhstan's currency control legislation, which came into force as at 10 August 2009. The amendments empower the President, by special action and under circumstances when the economic stability of Kazakhstan is threatened, to introduce a special currency regime that would (i) require the compulsory sale of foreign currency received by Kazakhstan residents; (ii) require the placement of a certain portion of funds resulting from currency transactions into a non-interest bearing deposit in an authorised bank or the NBK; (iii) restrict the use of accounts in foreign banks; (iv) limit the volumes, amounts and currency of settlements under currency transactions; and (v) require a special permit from the NBK for conducting currency transactions. Moreover, the President may impose other requirements and restrictions on currency transactions when the economic stability of Kazakhstan is threatened.

In order for Kazakhstan to remain in compliance with its membership obligations under the Charter of the International Monetary Fund, the new currency regime cannot restrict residents from repaying foreign currency-denominated obligations. As at the date of this Base Prospectus, the President has not invoked the provisions of these amendments. Accordingly, it is unclear how any implementation of the new currency regime would ultimately impact the Company. However, significant restrictions on the Company's foreign currency dealings could have a material adverse effect on the Company's business, prospects, financial condition or results of operations.

The outcome of the implementation of further market based economic reforms is uncertain.

The Government's privatisation programme is driven by the need for substantial investment in many enterprises. The programme has, however, excluded certain enterprises deemed strategically significant by the Government and there remains a need for substantial investment in many sectors of the Kazakhstan economy, including business infrastructure. Further, the significant size of the shadow economy (or black market in Kazakhstan) may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving the business infrastructure and tax administration and by continuing the privatisation process. There can be no assurance, however, that these measures will be effective or that any failure to implement them may not have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

In addition, the Government has launched its programme of "People's IPOs", in order to stimulate the domestic equities market and give the public an opportunity to have a direct stake in Kazakhstan's wealth. In December 2012, approximately 9.99% of the shares of KTO were sold to Kazakhstan investors, as part of this programme. KTG has also been identified as a potential target for inclusion in the "People's IPO" programme, although no definitive plans have yet been announced. There can be no assurance that the programme will be completed.

Kazakhstan is heavily dependent upon export trade and commodity prices, particularly with respect to the oil and gas industry, and weak demand for its export products and low commodity prices may adversely affect Kazakhstan's economy in the future.

As Kazakhstan is negatively affected by low commodity prices, particularly in respect of the oil and gas sector, and economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy. The Government established the National Fund of Kazakhstan in 2000 (the "**National Fund of Kazakhstan**") to support the financial markets and the economy of Kazakhstan in the event of any sustained drop in oil revenues. Notwithstanding these efforts, weak demand in its export markets and low commodity prices, especially with respect to the oil and gas industry, may adversely affect Kazakhstan's economy in the future, which may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations. Most of the Company's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Company is largely dependent on the economic and political conditions prevailing in Kazakhstan. See "*—The Company is exposed to the risk of Government intervention*" and "*—Most of the Company's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Company is largely dependent on the economic and political conditions prevailing in Kazakhstan*".

The decline in world prices for oil and other commodities from 2008 through early 2009 had a negative impact on the growth prospects of the Kazakhstan economy. The national budget for 2009-2011 initially projected revenue on the basis of world oil prices of U.S.$60/bbl. These projections, which were initially revised to U.S.$40 per barrel in light of the continuing decline in world oil prices, were further revised to U.S.$50 for 2009-2010, U.S.$60 for 2011-2012 and U.S.$90 for 2013 as the price of oil began to recover. Although Brent crude oil prices increased overall in 2012 to a maximum of U.S.$128/bbl, reflecting a 19% increase from prices at the end of December 2011, there can be no assurance that further revisions of the national budget will not be required in light of continuing oil price volatility.

While GDP has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, there can be no assurance that GDP will continue to grow and any slowdown in GDP growth could adversely affect the development of Kazakhstan and, in turn, the Company's business, financial condition, results of operations and prospects.

The Kazakhstan economy is highly dependent on oil exports, foreign investment in domestic oil sector infrastructure and the overall condition of the global oil industry.

Countries in the Central Asian region, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil and oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility or a sustained decline in oil and other commodity prices or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects. In addition, any fluctuations in the value of the U.S. Dollar relative to other currencies may cause volatility in earnings from U.S. Dollar-denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities or weakening of the U.S. Dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which, in turn, could indirectly have an adverse effect on the business, financial condition and results of operations of the Company.

Kazakhstan's legislative, tax and regulatory framework is underdeveloped and evolving; therefore, court decisions can be difficult to predict and tax liabilities can be difficult to ascertain.

Although a large volume of legislation has been enacted since early 1995 (including new tax codes in January 2002 and January 2009, laws relating to foreign arbitration and foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, and State enterprise reform and privatisation), the legal framework in Kazakhstan (although one of the most developed among the countries of the former Soviet Union) is still evolving compared to countries with established market economies.

The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces. For example, there have been instances of improper payments being made to public officials. Therefore, court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law based jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions.

Further, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, including, in particular, the uncertainty surrounding judgments rendered under the tax code introduced with effect from 1 January 2009 (the "**2009 Tax Code**"), as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

The 2009 Tax Code was adopted at the end of 2008 and came into force as at 1 January 2009. While the 2009 Tax Code, as further amended, provides for reduced rates for certain taxes, including the corporate income tax rate from 30% in 2008 to 20% from 2009, the 2009 Tax Code has also effectively repealed the duty on exports of oil and gas condensate and introduced a new rent tax which imposes the tax at progressive rates ranging from 0 to 32% depending on the price of oil. If oil prices are under U.S.$40/bbl or above U.S.$122/bbl, the new rent tax is imposed at a lower tax rate than the oil export duty; however, between U.S.$40/bbl and U.S.$122/bbl, the rent tax is more onerous. Given the volatility of oil prices, it is difficult to establish whether or not the new rent tax will have a positive or negative impact on the Company's financial position going forward, although in 2012 the amount of rent tax paid by the Company increased by 6.7% compared to 2011. In summer 2010, the Government re-introduced the export customs duty on crude oil at the rate of U.S.$20 per tonne. The Government increased this rate to U.S.$40 per tonne with effect from 1 January 2011 and again to U.S.$60 per tonne with effect from 2 April 2013. The Company expects that any further increase in export customs duty will significantly increase its export costs and reduce profitability. In addition, the rates of export customs duty for light and heavy petroleum products have also been increased on a number of occasions. According to rate increases, which entered into force on 1 January 2012, the Government increased the rate of export customs duty for light petroleum products from U.S$143.54 to U.S.$164.97 per tonne and the rate of export customs duty for heavy petroleum products from U.S.$95.69 to U.S.$109.98 per tonne. In September 2012, the Government introduced further increases in the rates of export customs duty for light and heavy petroleum products to U.S.$168.88 per tonne and U.S.$112.59 per tonne, respectively. No assurance can be given that further increases of the export customs duty will not occur or have a significant impact in future years.

Under the 2009 Tax Code, the excess profit tax has also been revised. While the former excess profit tax was based on the internal rate of return of each field, the new excess profit tax is based on revenue and deductible expenses for each field as determined in accordance with Kazakhstan tax accounting, and ranges from 0 to 60% based on the revenue-to-expense ratio of each field. The Company's management expects that the new excess profit tax will be less onerous with respect to fields with a low revenue-to-expense ratio, but higher with respect to fields with a high revenue-to-expense ratio.

The Company's management believes that the new mineral extraction tax, which effectively replaces the royalty regime (except for TCO, which continues to pay royalty to the Government) will result in an increase in the overall tax burden for upstream companies. The previous royalty rate was levied at 2 to 6% of the weighted average price of oil produced by the relevant entity, less transport and certain additional expenses; the new mineral extraction tax, under the 2009 Tax Code, as amended, is based on the world oil price multiplied by amounts of oil and gas produced by the relevant entity, without deductions, and since 2009 has been levied at the rate of 5 to 18% For sales of crude oil and gas condensate to Kazakhstan refineries, the aforementioned rates of mineral extraction tax are multiplied by a coefficient of 0.5. The Government has the option to lower the mineral extraction tax on a case-by-case basis in respect of oil produced from fields with difficult production conditions. The Company is currently in negotiations with the Government to apply more favourable tax treatment to oil produced by mature fields.

As a result of the changes introduced by the 2009 Tax Code, as subsequently amended, the Company's tax burden increased in 2011 and 2012, in particular as a result of the new mineral tax, especially as oil prices increase, the

re-introduction and the increased rate of the export customs duty and the revision of the excess profit tax. It is also expected that tax legislation in Kazakhstan will continue to evolve, which may result in additional taxes becoming payable by the Company. Additionally, there can be no assurance that any tax legislation passed in the future will not materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

Kazakhstan's tax system is still in a transitional phase and no assurance can be given that new taxes and duties or new tax rates will not be introduced during the life of the Programme. Further changes in the withholding tax regime may give the Company the right to redeem Notes prior to their stated maturity.

In February 2009, the NBK devalued the Tenge by 18%, any further devaluation of the Tenge could have an adverse impact on the Company and Kazakhstan's public finances and economy.

Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions outside Kazakhstan. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly. The Tenge had generally appreciated in value against the U.S. Dollar over the previous decade until its devaluation by the NBK in February 2009. Since February 2009, the Tenge has generally stabilised. As at 31 December 2012, the official KZT/U.S.$ exchange rate reported by the KASE was KZT 150.74 per U.S.$1.00 compared to KZT 148.40 as at 31 December 2011.

While certain of the Company's subsidiaries, which have significant U.S. Dollar revenue and relatively minor U.S. Dollar denominated liabilities, such as KMG EP, may benefit from a devaluation of the Tenge against the U.S. Dollar, because a significant majority of the Company's borrowings and accounts payable are in U.S. Dollars, the Company's accounts are sensitive to currency exchange rate fluctuations, and the devaluation of the Tenge against the U.S. Dollar may have an overall adverse effect on the Company.

In addition, there can be no assurance that the NBK will maintain its managed exchange rate policy. Any change in the NBK's exchange rate policy could have an adverse effect on Kazakhstan's public finances and economy, which could, in turn, have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Kazakhstan has a less developed securities market than the United States, the United Kingdom and the rest of Western Europe, which may hinder the development of Kazakhstan's economy.

Kazakhstan has a less-developed securities market than the United States or the United Kingdom and other Western European countries, which may hinder the development of the Kazakhstan economy. An organised securities market was established in Kazakhstan only in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, including an initiative to develop Almaty as a regional financial centre, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan as they are in the United States or the United Kingdom and other Western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan-based entities, such as the Company's subsidiaries, joint ventures and associates, may be publicly-available to investors in such entities than is available to investors in entities organised in the United States or the United Kingdom and other Western European countries. The above-mentioned factors may impair foreign investment in Kazakhstan and hinder the development of Kazakhstan's economy.

The Company is exposed to the risk of Government intervention.

The oil and gas industry is central to Kazakhstan's economy and its future prospects for development. The oil and gas industry can be expected to be the focus of continuing attention and debate. In similar circumstances in other developing countries, petroleum companies have faced the risks of expropriation or re-nationalisation, breach or abrogation of project agreements, application of laws and regulations from which such companies were intended to be exempt, denials of required permits and approvals, increases in royalty rates and taxes that were intended to be stable, application of exchange or capital controls and other risks.

On 3 November 2007, legislation came into force providing the Government with the right to initiate reviews of subsurface use terms and under certain circumstances to unilaterally terminate subsoil PSAs and other contracts in respect of deposits of strategic importance. See "*Regulation in Kazakhstan—State Pre-Emptive Rights and Regulation of Subsoil Use Rights*".

In summer 2010, the Government re-introduced the export customs duty on crude oil at the rate of U.S.$20 per tonne. The Government increased this rate to U.S.$40 per tonne with effect from 1 January 2011 and again to U.S.$60 per tonne with

effect from 2 April 2013. In addition, the rates of export customs duty for light and heavy petroleum products have also been increased on a number of occasions. According to rate increases, which entered into force on 1 January 2012, the Government increased the rate of export customs duty for light petroleum products from U.S$143.54 to U.S.$164.97 per tonne and the rate of export customs duty for heavy petroleum products from U.S.$95.69 to U.S.$109.98 per tonne. In September 2012, the Government introduced further increases in the rates of export customs duty for light and heavy petroleum products to U.S.$168.88 per tonne and U.S.$112.59 per tonne, respectively. The Company expects that these increases in export customs duties will significantly increase its export costs and reduce profitability. No assurance, however, can be given that further increases of the export customs duty will not occur or have a significant impact in future years.

On 19 May 2008, the Government announced a temporary export ban on oil products effective 1 June 2008 until 1 September 2008, which has since been extended. As at the date of this Base Prospectus, this ban is still ongoing. The ban is intended to shield domestic consumers from the soaring cost of oil products, such as diesel and gasoline, by removing foreign demand for such products, which was believed to be driving up domestic prices. Economic sectors such as the agricultural sector were particularly badly affected by the high prices of petroleum products. When the Company is required to supply crude oil and oil products domestically pursuant to a request by the Government or as a result of an export ban on products, such sales typically generate substantially less revenue than sales of crude oil and oil products in the export market at prevailing prices, which may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

The Company cannot ensure the accuracy of official statistics and other data in this Base Prospectus published by Kazakhstan authorities.

Official statistics and other data published by State authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. Neither the Issuer nor the Company has independently verified such official statistics and other data and any discussion of matters relating to Kazakhstan in this Base Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Base Prospectus has been extracted from official Government sources and was not prepared in connection with the preparation of this Base Prospectus.

In addition, certain information contained in this Base Prospectus is based on the knowledge and research of the Company's management using information obtained from non-official sources. The Company has accurately reproduced such information and, so far as the Company is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. This information has not been independently verified and, therefore, is subject to uncertainties due to questions regarding the completeness or reliability of such information, which was not prepared in connection with the preparation of this Base Prospectus.

Risk Factors Relating to the Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

The Guarantee, if applicable, will be structurally subordinated to the creditors of the Company's subsidiaries, joint ventures and associates.

In a case where KMG Finance is the Issuer of Notes issued under the Programme, such Notes are required to be guaranteed by the Company under the Guarantee. The Guarantee is exclusively an obligation of the Company. The Company's subsidiaries, joint ventures and associates are separate and distinct legal entities and they have no obligation to pay any amounts due under the Notes or the Guarantee or to make any funds available for that purpose, whether by dividends, distributions, loans or other payments.

In recent years, a significant amount of the Company's cash flows has been derived from dividends paid to the Company by its subsidiaries, joint ventures and associates; however, future dividends to the Company may decrease to the extent the subsidiaries, joint ventures and associates of the Company are required to fund capital expenditures or meet other costs or fines, including environmental fines, among other things, out of cash. The Company can give no assurance that future dividends from the Company's subsidiaries, joint ventures and associates, if forthcoming, will be of a similar magnitude as those received over the past few years.

Additionally, the Company's right to receive any assets of any of the Company's subsidiaries, joint ventures or associates upon their liquidation or reorganisation, and therefore the right of the holders of the Guarantee to participate in those

assets, will be effectively subordinated to the claims of that subsidiary, joint ventures or associate's creditors, including trade creditors. In addition, even if the Company were a creditor of any of its subsidiaries, joint ventures or associates, the Company's rights as a creditor would be subordinate to any security interest in the assets of the Company's subsidiaries, joint ventures or associates and any indebtedness of those entities senior to that held by the Company.

Notes subject to optional redemption by the relevant Issuer.

An optional redemption feature of Notes is likely to limit their market value. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Partly-paid Notes

The relevant Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Inverse floating rate Notes.

Inverse floating rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate (LIBOR or EURIBOR). The market values of these Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of such Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/floating rate Notes.

Fixed/floating rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the relevant Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the fixed/floating rate Notes may be less favourable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium.

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

Trading in the clearing systems.

The Terms and Conditions of the Notes provide that Notes shall be issued with a minimum denomination of €100,000 (or its equivalent in another currency) and integral multiples of an amount in excess thereof in the relevant Specified Currency. Where Notes are traded in a clearing system, it is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the minimum denominations specified in the relevant Final Terms related to an issue of Notes. If Definitive Notes are required to be issued in relation to such Notes in accordance with the provisions of the terms of the relevant Global Notes, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of its entitlement in the form of Definitive Notes unless and until such time as its holding becomes an integral multiple of the minimum denomination.

Risk Factors Relating to the Notes

An active trading market for Notes may not develop.

Notes issued under the Programme may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Application has been made for the listing of Notes on the Official List and for trading on the Regulated Market of the London Stock Exchange. In addition, unless otherwise agreed with the relevant Dealer(s) and provided for in the Final Terms, the Company will cause all Notes issued by the Company and KMG Finance under the Programme to be admitted to the "rated debt securities (highest category)" category of the "debt securities" sector of the official list of the KASE, and no Notes issued under the Programme may be issued or placed without the prior consents of the FMSC. There can be no assurance that either such listings or declaration will be obtained or, if such listings or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for Notes will depend on the number of holders of Notes, the interest of securities dealers in making a market in Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for Notes.

The market price of Notes may be volatile.

The market price of Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Company's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Company operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for notes issued by or on behalf of Kazakhstan as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of Notes without regard to the Company's results of operations, prospects or financial condition. Factors including increased competition, fluctuations in commodity prices or the Company's operating results, the regulatory environment, availability of reserves, general market conditions, natural disasters, terrorist attacks and war may have an adverse effect on the market price of Notes.

Financial turmoil in emerging markets may lead to unstable pricing of Notes.

The market price of Notes is influenced by economic and market conditions in Kazakhstan and, to a varying degree, economic and market conditions in other CIS countries and emerging markets generally. Financial turmoil in other emerging markets in the past has adversely affected market prices in the world's securities markets for companies that operate in those and other developing economies. Even if Kazakhstan's economy remains relatively stable, financial turmoil in other emerging markets could materially adversely affect the market price of Notes.

Insolvency laws in Kazakhstan may not be as favourable to holders of Notes as English or United States insolvency laws or those of another jurisdiction with which the Noteholders may be familiar.

The Company is organised in Kazakhstan and is subject to the bankruptcy law of Kazakhstan. Kazakhstan bankruptcy law may prohibit the Company from making payments pursuant to the Guarantee under certain circumstances. From the moment bankruptcy proceedings are initiated in court, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions.

After the initiation of bankruptcy proceedings, creditors of the debtor may not pursue any legal action to obtain payment to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor until completion of the bankruptcy procedure. Contractual provisions, such as those contained in the Guarantee, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, would accelerate the amount due but each accelerated amount becomes part of the total liabilities within the proper priority class. Specifically, Kazakhstan bankruptcy law provides that transactions or payments entered into or made (i) at any time prior to the commencement of bankruptcy proceedings which infringe Kazakhstan law or (ii) within the period beginning three years prior to commencement of the bankruptcy proceedings for no consideration or below market value or favourable treatment of one creditor over another creditor may be clawed back by a Kazakhstan court. Since Kazakhstan's courts are not experienced with complex commercial issues, there is no way to predict the outcome of a bankruptcy proceeding.

Also, there is a likelihood that recently promulgated bank restructuring legislation may be made applicable to non-banking institutions, which could present significant risks to investors in the event of a default in respect of the Notes.

Exchange rate risks exist to the extent payments in respect of Notes are made in a currency other than the currency in which an investor's activities are denominated.

The relevant Issuer will pay principal and interest on the Notes and the Guarantor, if any, will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. In addition, such risks generally depend on economic and political events over which the relevant Issuer and the Guarantor, if any, have no control. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of payment of principal or interest, if any, on a Note. As a result, investors may receive less interest or principal than expected, or no interest or principal. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note not denominated in U.S. Dollars would not be available at such Note's maturity. In that event, the relevant Issuer or the Guarantor, if any, as the case may be, would make required payments in U.S. Dollars on the basis of the market exchange rate on the date of such payment, or if such rate of exchange is not then available, on the basis of the market exchange rate as at the most recent practicable date.

Interest rate risks exist because Notes have a fixed rate and the prevailing interest rates in the future may be higher than the fixed rate.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Recent experience has shown that credit ratings do not reflect all risks.

The Company's credit ratings are an assessment by the relevant rating agencies of its ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure and marketing of Notes issued under this Base Prospectus, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Company and its management.

The Company is a company organised under the laws of Kazakhstan and a substantial part of its businesses, assets and operations are located in Kazakhstan. In addition, a substantial majority of its directors and executive officers reside in Kazakhstan and substantially all of their assets are located in Kazakhstan. As a result, it may not be possible to effect service of process within the United States or elsewhere outside Kazakhstan upon the Company or such directors or executive officers, including with respect to matters arising under United States federal securities laws or applicable United States state securities laws. Moreover, Kazakhstan does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and many other countries. As a result, recognition and enforcement in Kazakhstan of judgments of a court in the United States, the United Kingdom and many other jurisdictions in relation to any matter may be difficult. See "*Enforcement of Civil Liabilities*".

Further, in February 2010, the Parliament passed legislation amending the Arbitration Law to provide for certain immunities to government entities, including national companies, such as the Company, in the context of arbitration and foreign court judgments. While these immunities should apply only to government entities to the extent they are performing sovereign functions and not commercial activities, and the issuance of Notes under the Programme should be considered a commercial activity (and, under the Trust Deed, the Company has, to the full extent permitted by applicable laws, waived any immunity that may be attributed to it in respect of the Notes or the Guarantee, if any), under the amendments, whether a particular activity is deemed to be sovereign or commercial in nature is subject to determination by a Kazakhstan court on a case by case basis.

Return on an investment in Notes will be affected by charges incurred by investors.

An investor's total return on an investment in any Notes will be affected by the level of fees charged by any Agent, nominee service provider and/or clearing system used by the investor. Such a person or institution may charge fees for the opening and operation of an investment account, transfers of Notes, custody services and on payments of interest and principal. Potential investors are, therefore, advised to investigate the basis on which any such fees will be charged on the relevant Notes.

English law governs Notes and all agreements under the Programme.

Prospective investors should note that each Series of Notes will be governed by and construed in accordance with the laws of England and that the courts of England or arbitration proceedings in accordance with the Rules of the London Court of International Arbitration (solely for the purpose of any legal action or proceeding brought to enforce the relevant Issuer's or the Guarantor's, if any, obligations under this Base Prospectus) shall have exclusive jurisdiction in respect of any disputes involving the Notes. English law may be materially different from the equivalent law in the home jurisdiction of prospective investors in its application to the Notes. If a prospective investor is in doubt as to the implication of English law being the governing law in respect of the Notes, such investor should consult its legal advisors.

No assurance can be given as to the impact of any possible judicial decision or changes in English law or administrative practice after the date of this Base Prospectus.

Provisions of Notes permit defined majorities to bind all Noteholders and permit the Trustee to take certain action without Noteholder consent.

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of the Guarantor or any of their Subsidiaries as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 11(c).

Payments made in respect of Notes may be subject to withholding tax and have other tax consequences for investors.

Generally, payments of interest on borrowed funds made by a Kazakhstan entity to a non-resident are subject to Kazakhstan withholding tax at the rate of 15% for legal entities, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

If payments in respect of any Notes are subject to withholding of Kazakhstan tax as a result of which the relevant Issuer or the Guarantor (as the case may be) would reduce such payments by the amount of such withholding, the relevant Issuer or the Guarantor (as the case may be) is obliged to increase payments as may be necessary so that the net payments received by holders of Notes will not be less than the amounts they would have received in the absence of such withholding. It should be noted, however, that gross-up provisions may not be enforceable under Kazakhstan law where such provisions may be viewed by the Kazakhstan tax authorities as constituting payments of taxes on behalf of third parties.

EU Savings Directive may impose tax withholding.

Under the EU Council Directive on taxation of savings income in the form of interest payments (the "**EU Savings Directive**") 2003/48/EC, each Member State is required to provide to the tax authorities of another Member State, details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, each of Luxembourg and Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (the end of that transitional period is dependent upon the conclusion of certain agreements relating to information exchange within certain non-EU countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer, nor the Company, nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the

imposition of such withholding tax. The relevant Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

Payments under the Notes may be subject to withholding tax pursuant to the U.S. Foreign Account Tax Compliance Act.

With respect to Notes issued after the later of (i) 31 December 2013 and (ii) the date that is six months after the date on which final U.S. Treasury regulations define the term "foreign pass-thru payment" are filed with the U.S. Federal Register (such applicable dates the "**Grandfathering Date**"), the Issuer (or Guarantor) may, under certain circumstances, be required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("**FATCA**") to withhold U.S. tax at a rate of 30% on all or a portion of payments of principal and interest which are treated as "foreign pass-thru payments" made on or after 1 January 2017 to an investor or any other non-U.S. financial institution through which payment on the Notes is made that is not in compliance with FATCA. If the Issuer issues further Notes after the Grandfathering of a Series of Notes that was originally issued on or before the Grandfathering Date, payments on such further Notes may be subject to withholding under FATCA and, should the originally issued Notes of that Series and the further Notes be indistinguishable (as would likely be the case in such a "tap" issue), such payments on the originally issued Notes may also become subject to withholding under FATCA, unless such further Notes are issued pursuant to a "qualified reopening" for U.S. federal income tax purposes. The application of FATCA to interest, principal or other amounts paid on or with respect to the Notes is not currently clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a Holder's failure to comply with FATCA, none of the Issuer, any paying agent or any other person would pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax

OVERVIEW

This overview must be read as an introduction to this Base Prospectus, and any decision to invest in Notes should be based on a consideration of this Base Prospectus as a whole.

Overview of the Company

The Company is the national oil and gas company of Kazakhstan with vertically-integrated upstream, midstream and downstream operations located principally in Kazakhstan. The Company's management believes, based on NSA statistics and the Company's internal information, that, as at 31 December 2012, on a consolidated basis (including the proportionate interest of jointly-controlled entities and associates), the Company was the largest crude oil producer in Kazakhstan in terms of production volume. According to NSA statistics and the Company's internal information, the Company also operates the largest crude oil and gas pipeline networks in Kazakhstan in terms of length and throughput capacity. In addition, the Company holds a significant or controlling interest in each of the three principal refineries in Kazakhstan, as well as a major refinery in Romania.

In the year ended 31 December 2012, the Company's production was 21.3 million tonnes (8.3 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil and 5.2 bcm (1.6 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas. In the year ended 31 December 2011, the Company's production was 21.1 million tonnes (7.9 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil and 4.5 bcm (0.8 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas. In the year ended 31 December 2010, the Company's production was 21.0 million tonnes (8.8 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil and 4.6 bcm (0.9 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas. Based on the Company's internal information and information obtained from the NSA, the Company's production of crude oil (including the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) represented 26.9%, 26.3% and 26.4% of the total crude oil production in Kazakhstan in 2012, 2011 and 2010, respectively, while the Company's production of gas (including the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) represented 12.9%, 11.5% and 12.3% of the total gas production in Kazakhstan in 2012, 2011 and 2010, respectively.

As at 31 December 2012, the total length of the crude oil pipeline networks that the Company owns and operates was 5,495 km and the total length of the gas pipeline networks that the Company owns and operates was 11,272 km. In addition, as at 31 December 2012, the Company had an interest in a further 2,657 km of crude oil pipeline network and 1,305 km of gas pipeline network as part of its joint-venture network.

The Company produced a total of 13.0 million tonnes (10.7 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of refined oil products in 2012, 12.6 million tonnes (10.4 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of refined oil products in 2011 and 14.3 million tonnes (12.0 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of refined oil products in 2010.

The Company calculates its reserves using the Kazakhstan methodology, which differs significantly from the internationally accepted classifications and methodologies established by PRMS and SEC Standards, in particular with respect to the manner in which, and the extent to which, commercial factors are taken into account in calculating reserves.

According to Kazakhstan methodology, as at 31 December 2012, the Company's A+B+C1 reserves of crude oil were 787.1 million tonnes (374.4 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) and the Company's A+B+C1 reserves of gas were 463.8 bcm (274.3 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates). The Company's A+B+C1 reserves life for crude oil was 37.0 years (45.0 years, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) and the Company's A+B+C1 reserves life for natural gas was 89.1 years (168.3 years, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) as at 31 December 2012. In 2012, the Company's A+B+C1 reserves replacement ratio for crude oil (calculated by comparing net new proved crude oil reserves additions in tonnes to yearly crude oil production in tonnes) was 40% (24.8%, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) compared to 70.1% (33.5% excluding the proportionate share of the Company

and its subsidiaries in jointly-controlled entities and associates) in 2011. This decrease in the Company's A+B+C1 reserves replacement ratio from 2011 to 2012 primarily reflected that the Company did not make any significant acquisitions of upstream assets in 2012. See "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*" and "*Presentation of Financial, Reserves and Certain Other Information—Certain Reserves Information*".

The Company's total revenue increased by 12.8% to KZT 2,960.4 billion for the year ended 31 December 2012 from KZT 2,625.3 billion for the year ended 31 December 2011. The Company's net profit decreased by 13.6% to KZT 413.4 billion for the year ended 31 December 2012 from KZT 478.7 billion for the year ended 31 December 2011. The Company's total revenue increased by 25.1% to KZT 2,625.3 billion for the year ended 31 December 2011 from KZT 2,098.9 billion for the year ended 31 December 2010. The Company's net profit also increased by 20.6% to KZT 478.7 billion for the year ended 31 December 2011 from KZT 397.0 billion for the year ended 31 December 2010.

As at 31 December 2012, the Company had total assets of KZT 6,833.7 billion compared to total assets of KZT 6,178.0 billion as at 31 December 2011 and total assets of KZT 5,752.4 billion as at 31 December 2010.

The following table sets forth the Company's principal subsidiaries, joint ventures and associates, their principal line of operations and certain information related thereto as at the date of this Base Prospectus:

Name and Line of Operation	% Interest	Description of Operations
Upstream Assets		
JSC KazMunaiGas Exploration Production (KMG EP)	61.36[(1)]	KMG EP is the Company's principal onshore exploration and production subsidiary and is its largest subsidiary based on reserves and production volumes. KMG EP extracts oil and gas from 47 oil and gas fields located in Western Kazakhstan, including the Uzen Field, which, as at 31 December 2012, accounted for 18% of the Company's reserves of crude oil. In the year ended 31 December 2012, KMG EP produced 7.8 million tonnes of crude oil and 770.3 mcm of gas. As at 31 December 2012, KMG EP had A+B+C1 reserves of crude oil of 217.4 million tonnes and A+B+C1 reserves of gas of 60,330 mcm. • JV Kazgermunai LLP (Kazgermunai) – 50.00%: Kazgermunai is a jointly-controlled entity between KMG EP and PKI (through a subsidiary), each with a 50% interest, which operates the Akshabulak Field in Southern Kazakhstan. In the year ended 31 December 2012, Kazgermunai produced 1.6 million tonnes of crude oil and 257.6 mcm of gas attributable to KMG EP. As at 31 December 2012, Kazgermunai had A+B+C1 reserves of crude oil of 15.6 million tonnes attributable to KMG EP. • PetroKazakhstan Inc. (PKI) – 33.00%: In December 2009, KMG EP completed its acquisition from the Company of 100% of the common shares of KMG PKI Finance, which, in turn, holds a 33% interest in PKI. PKI is KMG EP's principal oil exploration and production associate; it is majority owned by CNPC. PKI operates five production fields in Southern Kazakhstan. In the year ended 31 December 2012, PKI produced 1.8 million tonnes of crude oil and 274.3 mcm of gas attributable to KMG EP. As at 31 December 2012, PKI had A+B+C1 reserves of crude oil of 20.5 million tonnes attributable to KMG EP. PKI, in turn, holds a 50% interest in each of the Kazgermunai and JSC Turgai Petroleum. The production and reserves of Kazgermunai and JSC Turgai Petroleum that are attributable to PKI are consolidated in the production and reserves information for PKI presented in this Base Prospectus. • CITIC Canada Energy Limited (CCEL) – 50.00%: CCEL is a jointly-controlled entity between KMG EP and CITIC, each with a 50% interest, which operates the Karazhanbas Field in Western Kazakhstan. In the year ended 31 December 2012, CCEL produced 1.0 million tonnes of crude oil and 10.0 mcm of gas. As at 31 December 2012, CCEL had A+B+C1 reserves of crude oil of 25.7 million tonnes, in each case, which were attributable to KMG EP based on KMG EP's ownership percentage in CCEL.
Tengizchevroil LLP (TCO)	20.00	TCO is a jointly-controlled entity among the Company (20%), Chevron (50%), ExxonMobil Kazakhstan Ventures Inc. (25%) and LukArco (5%). TCO operates primarily the Tengiz Field in Western Kazakhstan, which is among the largest fields in development in the world based on A+B+C1 reserves and which, as at 31 December 2012, accounted for 28.6% of the Company's A+B+C1 reserves of crude oil. In the year ended 31 December 2012, TCO produced 4.8 million tonnes of crude oil and 2,540.0 mcm of gas attributable to the Company. As at 31 December 2012, TCO had A+B+C1 reserves of crude oil of 241.0 million tonnes and A+B+C1 reserves of gas of 123,296.0 mcm attributable to the Company.

Name and Line of Operation	% Interest	Description of Operations
North Caspian Project Consortium (NCPC)	16.81	NCPC is a consortium among the Company (16.8%), AGIP Caspian Sea B.V (16.8%), ExxonMobil Kazakhstan (16.8%), INPEX North Caspian Sea Ltd (7.6%), Phillips Petroleum Kazakhstan Ltd (8.4%), Shell Kazakhstan Development B.V. (16.8%) and Total EP Kazakhstan (16.8%). NCPC operates, indirectly, the Kashagan Field in the Caspian Sea. NCPC is operated by NCOC, a joint venture owned by the consortium participants in the same proportions as their respective interests in NCPC. As at the date of this Base Prospectus, commercial production is now expected to start in the second quarter of 2013. As at 31 December 2012, NCPC had A+B+C1 reserves of crude oil of 142.1 million tonnes attributable to the Company, which accounted for 18.1% of the Company's A+B+C1 reserves of oil based on the Company's 16.81% interest in NCPC.
JSC Mangistaumunaigas (MMG)	50.00	MMG is an upstream oil and gas company owned by MIBV, a jointly-controlled entity between KMG and CNPC E&D, with each partner having a 50% interest. KMG acquired its interest in MMG on 25 November 2009. MMG is one of Kazakhstan's largest oil producers and operates the Kalamkas Field, one of the largest fields in Kazakhstan, pursuant to a Subsoil Use Agreement that expires in 2027. In the year ended 31 December 2012, MMG produced 3.0 million tonnes of crude oil and 270.7 mcm of gas attributable to the Company. As at 31 December 2012, the Kalamkas Field had estimated A+B+C1 reserves of crude oil of 37.8 million tonnes and A+B+C1 reserves of gas of 13,679 mcm attributable to the Company, representing 4.8% and 2.9% of the Company's A+B+C1 reserves of crude oil and gas, respectively. MMG also operates the Zhetybai Field, which as at 31 December 2012, had estimated A+B+C1 reserves of crude oil of 29.5 million tonnes and A+B+C1 reserves of gas of 13,084 mcm attributable to the Company, representing 3.7% and 2.8% of the Company's A+B+C1 reserves of crude oil and gas, respectively.
Karachaganak Petroleum Operating B.V. (KPO)	10.00	KPO is a consortium operating under a joint operating agreement among the Company (10%), the BG Group (29.25%), Agip (29.25%), Chevron (18.0%) and Lukoil (13.5%). KPO operates the Karachaganak Field, which is one of the world's largest gas and condensate fields and the largest gas producing field in Kazakhstan. As at 31 December 2012, KPO had A+B+C1 reserves of crude oil of 13.5 million tonnes and reserves of gas of 75,338 mcm attributable to the Company, representing 1.7% and 16.2% of the Company's A+B+C1 reserves of crude oil and gas, respectively. In the year ended 31 December 2012, KPO produced 0.6 million tonnes of crude oil and 860.0 mcm of gas attributable to the Company.
Midstream Assets		
JSC KazTransOil (KTO)	90.00 (plus one share)	KTO is a transportation company, which owns and operates the largest crude oil pipeline network in Kazakhstan. The KTO pipeline network principally includes the Uzen-Atyrau-Samara pipeline (the "**UAS pipeline**") in Western Kazakhstan, which delivers crude oil to Russia's Transneft pipeline network for delivery to ports on the Black Sea or to Europe directly. As at 31 December 2012, the KTO pipeline network consisted of 5,495 km of pipe with diameters between 0.5 m and 1.8 m. In the year ended 31 December 2012, the KTO pipeline network transported 50.1 million tonnes of crude oil. In December 2012, the Company sold approximately 9.99% of the shares of KTO to Kazakhstan investors, as part of the Government's "People's IPO" programme. • Kazakhstan China Pipeline JV LLP (KCP) - 50.00%: KCP is a jointly-controlled entity between KTO and CNODC, each with a 50% interest. KCP constructed the Atasu-Alashankou pipeline and the Kenkiyak-Kumkol pipeline, comprising two of three pipeline systems forming the KC Pipeline network built to create a transport corridor for the export of Kazakhstan oil to China. As at 31 December 2012, the Atasu-Alashankou pipeline had a total length of 962 km of pipe with diameters between 0.5 m and 1.8 m. In the year ended 31 December 2012, the Atasu-Alashankou pipeline transported 10.4 million tonnes of crude oil, which amount is not included in the KTO pipeline network volume reported above. The Kenkiyak-Kumkol pipeline was completed in October 2009 with a total of 794 km of pipe with diameters between 0.5 m and 1.8 m. In the year ended 31 December 2012, the Kenkiyak-Kumkol pipeline transported 4.5 million tonnes of crude oil, which amount is not included in the KTO pipeline network volume reported above.

Name and Line of Operation	% Interest	Description of Operations
		• JSC MunayTas North West Pipeline Company JV (MunayTas) - 51.00%: MunayTas is a jointly-controlled entity between KTO, with a 51% interest, and CNPC E&D, with a 49% interest. MunayTas constructed the Kenkiyak-Atyrau pipeline running from the city of Kenkiyak located in the Aktobe oblast region of Western Kazakhstan to the city of Atyrau and comprising one of three pipeline systems forming the KC Pipeline (together with the Atasu-Alashankou pipeline and the Kenkiyak-Kumkol pipeline). The Kenkiyak-Atyrau pipeline connects to the UAS Pipeline and the pipeline extending from the oil fields in Western Kazakhstan through Russia to CPC's export marine terminal on the Black Sea near the Russian part of Novorossiysk (the "**CPC Pipeline**"). The Kenkiyak-Atyrau pipeline is operated by KTO. As at 31 December 2012, the Kenkiyak-Atyrau pipeline network had a total of 448.8 km of pipe with diameters between 0.5 m and 1.8 m. In the year ended 31 December 2012, the Kenkiyak-Atyrau pipeline transported 3.4 million tonnes of crude oil, which amount is not included in the KTO pipeline network volume reported above.
JSC KazTransGas (KTG)	100.00	KTG is a transportation company, which owns a 100% interest in ICA, which in turn operates the largest natural gas pipeline network in Kazakhstan. The ICA pipeline network includes the Central Asia Centre pipeline, the shortest pipeline route from the gas producing regions of Central Asia (principally Turkmenistan and Uzbekistan) through Russia to Europe. As at 31 December 2012, the ICA pipeline network had a total of 11,272 km of pipe comprised of 131 km of pipe with diameters less than 0.5 m and 11,141 km of pipe with diameters between 0.5 m and 1.4 m. In the year ended 31 December 2012, the ICA pipeline network transported 95.1 bcm of gas. Under the Gas Law, KTG has been appointed as the "national operator" for the transportation of gas. • Asia Gas Pipeline LLP (AGP) - 50.00%: AGP is a jointly-controlled entity between KTG and CNPC, each with a 50% interest, formed to construct and operate the Turkmenistan-China gas pipeline across Kazakhstan, which transmits gas from other Central Asian Republics to major population centres in Southern Kazakhstan to China (the "**Asia Gas Pipeline**"). On 12 December 2009, the first phase of this project, comprising a pipeline with a throughput capacity of 10 bcm per year, was completed. The second phase of the project was completed in December 2012. Construction of the third phase of the project began in November 2012 and is expected to be completed by January 2016. In the year end 31 December 2012, the Asia Gas Pipeline transported 22.8 bcm of gas. • Beineu-Shymkent Gas Pipeline LLP (BSGP) – 50.00%: BSGP is a jointly-controlled entity between KTG and CNPC, each with a 50% interest, formed to construct and operate the Beineu-Bozoi-Shymkent Gas Pipeline. The first phase of the project, comprising the Bozoi-Shymkent pipeline with a throughput capacity of 6 bcm per year, is expected to be completed by May 2015. The second phase of the project, comprising the Beineu-Bozoi pipeline, which will increase throughput capacity to 10 bcm per year, is expected to be completed by the end of 2016.
Downstream Assets		
JSC KazMunaiGaz Refining and Marketing (KMG RM)	100.00	KMG RM (formerly known as JSC Trade House KazMunayGas) is the Company's principal refining, marketing and trading company. KMG RM's principal operations include refining crude oil, operating filling station networks and trading the Company's crude oil and oil products. The Company, through KMG RM, has a significant or controlling interest in all three of Kazakhstan's principal oil refineries, the Atyrau Refinery, the Shymkent Refinery and the Pavlodar Refinery. In the year ended 31 December 2012, KMG RM produced 10.7 million tonnes of refined oil products. KMG RM's principal refinery assets are as follows: • Pavlodar From August 2009, KMG RM, through TH KazMunaiGas N.V., holds a 100% interest in Refinery Company RT, LLP ("**Refinery Company RT**"), which owns all of the assets of the Pavlodar Refinery, together with a 25.1% interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 74.9% of Pavlodar Refinery JSC being held directly KMG RM). Refinery Company RT leases 100% of the assets comprising Pavlodar Refinery to Pavlodar Refinery JSC, which then operates the Pavlodar Refinery. As at 31 December 2012, the Pavlodar Refinery had a design capacity of 20,548 tonnes of oil per day. In the year ended 31 December 2012, the Pavlodar Refinery refined 5.1 million tonnes of crude oil and produced 4.3 million tonnes of refined oil products.

Name and Line of Operation	% Interest	Description of Operations
		• Atyrau KMG RM owns a 99.53% interest in the Atyrau Refinery. As at 31 December 2012, the Atyrau Refinery had a design capacity of 13,698 tonnes of oil per day and its actual refining production was 12,993 tonnes of oil per day. In the year ended 31 December 2012, the Atyrau Refinery refined 4.7 million tonnes of crude oil and produced 4.5 million tonnes of refined oil products. • Shymkent KMG RM, through Valsera Holdings B.V., indirectly owns a 49.72% interest in PetroKazakhstan Oil Products LLP, which, in turn, owns the Shymkent Refinery. The remaining interest in PetroKazakhstan Oil Products LLP is held by CNPC. As at 31 December 2012, the Shymkent Refinery had a design capacity of 16,438 tonnes of oil per day and its actual refining production was 14,246 tonnes of oil per day. In the year ended 31 December 2012, the Shymkent Refinery refined 5.2 million tonnes of crude oil and produced 4.5 million tonnes of refined oil products attributable to the Company.
Rompetrol	100.00	Rompetrol's retail network in Romania, France and Spain offers a number of vehicle fuels, which are primarily supplied by the Petromidia Refinery. It also sells other refined oil products through various Rompetrol-controlled entities. The Rompetrol Group owns and operates the Petromidia Refinery and the Vega Refinery. The Petromidia Refinery has a designed refining capacity of 5.0 million tonnes of crude oil per year and an actual refining capacity of 4.0 million tonnes of crude oil per year. The Vega Refinery has a designed and actual refining capacity of 0.3 million tonnes of crude oil per year. In total, in the year ended 31 December 2012, Rompetrol produced 4.4 million tonnes of refined oil products, 3.9 million tonnes of which was produced at the Petromidia Refinery.

Notes:
(1) As at 1 January 2013, as a percentage of ordinary voting shares of KMG EP.
(2) For details of the throughput capacity of the Company's pipelines, see "*Business—Transportation*"

See "*Business—Corporate Structure*" below for an organisational chart reflecting the principal subsidiaries, joint ventures and associates of the Company.

Sole Shareholder and Relationship with the State

The Government indirectly wholly owns the Company. See "*Share Capital, Sole Shareholder and Related Party Transactions—Samruk-Kazyna*". The Government has a strong influence over decisions at the Company and is able to determine the Company's strategy, make policy decisions in relation to the Company's business (including investments, borrowings, risk management and asset allocation) and supervise the implementation of such decisions. In 2013, the Government agreed to reduce the Company's dividend payout to 15% for 2013 due to the Company's significant capital expenditure investment plans and upcoming debt maturities.

As the national oil and gas company, the Company has been designated by the Government to be the beneficiary of the Government's pre-emptive right to acquire interests in various exploration and production licences and contracts (since 1999 subsoil operations have been based on contracts only) and production sharing agreements (collectively, the "**Subsoil Use Agreements**") when such agreements are offered for sale or when the entities that benefit from such agreements are offered for sale. Pursuant to the Gas Law, KTG has been appointed as the national operator for the transportation of gas and, as national operator, KTG has been given a priority right to purchase all associated gas produced in Kazakhstan (on behalf of the State) at a set price. See "*Risk Factors—Risks Relating to the Company's Business—The Government has appointed KTG as the "national operator" for the transportation of gas.*" and "*Business—Transportation—Transportation and Storage of Gas—Overview*".

In 2002, the Government clarified the division of functions between the Company and petroleum-related state entities (Government Decree №707 dated 29 June 2002). In 2002, the Government also adopted rules for the Company to represent the State's interests in Subsoil Use Agreements by way of the Company's mandatory participation in petroleum projects (Government Decree №708 dated June 29, 2002). The Company was empowered to act as the "authorised body" with regards to control, monitoring and regulation of petroleum operations under production sharing agreements ("**PSAs**").

The presidential edict of 12 March 2010 restructured several government ministries and, in particular, created the Ministry of Oil and Gas of the Republic of Kazakhstan ("**MOG**"). According to the new Kazakhstan Law "On Subsoil and Subsoil Use" (№ 291-IV, dated 24 June 2010) (the "**New Subsoil Law**") and the Regulations on the MOG (approved by Governmental Resolution № 454, dated 20 May 2010), certain non-commercial or regulatory functions of the Company as an "authorised body" of the Government, including, among other things, representing the State under the

PSAs for the North Caspian Project (as defined below) and the Karachaganak Field, were transferred to the MOG. See "*The Oil and Gas Industry in Kazakhstan—Regulatory Bodies—Ministry of Oil and Gas*".

In this regard, in June 2010, the Company established LLP "PSA", a 100%-owned subsidiary with charter capital of KZT 5,000 million. LLP "PSA" is legally owned by the Company in its capacity as agent for the Government and its assets and activities are managed for the benefit of the MOG pursuant to a trust management agreement between the Company and the MOG. The primary objective of LLP "PSA" is to monitor and protect the interests of the Government under PSAs. As at the date of this Base Prospectus, LLP "PSA" is responsible for the production sharing agreements covering the North Caspian Project (Kashagan Field), Karachaganak Field and Dunga Field, respectively. The ultimate allocation of the responsibilities and functions of the MOG, the Company and LLP "PSA" with respect to the agency functions historically administered by the Company is still being considered. The MOG, the Company and LLP "PSA" are engaged in ongoing discussions regarding the most appropriate structure to optimise and protect the interests of all parties. As at the date of this Base Prospectus, no immediate decision or action is expected.

The creation of the MOG, and the related transfer of non-commercial and regulatory functions from the Company to the MOG have not, to date, and are not expected to, adversely affect the Company's pre-emptive rights to acquire interests in Subsoil Use Agreements or its reserves or other commercial interests.

Credit Ratings

The Company has been assigned long-term foreign currency ratings of Baa3 by Moody's, BBB- by S&P and BBB by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. The credit ratings included or referred to in this Base Prospectus will be treated for the purposes the CRA Regulation as having been issued by Moody's, S&P and Fitch, respectively. Each of Moody's, S&P and Fitch are established in the European Union and registered under the CRA Regulation.

See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—Most of the Company's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Company is largely dependent on the economic and political conditions prevailing in Kazakhstan*" and "*Risk Factors—Risk Factors Relating to the Notes—Recent experience has shown that credit ratings do not reflect all risks*".

Overview of KMG Finance

KMG Finance was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid* or B.V.) under and subject to the laws of the Netherlands on 9 June 2006 for an unlimited duration. Its number in the commercial register of Amsterdam, the Netherlands is 34249875. KMG Finance is a direct, wholly-owned subsidiary of Coöperatieve KazMunaiGaz U.A., registered in the Netherlands. The Company is a member of Coöperatieve KazMunaiGaz U.A., together with LLP KMG KumKol, a wholly-owned subsidiary of the Company.

Overview of the Programme

The following general description does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus. Words and expressions defined in "Overview of the Provisions Relating to the Notes in Global Form" or "Terms and Conditions of Notes" below shall have the same meanings in this general description.

Issuer..	JSC National Company KazMunayGas or, as specified in the relevant Final Terms, KazMunaiGaz Finance Sub B.V.
Guarantor (*in respect of Notes issued by KMG Finance*)	JSC National Company KazMunayGas.
Arrangers	Barclays Bank PLC, JSC Halyk Finance, Merrill Lynch International and JSC Visor Capital.
Dealers	Barclays Bank PLC, JSC Halyk Finance, Merrill Lynch International, JSC Visor Capital and any other Dealer(s) appointed in accordance with the Dealer Agreement.
Trustee	Citigroup Trustee Company Limited.
Principal Paying Agent	Citibank N.A., London.
Registrar	Citigroup Global Markets Deutschland AG.
Paying Agent and Transfer Agent	Citibank N.A., London.
Programme Size	U.S.$10,500,000,000 (or its equivalent in other currencies calculated in accordance with the provisions of the Dealer Agreement) outstanding at any one time. The Issuer may increase the amount of the Programme at any time in accordance with the Dealer Agreement.
Issuance	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
	Each Tranche will be the subject of Final Terms which, for the purposes of that Tranche only, completes the Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes are the Conditions of the Notes as completed by the relevant Final Terms.
	See "*Terms and Conditions of the Notes—Condition 1. Form, Denomination and Title*" and "*Form of Final Terms*".
FMSC Consents	No Notes may be issued without the prior consent of the FMSC.
Forms of Notes	Each Series of Notes will be issued in registered form only. The Regulation S Notes and the Rule 144A Notes will initially be represented by the Regulation S Global Note and the Rule 144A Global Note, respectively. The Global Notes will be exchangeable for Definitive Notes (as defined herein) in the limited circumstances specified in the Global Notes.
	See "*Terms and Conditions of the Notes—Condition 1. Form, Denomination and Title*".

Clearing Systems	Unless otherwise agreed, DTC (in relation to any Rule 144A Notes) and Clearstream, Luxembourg and Euroclear (in relation to any Regulation S Notes) and such other clearing system as may be agreed between the relevant Issuer, and, if the relevant Issuer is KMG Finance, the Company, the Principal Paying Agent, the Trustee and the relevant Dealer(s). See "*Overview of the Provisions Relating to the Notes in Global Form*".
Currencies	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements, as specified in the relevant Final Terms. Payments in respect of Notes may, subject to such compliance, be made in, and/or linked to, any currency or currencies other than the currency in which such Notes are denominated. See "*Form of Final Terms*".
Status of the Notes	The Notes will constitute direct, general, unconditional and (subject to Condition 4(a)) unsecured obligations of the Issuer which rank and will rank *pari passu* amongst themselves and *pari passu* in right of payment with all other present and future unsubordinated obligations of the relevant Issuer together, if applicable, with the Company, save only for such obligations as may be preferred by mandatory provisions of applicable law. See "*Terms and Conditions of the Notes—Condition 3(a). Status of the Notes*".
Status of the Guarantee.......................	Where KMG Finance acts as the Issuer of the Notes, the Notes will unconditionally and irrevocably guaranteed by the Company as Guarantor. The obligations of the Company under the Guarantee in respect of the relevant Notes will constitute direct, general, unconditional and (subject to Condition 4(a)) unsecured and will rank *pari passu* amongst themselves and *pari passu* in right of payment with all other present and future unsubordinated obligations of the Company save only for such obligations as may be preferred by mandatory provisions of applicable law. See "*Terms and Conditions of the Notes—Condition 3(b). Status of the Guarantee*".
Issue Price	Notes may be issued at any price and either on a fully or partly-paid basis, as specified in the relevant Final Terms. See "*Form of Final Terms*".
Maturities...	Any maturity as specified in the relevant Final Terms , subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. See "*Terms and Conditions of the Notes—Condition 6. Redemption, Purchase and Options*" and "*Form of Final Terms*".
Redemption	Notes may be redeemable at par or at such other Redemption Amount as may be specified in the relevant Final Terms. Notes may also be redeemable on such dates as may be specified in the relevant Final Terms. See "*Terms and Conditions of the Notes—Condition 6. Redemption, Purchase and Options*" and "*Form of Final Terms*".
Optional Redemption	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) or the Noteholders to the extent (if at all) specified in the relevant Final Terms.

Notes may also be redeemed at the option of the Noteholder upon the occurrence of (i) a Change of Status (as defined in Condition 6(d)).

See "*Terms and Conditions of the Notes—Condition 6. Redemption, Purchase and Options*" and "*Form of Final Terms*".

Tax Redemption.................................... Except as described in "*Optional Redemption*" above or following an Event of Default, early redemption will only be permitted for taxation reasons as described in Condition 6(c).

See "*Terms and Conditions of the Notes—Condition 6(c). Redemption for Taxation Reasons*".

Denominations .... The Notes will be issued in such denominations as may be agreed between the relevant Issuer together, if applicable, with the Company and the relevant Dealer(s) save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant specified currency and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

However, for so long as the Notes are represented by a Global Note, and the relevant clearing system(s) so permit, the Notes shall be tradeable only in the minimum authorised denomination of €100,000 and higher integral multiples of any smaller amount specified in the relevant Final Terms.

In addition, interests in the Rule 144A Notes shall be held in amounts of not less than U.S.$200,000 or its equivalent in another currency.

Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 or its equivalent in another currency.

See "*Terms and Conditions of the Notes—Condition 1. Form, Denomination and Title*".

Interest.. Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate.

See "*Terms and Conditions of the Notes—Condition 5. Interest and Other Calculations*" and "*Form of Final Terms*".

Fixed Rate Notes.................................... Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer together, if applicable, with the Company and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s).

See "*Terms and Conditions of the Notes—Condition 5(a). Interest on Fixed Rate Notes*" and "*Form of Final Terms*".

Floating Rate Notes .... Floating Rate Notes will bear interest at a rate determined:

(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or

(b) on the basis of a reference rate (LIBOR or EURIBOR) appearing on the agreed screen page of a commercial quotation service; or

(c) on such other basis as may be agreed between the relevant Issuer together, if applicable, with the Company and the relevant Dealer(s).

The margin (if any) relating to such floating rate will be agreed between the relevant Issuer together, if applicable, with the Company and the relevant Dealer(s) for each Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer, together, if applicable, with the Company and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).

See "*Terms and Conditions of the Notes—Condition 5(b). Interest on Floating Rate Notes*" and "*Form of Final Terms*".

Negative Pledge.................................... The Notes will have the benefit of a negative pledge.

See "*Terms and Conditions of the Notes—Condition 4(a). Negative Pledge*".

Covenants... The Notes will have the benefit of the following covenants: (i) limitation on payment of dividends; (ii) limitation on sales of assets and subsidiary stock; (iii) limitations on indebtedness; (iv) financial information; (v) limitations on dividends from material subsidiaries; (vi) maintenance of authorisations; (vii) mergers and consolidations; (viii) transactions with affiliates; (iv) payment of taxes and other claims; (x) officers' certificates; and (xi) change of business.

See "*Terms and Conditions of the Notes—Condition 4. Negative Pledge and Covenants*".

Cross Default.. The Notes will have the benefit of a cross default clause.

See "*Terms and Conditions of the Notes—Condition 10(c).Cross-Default*".

Taxation.. All payments in respect of Notes will be made free and clear of withholding taxes of the Netherlands and Kazakhstan unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 8) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.

Where KMG Finance acts as the Issuer of Notes under the Programme, all payments by the Issuer under the Notes will be made without the imposition of any Dutch withholding taxes. Where the Company acts as the Guarantor of Notes issued by KMG Finance under the Programme, payments of interest from the Guarantor to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Payments under the Guarantee in relation to interest on the Notes will be subject to Kazakhstan withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty.

Where the Company acts as the Issuer of Notes under the Programme, payments of interest from the Company to Non-Kazakhstan Holders (as defined in "*Taxation—Kazakhstan Taxation*") will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. The withholding tax on interest would not apply if the Notes are, as at the date of accrual of such interest, admitted on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE).

See "*Taxation*".

In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by The Netherlands or Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax on payments of principal and interest in respect of the Notes (including, if applicable, payments by the Guarantor under the Guarantee), the relevant Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as will result in receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction on account of any such taxes had been required.

See "*Terms and Conditions of the Notes—Condition 8. Taxation*".

Governing Law .... English law.

See "*Terms and Conditions of the Notes—Condition 18(a). Governing Law*".

Listing .... Application has been made for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the Regulated Market. This Base Prospectus and any supplement will only be valid for listing Notes on the Official List and admitting Notes to trading on the Regulated Market in respect of Notes having a denomination of at least €100,000 (or its equivalent in any other currency as at the date of issue of the Notes) during a period of twelve months from the date of this Base Prospectus.

In addition, unless otherwise agreed with the relevant Dealer(s) and provided for in the Final Terms, the Company will use its reasonable endeavours to cause all Notes issued by the Company under the Programme to be admitted to the "rated debt securities" (highest category)" category of the "debt securities" sector of the official list of the KASE as from (and including) the Issue Date, and the Company will use its reasonable endeavours to cause the Notes issued by KMG Finance to be listed on the KASE.

Selling Restrictions .... The offering and sale of Notes is subject to applicable laws and regulation, including, without limitation, those of the European Economic Area, Kazakhstan, the Netherlands, the United Kingdom and the United States.

See "*Subscription and Sale*".

Risk Factors .... Investing in the Notes involves a high degree of risk.

See "*Risk Factors*".

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used by the Company for its general corporate purposes, which may include refinancing, retiring or otherwise restructuring existing indebtedness.

KMG FINANCE

General

KMG Finance was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid* or B.V.) under and subject to the law of the Netherlands on 9 June 2006 for an unlimited duration. Its number in the commercial register of Amsterdam, the Netherlands is 34249875. KMG Finance is a direct, wholly-owned subsidiary of Coöperatieve KazMunaiGaz U.A., registered in the Netherlands. The Company is a member of Coöperatieve KazMunaiGaz U.A., together with LLP KMG KumKol, a wholly-owned subsidiary of the Company.

As at 31 December 2012, the authorised share capital of KMG Finance was €90,000, divided into ordinary registered shares with a par value of €100 each. As at the date of KMG Finance's incorporation, KMG Finance's total paid-in capital was €18,000, consisting of 180 ordinary shares which were issued and fully paid at par and are directly owned by Coöperatieve KazMunaiGaz U.A. A share premium contribution of U.S.$7,800,000 was made to KMG Finance's capital in May 2008, in the ordinary course, in compliance with applicable Netherlands laws and regulations.

Business

As set out in Article 3 of its Articles of Association, KMG Finance was incorporated for the purpose of, among other things, borrowing and/or lending moneys. KMG Finance has been established as a special purpose vehicle and has no employees or subsidiaries.

In October 2010, the Company was substituted as primary obligor in respect of the Series 1 Notes, the Series 2 Notes, the Series 3 Notes and the Series 4 Notes issued under the Programme, which represented all such Notes then issued by KMG Finance under the Programme, and, as at the date of this Base Prospectus, KMG Finance has not issued any further Notes under the Programme. Upon such substitution, KMG Finance was released from its obligations in respect of such Notes and the Company's guarantee thereof was cancelled, although no other changes to the terms of such Notes were affected.

Other than its obligations under the ING Facility (as defined below), KMG Finance has no outstanding indebtedness in the nature of borrowings, guarantees or contingent liabilities as at the date of this Base Prospectus. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations*".

There are no governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which KMG Finance is aware, during the last 12 months preceding the date of this Base Prospectus, which may have, or have had in the recent past, significant effects on the financial position or profitability of KMG Finance.

Management

KMG Finance has four managing directors: Mr. Ruslan Jussupbekov, who has his business address at the business address of KMG Finance set out below; Mr. Otmar E. Carolus, who has his business address at the business address of KMG Finance; Mr. Nurlan Kussayev, who is also a Deputy of the General Director on Economics and Finance of KMG Kashagan B.V., a wholly-owned subsidiary of the Company and has his business address at Strawinskylaan 411, 1077XX Amsterdam, the Netherlands; and Ms. Shara Tanatarova, who is also Corporate Finance and Assets Management Director of the Company and has her business address at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

There is no potential conflict of interest between any duties of the managing directors towards KMG Finance and their private interests and/or other duties.

General Information

The business address of KMG Finance is Strawinskylaan 807 (WTC Tower A, 8th Floor), 1077 XX Amsterdam, the Netherlands and its telephone number is +31 020 5752390.

KMG Finance has obtained all necessary consents, approvals and authorisations in the Netherlands in connection with the issuance of the Notes and the performance of its obligations in relation thereto.

KMG Finance is not required to obtain a licence from the Dutch Central Bank (*De Nederlandsche Bank*) pursuant to Article 2:11 of the Dutch Act on financial supervision (*Wet op het financieel toezicht)* ("**AFS**"). In order to fall under the relevant exceptions set forth in the AFS in respect of obtaining a bank licence and the raising of repayable monies, such

repayable monies may solely be obtained by KMG Finance from professional market parties (as defined in Article 1:1 of the AFS).

KMG Finance complies and will continue to comply with any applicable financial reporting obligations for issuers whose securities are admitted to trading on a regulated market (as defined in the EU Markets in Financial Instruments Directive (2004/39/EC, as amended)) in accordance with the EU Transparency Directive (2004/109/EC, as amended) and the relevant sections of Chapter 5.1A of the AFS. So long as (i) the registered seat for KMG Finance is in the Netherlands, (ii) the Notes are listed on a regulated market in a Member State and (iii) the minimum denomination of each Note is at least €100,000, KMG Finance may opt for disclosure to be made in either the Member State where KMG Finance is established (*i.e.*, the Netherlands) or the Member State where the Notes are admitted to trading on a regulated market.

The obligations under the Dutch law provisions implementing the EU Transparency Directive are qualified by the fact that certain provisions do not apply for issuers, such as KMG Finance, that exclusively issue bonds or other debt securities that are issued with a nominal value per unit of at least €100,000 (or the equivalent in any other currency).

KMG Finance will be subject to insider trading and market abuse rules in the Netherlands pursuant to Article 5:56 *et seq.* of the AFS in relation to any transactions conducted by it in any Notes that are listed on a regulated market.

SELECTED FINANCIAL AND OTHER INFORMATION

The financial information of the Company set forth below as at and for the years ended 31 December 2012, 2011 and 2010 has (as the case may be) been extracted from, should be read in conjunction with, and is qualified in its entirety by, the 2012 Financial Statements and the 2011 Financial Statements, in each case, including the notes thereto, contained elsewhere in this Base Prospectus.

Prospective investors should read the selected financial and other information in conjunction with the information contained in the "Risk Factors," "Management's Discussion and Analysis of Results of Operations and Financial Performance," "Business", the 2012 Financial Statements and the 2011 Financial Statements, in each case, including the notes thereto, and other financial data appearing elsewhere in this Base Prospectus.

Consolidated Statement of Financial Position Data

	As at 31 December				% change between 31 December	
	2012[1] (unaudited)	2012	2011[2]	2010	2011 and 2012	2010 and 2011
	(U.S.$ millions)		*(KZT millions)*		*(%)*	
ASSETS						
Non-current assets						
Property, plant and equipment	22,709.7	3,423,256.4	2,837,365.8	2,548,764.5	20.6	11.3
Exploration and evaluation assets	1,229.2	185,284.2	160,312.5	150,799.2	15.6	6.3
Intangible assets	1,334.8	201,207.9	197,952.8	184,721.3	1.6	7.2
Long-term bank deposits	16.5	2,487.5	9,909.0	4,521.2	(74.9)	119.2
Investments in joint ventures and associates	5,931.4	894,097.0	919,155.4	696,881.0	(2.7)	31.9
Deferred income tax assets	226.7	34,167.4	10,605.6	10,605.5	222.2	0.0
VAT recoverable	57.3	8,641.4	49,328.7	34,806.2	(82.5)	41.7
Advances for non-current assets	781.8	117,846.0	76,785.2	68,442.1	53.5	12.2
Bonds receivable from related party	243.6	36,725.6	36,551.5	36,397.9	0.5	0.4
Note receivable from a shareholder of a joint venture	95.0	14,326.5	18,138.2	19,153.1	(21.0)	(5.3)
Note receivable from associate	137.5	20,721.9	19,220.6	17,987.3	7.8	6.9
Loan due from related party	110.4	16,637.5	67,121.2	115,043.6	(75.2)	(41.7)
Other non-current assets	201.3	30,347.1	11,738.6	10,070.9	158.5	16.6
	33,075.2	**4,985,746.4**	**4,414,185.1**	**3,898,193.8**	**12.9**	**13.2**
Current assets						
Inventories	1,348.6	203,281.3	202,852.5	185,104.4	0.2	9.6
VAT recoverable	817.5	123,223.7	39,826.4	34,731.6	209.4	14.7
Income taxes prepaid	282.3	42,556.0	30,735.7	21,498.6	38.5	43.0
Trade accounts receivable	1,454.7	219,286.8	185,634.8	164,733.4	18.1	12.7
Short-term financial assets	4,375.6	659,577.8	503,556.1	626,365.2	31.0	(19.6)
Note receivable from a shareholder of a joint venture	25.8	3,895.3	1,361.1	1,203.8	186.2	13.1
Dividends receivable from associate	231.0	34,820.9	29,383.2	19,456.8	18.5	51.0
Other current assets	895.7	135,026.1	188,422.5	161,827.4	(28.3)	16.4
Cash and cash equivalents	2,753.7	415,085.5	581,952.9	637,917.4	(28.7)	(8.8)
	12,184.9	1,836,753.4	1,763,725.2	1,852,838.6	4.1	(4.8)
Assets classified as held for sale	74.4	11,221.6	138.5	1,366.7	8,002.2	(89.9)
	12,259.3	1,847,975.0	1,763,863.7	1,854,205.3	4.8	(4.9)
TOTAL ASSETS	**45,334.5**	**6,833,721.4**	**6,178,048.8**	**5,752,399.1**	**10.6**	**7.4**
EQUITY AND LIABILITIES						
Equity						
Share capital	3,501.1	527,760.5	341,393.8	326,435.9	54.6	4.6
Additional paid-in capital	126.4	19,062.7	17,314.4	2,266.6	10.1	663.9
Other equity	14.5	2,180.4	1,966.0	5,176.2	10.9	(62.0)
Currency translation reserve	1,473.5	222,112.3	188,573.1	173,330.7	17.8	8.8
Retained earnings	14,868.5	2,241,272.5	2,033,113.2	1,664,778.2	10.2	22.1
Attributable to equity holders of the parent	**19,984.0**	**3,012,388.4**	**2,582,360.5**	**2,171,987.6**	**16.7**	**18.9**
Non-controlling interest	3,855.3	581,147.3	581,657.6	559,365.0	(0.1)	4.0
TOTAL EQUITY	**23,839.3**	**3,593,535.7**	**3,164,018.1**	**2,731,352.6**	**13.6**	**15.8**
Non-current liabilities						
Borrowings	10,572.5	1,593,704.3	1,634,843.5	1,478,428.4	(2.5)	10.6
Payable for the acquisition of additional interest in North Caspian project	1,501.7	226,366.7	320,926.7	314,566.2	(29.5)	2.0
Payable for acquisition of subsidiary	—	—	6,383.5	9,136.7	(100)	(30.1)
Provisions	763.7	115,117.8	70,309.4	66,321.6	63.7	6.0
Deferred income tax liabilities	1,025.3	154,546.4	149,590.0	144,909.6	3.3	3.2
Other non-current liabilities	173.6	26,174.9	12,672.1	13,756.1	106.6	(7.9)
	14,036.8	**2,115,910.1**	**2,194,725.2**	**2,027,118.6**	**(3.6)**	**8.3**
Current liabilities						
Borrowing	3,117.6	469,943.9	282,941.4	479,138.9	66.1	(40.9)
Provisions	229.5	34,599.0	52,606.9	56,590.1	(34.2)	(7.0)
Income taxes payable	319.1	48,103.2	2,246.7	2,402.2	2,041.1	(6.5)
Trade accounts payable	1,506.7	227,115.8	242,636.9	255,592.2	(6.4)	(5.1)
Payable for the acquisition of additional interest in North Caspian Project	750.9	113,183.3	—	—	100	—
Other taxes payable	726.0	109,435.0	98,897.7	87,643.0	10.7	12.8
Derivatives	2.5	372.0	179.0	764.1	107.8	(76.6)
Other current liabilities	781.0	117,740.8	139,796.9	111,797.4	(15.8)	25.0
	7,433.3	**1,120,493.0**	**819,305.5**	**993,927.9**	**36.8**	**(17.6)**
Liabilities directly associated with the assets classified as held for sale	25.1	3,782.6	—	—	100	—
Total liabilities	**21,495.2**	**3,240,185.7**	**3,014,030.7**	**3,021,046.5**	**7.5**	**(0.2)**
TOTAL EQUITY AND LIABILITIES	**45,334.5**	**6,833,721.4**	**6,178,048.8**	**5,752,399.1**	**10.6**	**7.4**

Notes:

(1) For convenience, these figures have been translated into U.S. Dollars at the KZT/U.S.$ exchange rate published by the KASE as at 31 December 2012, which was KZT 150.74 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

Consolidated Statement of Comprehensive Income Data

	For the year ended 31 December				% change between the years ended 31 December	
	2012[1] (unaudited)	2012	2011[2]	2010	2011 and 2012	2010 and 2011
	(U.S.$ millions)		*(KZT millions)*		*(%)*	
Revenue	19,853.9	2,960,418.5	2,625,255.7	2,098,942.6	12.8	25.1
Cost of sales	(14,022.0)	(2,090,818.1)	(1,836,061.1)	(1,409,001.4)	13.9	30.3
Gross profit	**5,831.9**	**869,600.4**	**789,194.6**	**689,941.2**	10.2	**14.4**
General and administrative expenses	(1,093.5)	(163,051.5)	(164,912.3)	(139,146.7)	(1.1)	18.5
Transportation and selling expenses	(2,419.0)	(360,696.8)	(350,706.7)	(238,738.3)	2.8	46.9
Impairment of goodwill	—	—	(2,371.4)	—	(100)	100
Impairment of property, plant and equipment	(552.5)	(82,389.7)	(45,456.4)	(10,823.7)	81.3	320.0
(Loss)/gain on disposal of property, plant and equipment, net	(25.7)	(3,825.5)	3,277.0	(3,272.5)	(216.7)	200.1
Gain on disposal of subsidiaries	64.7	9,642.4	—	—	100	—
Other operating income	184.6	27,527.0	15,370.1	4,209.9	79.1	265.1
Other operating expenses	(113.0)	(16,846.4)	(11,437.9)	(15,989.1)	47.3	(28.5)
Net foreign exchange loss	(120.8)	(18,005.7)	(8,758.9)	(5,740.4)	105.6	52.6
Finance income	194.7	29,024.4	45,583.5	58,671.4	(36.3)	(22.3)
Finance cost	(1,134.6)	(169,183.8)	(171,190.2)	(152,577.5)	(1.2)	12.2
Impairment of investments in joint ventures	(19.8)	(2,955.5)	—	—	100	—
Share of income in joint ventures and associates	3,159.3	471,086.5	534,622.9	343,175.8	(11.9)	55.8
Profit before income tax	3,956.3	589,925.8	633,214.3	529,710.1	(6.8)	19.5
Income tax expenses	(1,187.9)	(177,130.7)	(153,147.2)	(132,675.2)	15.7	15.4
Profit for the period from continuing operations	2,768.4	412,795.1	480,067.1	397,034.9	(14.0)	20.9
Profit/(loss) after income tax for the year from discontinued operations	4.2	628.1	(1,353.2)	—	(146.4)	100
Profit for the period	**2,772.6**	**413,423.2**	**478,713.9**	**397,034.9**	**(13.6)**	**20.6**
Equity holder of the Company	2,477.5	369,420.4	422,421.6	305,309.2	(12.5)	38.4
Non-controlling interest	295.1	44,002.8	56,292.3	91,725.7	(21.8)	(38.6)
	2,772.6	413,423.2	478,713.9	397,034.9	**(13.6)**	**20.6**
Other comprehensive income						
Foreign currency translation	233.6	34,834.2	16,410.1	(10,513.0)	112.3	(256.1)
Other comprehensive income/(loss) for the period	233.6	34,834.2	16,410.1	(10,513.0)	112.3	(256.1)
Total comprehensive income/(loss) for the period, net of tax	**3,006.2**	**448,257.4**	**495,124.0**	**386,521.9**	**(9.5)**	**28.1**
Equity holder of the Company	2,702.4	402,959.6	437,663.9	295,277.5	(7.9)	48.2
Non-controlling interest	303.8	45,297.8	57,460.1	91,244.4	(21.2)	(37.0)
	3,006.2	**448,257.4**	**495,124.0**	**386,521.9**	**(9.5)**	**28.1**

Notes:

(1) For convenience, these figures have been translated into U.S. Dollars at the average KZT/U.S.$ exchange rate published by the KASE for 2012 of KZT 149.11 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

Key Financial Ratios

The following table sets forth key financial ratios used by the Company's management in assessing the Company's performance. The financial ratios set forth in this table reflect the operations of the Company:

	As at and for the year ended 31 December			
	2012 (unaudited)	**2012**	**2011[1]**	**2010**
	(U.S.$ millions)	*(KZT billions, except ratios)*		
EBIT[2][4]	5,090.9	759.1	804.4	682.3
EBITDA[2][5]	6,760.4	1,008.1	998.6	824.2
Debt (including current portion)[3][6]	13,690.1	2,063.6	1,917.8	1,957.6
Equity[3][7]	23,839.3	3,593.5	3,164.0	2,731.4
Capitalisation[3][8]	37,529.4	5,657.2	5,081.8	4,688.9
Net capitalisation[3][9]	34,775.7	5,242.1	4,499.9	4,051.0
Net debt[3][10]	10,936.5	1,648.6	1,335.8	1,319.6
Debt/EBITDA	2.03	2.05	1.92	2.38
Net debt/Net capitalisation	0.31	0.31	0.30	0.33
Debt/Equity	0.57	0.57	0.61	0.72
Current liquidity [11]	1.64	1.64	2.15	1.87
EBIT/Finance cost	4.49	4.49	4.70	4.47

Notes:

(1) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

(2) For convenience, these figures have been translated into U.S. Dollars at the average KZT/U.S.$ exchange rate published by the KASE for 2012 of KZT 149.11 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) For convenience, these figures have been translated into U.S. Dollars at the KZT/U.S.$ exchange rate published by the KASE on 31 December 2012, which was KZT 150.74 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(4) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost for such period.

(5) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion, amortisation and impairment of long-lived assets for such period.

(6) Debt is the current portion of the borrowings plus the non-current portion of the borrowings as at or 31 December of the relevant period.

(7) Equity is total equity as at 31 December of the relevant period.

(8) Capitalisation is debt plus equity as at 31 December of the relevant period.

(9) Net capitalisation is net debt plus equity as at 31 December of the relevant period.

(10) Net debt is debt minus cash and cash equivalents as at 31 December of the relevant period.

(11) Current liquidity is current assets as at 31 December of the relevant year divided by current liabilities as at 31 December of the relevant year.

The following table sets forth a reconciliation of EBIT and EBITDA to profit before corporate income tax from continuing operations for the years indicated:

	For the year ended 31 December			
	2012 [1] (unaudited)	**2012**	**2011[2]**	**2010**
	(U.S.$ millions)	*(KZT billions, except ratios)*		
Profit before income tax	3,956.3	589.9	633.2	529.7
Finance cost	1,134.6	169.2	171.2	152.6
EBIT[3]	5,090.9	759.1	804.4	682.3
Depreciation, depletion and amortisation	1,097.4	163.7	146.4	131.1
Impairment of long-lived assets	572.1	85.3	47.8	10.8
EBITDA[4]	6,760.4	1,008.1	998.6	824.2

Notes:

(1) For convenience, these figures have been translated into U.S. Dollars at the average KZT/U.S.$ exchange rate published by the KASE for 2012 of KZT 149.11 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

(3) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost for such period.

(4) EBITDA for any relevant period is EBIT for such period plus depreciation, depletion, amortisation and impairment of long-lived assets for such period.

Leverage Structure

The following tables set forth assets, cash, debt and EBITDA for the Company and certain of its subsidiaries as at and for the years indicated:

	As at and for the year ended 31 December 2012			
	Assets	Cash[1]	Debt[2][3]	EBITDA[4]
	(KZT billions)			
Company	6,833.7	415.1	2,063.6	1,008.1
Company[5]	3,168.0	61.8	1,739.8	504.4
KTG[5]	589.4	7.6	81.5	68.0
KTO[5]	374.1	19.0	—	73.9
KMG EP[5]	1,564.1	154.7	7.3	391.6
KMG RM[5]	622.4	51.8	185.0	55.2

	As at and for the year ended 31 December 2011[6]			
	Assets	Cash[1]	Debt[2][3]	EBITDA[4]
	(KZT billions)			
Company	6,178.0	582.0	1,917.8	998.6
Company[5]	2,693.6	43.3	1,638.1	411.3
KTG[5]	531.1	56.2	80.2	79.9
KTO[5]	341.1	21.9	0.3	70.6
KMG EP[5]	1,541.0	206.5	88.0	327.0
KMG RM[5]	712.9	110.7	171.0	73.1

Note:
(1) Includes cash equivalents.
(2) Debt is current portion of borrowings plus non-current portion of borrowings as at 31 December 2012 or 31 December 2011 (as the case may be).
(3) KZT 246.8 billion guaranteed by the Company.
(4) EBITDA for any relevant period is EBIT for such period plus depreciation, depletion, amortisation and impairment of long-lived assets for such period. EBIT for any relevant period is profit before income tax for such period plus finance cost for such period.
(5) Based on separate financial statements before intra-group elimination and consolidation adjustments.
(6) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "Presentation of Financial, Reserves and Certain Other *Information—Restatements*" and Note 8 to the 2012 Financial Statements.

The following tables set forth a reconciliation of EBITDA to profit before income tax for the Company and certain of its subsidiaries for the years indicated:

	For the year ended 31 December 2012					
	Company	Company[1]	KTG	KTO	KMG EP	KMG RM
	(KZT billions, except leverage ratio)					
Profit before income tax	589.9	343.8	40.4	52.9	253.7	19.5
Finance cost	169.2	132.9	6.7	0.8	7.2	10.1
Depreciation, depletion and amortisation	163.7	1.2	20.9	19.2	53.7	24.2
Impairment of long-lived assets	85.3	26.5	—	0.9	77.0	1.4
EBITDA	1,008.1	504.4	68.0	73.9	391.6	55.2

Note:
(1) Based on separate financial statements before intra-group elimination and consolidation adjustments.

	For the year ended 31 December 2011[1]					
	Company	**Company[2]**	**KTG[2]**	**KTO[2]**	**KMG EP[2]**	**KMG RM[2]**
	(KZT billions, except leverage ratio)					
Profit before income tax	633.2	252.2	50.1	36.0	272.6	25.4
Finance cost	171.2	132.1	9.6	0.3	7.2	23.7
Depreciation, depletion and amortisation	146.4	0.8	19.5	18.2	45.5	24.0
Impairment of long-lived assets	47.8	26.2	0.7	16.1	1.7	—
EBITDA	998.6	411.3	79.9	70.6	327.0	73.1

Notes:

(1) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

(2) Based on separate financial statements before intra-group elimination and consolidation adjustments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL PERFORMANCE

The following management's discussion and analysis of the Company's results of operations and financial performance should be read in conjunction with the 2012 Financial Statements and the 2011 Financial Statements, together, in each case, with the related notes thereto, included elsewhere in this Base Prospectus. The 2012 Financial Statements and the 2011 Financial Statements have been prepared in accordance with IFRS. This management's discussion and analysis contains forward-looking statements, which involve risks and uncertainties. See "Forward-Looking Statements". The Company's actual results could differ materially from those anticipated in the forward looking statements contained herein for several reasons, including those set forth under "Risk Factors" and elsewhere in this Base Prospectus.

Overview

The Company is the national oil and gas company of Kazakhstan with vertically-integrated upstream, midstream and downstream operations located principally in Kazakhstan. The Company's management believes, based on NSA statistics and the Company's internal information, that, as at 31 December 2012, on a consolidated basis (including the proportionate interest of jointly-controlled entities and associates), the Company was the largest crude oil producer in Kazakhstan in terms of production volume. According to NSA statistics and the Company's internal information, the Company also operates the largest crude oil and gas pipeline networks in Kazakhstan in terms of length and throughput capacity. In addition, the Company holds a significant or controlling interest in each of the three principal refineries in Kazakhstan, as well as a major refinery in Romania.

The results of the Company's operations and their period to period comparability are affected by various external factors. Because the Company's principal business activities are located within Kazakhstan, such factors include the political climate and the economy in Kazakhstan, as well as global and regional economic conditions and political and military stability; the underdevelopment and evolution of the legislative, tax and regulatory frameworks, including the securities market in Kazakhstan, and the effectiveness of economic, financial and monetary measures undertaken by the Government; and financial risk factors, including credit rate risk and liquidity risk deriving from (among other things) the recent and continuing turmoil in the Kazakhstan banking sector. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan*".

In the years ended 31 December 2012, 2011 and 2010, the Company and its subsidiaries completed a number of significant acquisitions. These acquisitions have had a material effect on the Company, and should be taken into account when reviewing the changes in the Company's results of operations and financial performance from period to period.

The Company made certain restatements to its 2011 consolidated statement of financial position and consolidated statement of comprehensive income due to the recognition of Aysir as a discontinued operation and the contribution of 100% of Arkagaz by Samruk-Kazyna to the Company in exchange for an issuance of shares, which was accounted for using the pooling of interest method. Accordingly, the 2011 figures included in this Base Prospectus may differ from figures published elsewhere. The Company believes that these restatements had no material impact on the financial position, results of operations or equity of the Company. See Notes 8 and 6 to the 2012 Financial Statements and "*Presentation of Financial, Reserves and Certain Other Information*".

The Company calculates its reserves using the Kazakhstan methodology, which differs significantly from the internationally accepted classifications and methodologies established by PRMS and SEC Standards, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. Unless otherwise indicated, information presented in this Base Prospectus with respect to production and reserves and other similar information of joint ventures of the Company or its subsidiaries reflects the Company's or the relevant subsidiaries' proportionate interests in the joint ventures. Similarly, information presented in this Base Prospectus relating to production and reserves and other similar information of associates reflects the Company's and its subsidiaries' proportionate interest in the associates. In certain sections of this Base Prospectus, the Company has provided information on production and reserves and other similar information of the Company and its subsidiaries and jointly-controlled assets separately from the production and reserves of jointly-controlled entities accounted for under the equity method in order to permit some correlation to the financial accounting for the respective entities. Reserves are measured only on an annual basis and, accordingly, as at the date of this Base Prospectus, no reserve information is available as at any date subsequent to 31 December 2012.

The Company generates revenue from sales of crude oil; sales of refined oil products; fees it charges under contracts for the transportation of crude oil and natural gas; sales of gas products; and other revenue principally comprised of heating

and power sales, in-kind royalty sales, non-core asset sales and other operations. The Company's revenue is reported under the Company's five operating segments: exploration and production of oil and gas; transportation of oil and transportation of gas; refining and trading of crude oil and refined oil products; and other, which comprises the Company's remaining operations, including heating and power, air travel, security and other oil and gas related services. For the years ended 31 December 2012, 2011 and 2010, the largest operating segment in terms of revenue was refining and trading of crude oil and refined oil products and the largest operating segment in terms of net profit was exploration and production of oil and gas. See "*—Operating Segments*" below.

The Company's total revenue increased by 12.8% to KZT 2,960.4 billion for the year ended 31 December 2012 from KZT 2,625.3 billion for the year ended 31 December 2011. The Company's net profit decreased by 13.6% to KZT 413.4 billion for the year ended 31 December 2012 from KZT 478.7 billion for the year ended 31 December 2011. The Company's net impairment increased by 159.9% to KZT 82.4 billion (including KZT 76.3 billion attributable to impairment of property, plant and equipment of KMG EP) for the year ended 31 December 2012 from KZT 31.7 billion for the year ended 31 December 2011. The Company's total revenue increased by 25.1% to KZT 2,625.3 billion for the year ended 31 December 2011 from KZT 2,098.9 billion for the year ended 31 December 2010. The Company's net profit also increased by 20.6% to KZT 478.7 billion for the year ended 31 December 2011 from KZT 397.0 billion for the year ended 31 December 2010. The Company's net impairment increased by 220.2% to KZT 31.7 billion for the year ended 31 December 2011 from KZT 9.9 billion for the year ended 31 December 2010.

As at 31 December 2012, the Company had total assets of KZT 6,833.7 billion compared to total assets of KZT 6,178.0 billion as at 31 December 2011 and total assets of KZT 5,752.4 billion as at 31 December 2010.

Main Factors Affecting Results of Operations and Liquidity

The main factors that have affected the Company's results of operations during 2012, 2011 and 2010, and that can be expected to affect the Company's results of operations in the future, are (i) the economic environment in which the Company operates, including, historically, the global financial crisis and, more recently, the on-going economic recovery; (ii) changes in crude oil and refined oil product prices; (iii) changes in production of crude oil, gas and refined oil products; (iv) the impact of changes in exchange rates on export sales and operating margins; (v) acquisitions; (vi) changes in the share of income of joint ventures and associates recognised by the Company and its subsidiaries; (vii) taxation, including excess profit taxes and other duties; (viii) changes in tariffs for oil and gas transportation services; and (ix) the requirement to comply with Euro 4 and Euro 5 ecological standards.

The Current Economic Environment

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global economic crisis resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and tighter credit conditions within Kazakhstan and generally for Kazakhstan companies and, weakened global demand for and decline in prices of crude oil and other commodities. Although 2010, 2011 and 2012 have seen certain positive economic signs, as the rate of GDP growth in Kazakhstan according to NSA statistics, was 7.0% for 2010, 7.5% for 2011 and 5.0% for 2012, uncertainties remain. These uncertainties in the global financial markets have also contributed to bank failures globally, including in Kazakhstan, and put downward pressure on emerging markets currencies, including the Tenge. In particular, while the Government is continuing to pursue economic reforms and development of its legal, tax and regulatory frameworks and while the Government introduced a range of stabilisation measures aimed at providing liquidity and supporting refinancing of foreign debt for Kazakhstan banks and companies, there continues to be uncertainty regarding the Company's access to capital and cost of capital. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. Global economic circumstances and related developments in Kazakhstan, including economic recovery and, in particular, improved oil prices, had a material effect on the Company's financial position and results of operations in 2010, 2011 and 2012 and may continue to do so in the future. See "*—Results of Operations for the year ended 31 December 2012, as compared to the year ended 31 December 2011*" and "*—Results of Operations for the year ended 31 December 2011, as compared to the year ended 31 December 2010*".

While the Company is unable to estimate reliably the effects on its consolidated financial position and its results of operations of any deterioration in the financial markets or of any increased volatility in the currency, commodities and equity markets for any periods subsequent to 31 December 2012, the Company's business activities may again be negatively impacted by the economic conditions resulting from the global financial crisis and any recurring decline in prices of and demand for crude oil and other commodities. Such market conditions could have an impact on, among other things, the Company's production and volumes of crude oil, natural gas and refined oil products, the Company's cash balances at Kazakhstan banks, the cost of the Company's funding and the U.S.$/KZT exchange rate and, accordingly, may have a material adverse affect on the Company's business, prospects, financial condition, cash flows and results of

operations. In particular, the Company expects that Samruk-Kazyna will instruct all of the entities that it controls, including the Company, to limit their deposits in international banks to 10% of total deposits by 1 January 2015. If implemented, the Company's exposure to the Kazakhstan banking sector will increase. The Company intends to continue to evaluate the potential impact of these conditions, which could result in future reductions on its consolidated cash flows and results of operations.

Changes in Crude Oil and Refined Oil Product Prices

The prices of crude oil and refined oil products internationally and in Kazakhstan have a significant impact on the Company's results of operations. World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand, which is entirely outside of the Company's control. See "*—Quantitative and Qualitative Disclosures about Market Risk—Prices for Crude Oil, Gas and Refined oil products Risk*" and *"Risk Factors—Risk Factors Relating to the Company's Business—The Company's revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company's Control"*. Crude oil prices have been particularly volatile in recent years, declining in mid-2010 before recovering later in the year and into 2011. While crude oil prices declined again in June 2012, prices recovered in July 2012 and crude oil prices in 2012 generally remained high overall for the second year in a row. According to the EIA, the spot price of Brent crude oil averaged U.S.$111.67/bbl in 2012, as compared to an average of U.S.$111.26/bbl in 2011 and U.S.$79.61/bbl in 2010. Historically, high oil prices have had a considerable positive impact on the Company's business, prospects, financial condition, cash flows and results of operations. As at the date of this Base Prospectus, the price of crude oil remains high, although still below the record high average monthly price of U.S.$132.72/bbl recorded in July 2008. As at 8 April 2013, the spot price for Brent crude oil was U.S.$103.16/bbl.

In its January 2013 report, the EIA forecasted that the Brent crude oil spot price will fall to an average of U.S.$105/bbl in 2013 and U.S.$99/bbl in 2014. According to the same source, the EIA projected that world liquid fuels consumption will grow by 0.9 bbl per day in 2013 and by 1.4 bbl per day in 2014. The EIA noted that this rate of growth reflected an expected moderate recovery in the global economy in 2014.

Oil and gas commodity prices are one of the key factors affecting the Company's results of operations, and a decline in prices for crude oil has, in the past, had and may, in the future again, have a negative effect on the Company's results of operations. Generally, commodities prices fluctuate based on a number of factors beyond the Company's control and the Company's management cannot predict if or when the recent significant volatility in oil prices will be repeated; accordingly, the actual prices the Company realises may vary substantially from its current estimates.

The dynamics of refined oil product prices in the international and Kazakhstan markets are determined by a number of factors, the most important being the price of crude oil internationally, supply and demand for refined oil products, competition, distances separating markets from the refineries where the crude oil is refined into useable end or intermediate products and seasonal deficits in the supply of refined oil products, particularly in urban areas, due to agricultural activities and the associated reallocation of refined oil products supplies from cities to agricultural areas. Additionally, a disparity between high crude oil costs and lower prices of refined oil products may have an adverse impact on the financial results of the Company's refining segment.

The mix of export and domestic sales of crude oil has also affected, and is expected to continue to affect, the Company's results of operations. Historically, sales prices for exported crude oil have been significantly higher than domestic sales prices, primarily as a result of recommendations and mandates of the Government, being the Company's sole, indirect shareholder, to sell domestic oil at below market rates. From time-to-time, the Government may issue such recommendations or mandates to prevent domestic price increases, particularly when there is not enough supply due to high demand, causing domestic prices to increase. Under an agreement dated 8 September 2006 between the Company and KMG EP (the "**Relationship Agreement**"), KMG EP is also obligated to sell certain amounts of crude oil to KMG RM, which KMG RM then refines at the Atyrau Refinery to produce refined oil products for sale on Kazakhstan's domestic market. For the years 2006 to 2010, KMG EP was obligated to sell up to 1.9 million tonnes of crude oil per year, if so requested by the Atyrau Refinery. For 2011 to 2015, the amount which KMG EP is obligated to sell under the Relationship Agreement is set out in the Company's budget for that year. In 2011 and 2012, the Company provided 1.6 million and 1.8 million tonnes of crude oil, respectively, under this agreement. In 2013 and 2014, KMG EP is obligated to provide up to 1.9 million tonnes of crude oil, if so requested by the Atyrau Refinery. The price of the crude oil under the Relationship Agreement is set at cost, including transportation charges, plus a 3% margin, which is generally below international market prices. The Company expects export sales prices to continue to remain at a higher level compared to domestic sales prices and thus seeks to maximise the percentage of its total crude oil sales that are export sales, although it is not unilaterally able to do so. Should the percentage of export sales increase, this may have a positive effect on the results of operations of the Company, while, correspondingly, if the percentage of mandated domestic sales increases, the Company's result of operations could be adversely affected.

See "*—Results of Operations for the year ended 31 December 2012, as compared to the year ended 31 December 2011—Revenue—Sales of Crude Oil and Refined oil products*" and "*—Results of Operations for the year ended 31 December 2011, as compared to the year ended 31 December 2010—Revenue—Sales of Crude Oil and Refined oil products*".

Although, prior to its acquisition of Rompetrol in 2007, the Company's sales of refined oil products were primarily sold in the domestic market at prices regulated by the Government and generally below international market prices, sales of refined oil products have been traditionally, and continue to be, affected by prices of refined oil products in Kazakhstan and, to a lesser extent, in neighbouring countries, in particular Russia and, most recently, Romania and Europe. Following the elimination of the export customs duty on shipments to Russia (which are also not affected by the re-introduced customs export duty), upon the expiry of the current ban on the export of refined oil products, the Company expects to export a significant portion of its refined oil products produced at the Pavlodar Refinery to Russia. With the Company's acquisition of Rompetrol, which owns the principal refining operations in Romania, the Company began selling refined oil products in European markets.

Changes in Production of Crude Oil, Gas and Refined oil products

The Company's ability to generate revenue depends primarily on its production of crude oil, refined oil products and gas.

The Company produces crude oil, refined oil products and gas through its production subsidiaries, which it fully consolidates, as well as through its jointly-controlled assets, entities and associates. While, the Company accounts for its interests in jointly-controlled assets under the proportionate consolidation method, the Company accounts for its jointly-controlled entities and associates under the equity method and the Company does not directly derive revenue or incur costs of sales from the production of crude oil, refined oil products or gas by its jointly-controlled entities and associates. Recognising that KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method. Accordingly, in the context of the discussion of the Company's revenue and cost of sales, production data are provided only for the Company, its subsidiaries, its interests in jointly-controlled assets and its interests in KPO, excluding the production of jointly-controlled entities and associates.

Production of Crude Oil

In terms of oil production, KMG EP accounted for 93.4%, 100.0% and 100.0% of the Company's consolidated production of crude oil for each of the years ended 31 December 2012, 2011 and 2010, respectively. For the year ended 31 December 2012, the Company's consolidated production of crude oil increased by 5.2% to 8.3 million tonnes from 7.9 million tonnes for the year ended 31 December 2011, primarily due to the production of KPO, which accounted for 6.6% of the Company's consolidated production of crude oil for the year ended 31 December 2012, following the Company's acquisition of a 10% stake in KPO in June 2012, which was partially offset by the decrease in production at Uzen Field by 2.6% primarily due to the impact of the strike at the Ozenmunaigaz production unit in May to August 2011 on the Company's production in 2012, as well as an increase in the number of idle wells, low turnaround times and non-execution of geological and technical measures, which created a backlog from the crude oil production plan. Late deliveries and delays in repair works also contributed to the decrease in production at KMG EP in 2012. For the year ended 31 December 2011, the Company's consolidated production of crude oil decreased by 9.9% to 7.9 million tonnes from 8.8 million tonnes for the year ended 31 December 2010, primarily due to the interruption of production in certain fields and wells caused by the impact of the three month strike at the Ozenmunaigaz production unit, which commenced in May 2011 and ended in August 2011. The Company expects the strike at the Ozenmunaigaz production unit in 2011 to continue to have an effect on production in 2013. See "*Business—Employees*" and "*Risk Factors—Risk Factors Relating to the Company's Business—Labour unrest may materially adversely affect the Company's business*".

Production of Gas

In terms of gas production, KMG EP accounted for 47.2%, 100.0% and 100.0% of the Company's consolidated production of gas for each of the years ended 31 December 2012, 2011 and 2010, respectively. For the year ended 31 December 2012, the Company's consolidated production of gas increased by 100.0% to 1.6 bcm from 0.8 bcm for the year ended 31 December 2011, primarily due to the gas production at KPO, which accounted for 56.3% of the Company's consolidated production of gas for the year ended 31 December 2012, following the Company's acquisition of a 10% stake in KPO in June 2012. This increase was partially offset by the 8.6%, or 72.8 mcm, reduction in gas produced by KMG EP due to the impact of the strike at the Ozenmunaigaz production unit in May to August 2011 on the Company's production in 2012, as well as an increase in the number of idle wells, low turnaround times and non-execution of geological and technical measures, which created a backlog from the crude oil production plan. Late deliveries and delays in repair works also contributed to the decrease in production at KMG EP in 2012. For the year ended 31 December 2011, the Company's consolidated production of gas decreased by 5.2% to 0.8 bcm from 0.9 bcm for the year ended

31 December 2010, primarily due to the disruption to well - servicing and well - workover operations, as a result of the workers strike at the Ozenmunaigaz production unit between May and August 2011. Power cuts caused by severe weather conditions in 2011 also affected the Company's average daily production in that year. In addition, in the years ended 31 December 2012, 2011 and 2010, the level of associated gas utilisation increased as a result of the impact of severe weather conditions.

Production of Refined Oil products

In terms of refined oil products production, the Company's consolidated production includes production from the Atyrau Refinery, the Pavlodar Refinery, the Petromidia Refinery and the Vega Refinery. See "*Business—Refining, Marketing and Trading*". For the year ended 31 December 2012, the Company's consolidated production of refined oil products increased by 3.1% to 12.7 million tonnes from 12.4 million tonnes for the year ended 31 December 2011, largely reflecting the impact of the implementation of the modernisation and expansion programmes at the Pavlodar Refinery and the Petromidia Refinery. For the year ended 31 December 2011, the Company's consolidated production of refined oil products increased by 2.5% to 12.4 million tonnes from 12.0 million tonnes for the year ended 31 December 2010, largely reflecting increased production volumes at the Petromidia Refinery as a result of the implementation of the modernisation and expansion programme at the refinery, which was partially offset by decreased production volumes at the Pavlodar Refinery, as a result of increased prices for Russian crude oil.

Impact of Changes in Exchange Rates on Export Sales and Operating Margins

The KZT/U.S.$ exchange rate and inflation trends in Kazakhstan affect the Company's results of operations principally because (i) a majority of the Company's consolidated revenue from sales of crude oil and refined oil products are denominated in U.S. Dollars, while a substantial portion of the Company's expenses are denominated in Tenge; and (ii) a significant majority of its borrowings and accounts payable are denominated in U.S. Dollars. Accordingly, fluctuations in the Tenge/U.S. Dollar exchange rate may significantly affect the Company's consolidated results of operations. On 4 February 2009, the NBK devalued the Tenge by 18% against the U.S. Dollar, due in part to pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas). Devaluation of the Tenge was also intended to enhance the competitiveness of Kazakhstan exports. As at 31 December 2012, the official KZT/U.S.$ exchange rate reported by the KASE was KZT 150.74 per U.S.$1.00 compared to KZT 148.40 as at 31 December 2011.

The following table sets forth the period average and period end KZT/U.S.$ exchange rates reported by the KASE (after rounding adjustment) for the periods indicated:

Period ended	**Period Average**[(1)]	**Period-end**
	(KZT per U.S.$1.00)	
Year ended 31 December 2010	147.35	147.40
Year ended 31 December 2011	146.62	148.40
Year ended 31 December 2012	149.11	150.74

Note:
(1) The average of the rate reported by the KASE for each month during the relevant period.

Depreciation of the Tenge would positively affect the Company's consolidated sales revenue in light of the breakdown of its transactional currency exposures. For the year ended 31 December 2012, 72% of the Company's revenue was denominated in U.S. Dollars, while 47% of its cost of sales was denominated in Tenge. On the other hand, the Company has significant U.S. Dollar denominated liabilities and depreciation of the Tenge relative to the U.S. Dollar, thus, results in foreign currency translation losses that are recognised in the Company's consolidated statement of comprehensive income. While certain of the Company's subsidiaries such as KMG EP, which has significant U.S. Dollar revenue and has relatively minor amounts of U.S. Dollar-denominated liabilities, may benefit from a depreciation of the Tenge against the U.S. Dollar, because a significant majority of the Company's consolidated total borrowings are denominated in U.S. Dollars, the devaluation of the Tenge has a net negative impact on the Company's financial condition and results of operations.

Acquisitions, Disposals and Discontinued Operations

The Company made several significant acquisitions and disposals during 2012, 2011 and 2010, which have had, and are expected to continue to have, an effect on the Company's results of operations, although no single acquisition accounted for more than 10% of the Company's assets or revenues.

Consolidated Subsidiaries

In 2012, 2011 and 2010, the Company made several significant acquisitions of entities that it now treats as consolidated subsidiaries. These acquisitions have had, and are expected to continue to have, a material effect on the Company's revenues, profits and assets.

N Operating Company LLP

In January 2013, the Company acquired a further 24.5% interest in N Operating Company LLP from ConocoPhillips for a total consideration of U.S.$32.5 million. As a result of this transfer, the Company holds a 75.5% interest in N Operating Company LLP, which operates the N Block (as defined below). The remaining interest is held by Mubadala. As a result of this acquisition, the Company has also incurred an obligation to finance the exploration expenses that were attributable to ConocoPhillips, as set out in the joint operation agreement. See "*Business—Exploration and Production—Exploration Projects—Significant Exploration Projects of the Company—N Block Project*".

KPO

On 28 June 2012, the Company obtained a 10% interest in the KPO, a consortium operating under a joint operating agreement among the BG Group, Agip, Chevron, Lukoil and the Company, comprising (i) a 5.0% interest in KPO, which was contributed to the Company by Samruk-Kazyna in exchange for issued share capital of an aggregate amount of KZT 150.0 billion, following Samruk-Kazyna's acquisition of the interest by way of settlement of the State's arbitration proceedings against the consortium participants, and (ii) an additional 5.0% interest, which was purchased by the Company from Samruk-Kazyna for consideration of KZT 150.0 billion. The Company obtained the funding for this acquisition through a loan agreement entered into with the KPO consortium for an aggregate amount of U.S.$1 billion. KPO operates the Karachaganak Field. Recognising that KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method. While the full effect of the Company's acquisition of its interest in KPO on the Company's net income and production will only be seen in the Company's results for the year ended 31 December 2013, the Company expects its share of KPO's production to have a positive effect on the Company's total production and net income. For further details in relation to the Karachaganak Field, see "*Business—Exploration and Production—Exploration Projects—Other Significant Production Fields—KPO*" *and "Debt Obligations – Principal Debt Obligations of the Company and its Subsidiaries"*.

Aysir

In August 2012, the Company decided to sell its 75% interest in Aysir. This disposal is currently expected to be completed in the fourth quarter of 2013 and, as at 31 December 2012, Aysir was classified as a disposal group held for sale and as a discontinued operation. See Note 6 to the 2012 Financial Statements.

Arkagaz

In 2012, the Company acquired a 100% interest in Arkagaz from Samruk-Kazyna in exchange for issued share capital of an aggregate amount of KZT 4.1 billion. Arkagaz is a gas distribution company, which is located in the western region of Kazakhstan and supplies the region with gas.

KS EP Investments BV

In December 2011, KMG EP acquired 100% of the shares of JSC Karpovskiy Severnyi ("**Karpovskiy Severnyi**") from GazMunaiOnim LLP for a total consideration of U.S.$59.0 million. In July 2012, Karpovskiy Severnyi was reorganised as a limited liability partnership. In November 2012, the Company disposed of a 49% interest in KS EP Investments BV ("**KS EP**") to Karpinvest Oil and Gas Ltd, a subsidiary of MOL Hungarian Oil and Gas Plc, for total consideration of U.S.$36.5 million. KS EP wholly-owns Karpovskiy Severnyi, which holds the subsoil use right for exploration in the Karpovskiy Severnyi block in western Kazakhstan. The exploration licence has been extended until December 2014. See "*Business—Exploration and Production—Exploration Projects—Significant Exploration Projects of KMG EP*".

AktauNefteService LLP

In June 2011, Coöperative KazMunaiGaz PKI U.A. acquired a 100% interest in AktauNefteService LLP ("**ANS**") for consideration of U.S.$334 million. ANS, which has five subsidiaries, is primarily involved in the provision of services, including drilling, repairs, transportation and other services, to oil producers in Western Kazakhstan. ANS's principal client is MMG.

NBK LLP

On 24 September 2010, KMG EP acquired 100% of the shares of NBK LLP from Eastern Gate Management Limited for a total consideration of U.S.$35 million. In 2012, NBK LLP was consolidated with EMG. NBK LLP was an oil and gas company, which held the licences for the exploration and production of the West Novobogatinksoye oil field located in the Atyrau oblast of Kazakhstan. This licence has been granted until 2027. See "*Business—Exploration and Production—Exploration Projects—Significant Exploration Projects of KMG EP*".

Sapa Barlau Service LLP

In September 2010, KMG EP acquired a 100% interest in Sapa Barlau Service LLP ("**SBS**") from Halyk Komir LLP for consideration of KZT 4,410.0 million (10% of which was initially withheld subject to the completion of the vendor's obligations under the sale purchase agreement and subsequently released in March 2011). SBS is an oil and gas company and holds the exploration license for the East Zharkamys field. This exploration licence has been extended to November 2014.

Rompetrol

See "*Business—Refining, Marketing and Trading—Rompetrol*".

Non-consolidated Jointly-Controlled Entities and Associates

In 2012, 2011 and 2010, the Company acquired interests in several significant jointly-controlled entities and associates, which are accounted for under the equity method in the Company's consolidated financial statements. Under the equity method, the Company recognises its share of the net profit or loss of these jointly-controlled entities and associates as a separate line item in the Company's consolidated statement of comprehensive income. Accordingly, these acquisitions have had, and are expected to continue to have, a material effect only on the Company's profits.

Ural Group Limited

In April 2011, KMG EP acquired a 50% interest in Ural Group Limited ("**UGL**") from Exploration Venture Limited for consideration of U.S.$164.5 million. UGL holds a 100% equity interest in Ural Oil and Gas LLP ("**UOG**"). UOG holds an exploration licence for the Fedorovskyi hydrocarbons field located in western Kazakhstan. In May 2010, this exploration licence was extended until 2014 and "*—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*".

MMG

On 25 November 2009, the Company, pursuant to instructions from the Government, acquired a 50% interest in the exploration assets of MMG, Kazakhstan's fifth-largest oil producer, from Central Asia Petroleum Ltd. at a purchase price of U.S.$2.6 billion with CNPC E&D, a Chinese government-owned oil and gas producer, acquiring the other 50% interest. The shares in MMG were acquired through MIBV, a 50/50 joint venture of the Company and CNPC E&D. The transaction included the acquisition of oil and gas fields in Kalamkas and Zhetybai, as well as other upstream and exploration assets, including licences to explore and develop over 15 other oil and gas fields in Kazakhstan and the Caspian region. The purchase of MMG's upstream segment was financed pursuant to a U.S.$3.0 billion facility agreement with the Export-Import Bank of China, which MIBV entered into on 15 April 2009 (the "**MMG Facility**"). The MMG Facility provides non-recourse financing secured by a pledge over the shares of MMG and the shares of MIBV.

Changes in the Share of Profit from Joint Ventures and Associates

The Company holds significant interests, both directly and through its subsidiaries, in a number of joint ventures and associates, including principally TCO, KazRozGas (see "*Business—Refining, Marketing and Trading—Natural Gas Sales and Distribution—KazRosGas*"), PKI, Kazgermunai and Valsera Holdings B.V., which indirectly owns the Shymkent Refinery through its 49.72% interest in PetroKazakhstan Oil Products LLP. The interests of the Company and

its subsidiaries in jointly-controlled entities are accounted for using the equity method of accounting. Under the equity method, the Company's consolidated statement of comprehensive income simply reflects the share of the Company and its subsidiaries of the net profit or loss of the jointly-controlled entity as a single line item.

Interests in jointly-controlled assets are accounted for under the proportionate consolidation method as this is the only method allowed by IFRS for jointly-controlled assets. The Company's significant interest in jointly-controlled assets is represented by its interest in the North Caspian Project (Kashagan Field). Recognising that KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method.

Associates are entities over which the Company directly or indirectly has significant influence, but not control, generally accompanying a shareholding of between 20 and 50% of the voting rights. Investments in associates, as is the case with investments in jointly-controlled entities, are accounted for using the equity method of accounting. The Company's and its subsidiaries' interests in associates are limited to their share of the net profit or loss of such associates and are reflected as a single line item in the Company's consolidated statement of comprehensive income of the 2012 Financial Statements and the 2011 Financial Statements.

For each of the years ended 31 December 2012, 2011 and 2010, the Company derived a significant portion of its consolidated profits from TCO and its other jointly-controlled entities and associates, including income after tax attributable to the Company's 20% joint venture interest in TCO of KZT 192.9 billion, KZT 303.4 billion and KZT 267.8 billion, respectively, and total income after tax attributable to all of the Company's joint venture interests and associates of KZT 343.2 billion, KZT 534.6 billion and KZT 471.1 billion, respectively. Accordingly, the Company's profitability is materially affected by the results of operations of such jointly-controlled entities over which it does not exercise full control.

Taxation

Effective 1 January 2009, Kazakhstan enacted the 2009 Tax Code, which, among other things, reduced the corporate income tax rate, revised the excess profit tax, introduced a new mineral extraction tax to replace the previous royalty regime, effectively replaced the oil export customs duty and revised the rent tax. Certain amendments were introduced to the 2009 Tax Code in 2010 and 2011. Furthermore, the 2009 Tax Code abolished tax stability for the vast majority of Subsoil Use Agreements in Kazakhstan (excluding existing production sharing agreements ("**PSAs**") and contracts approved by the President). Under the 2009 Tax Code, the taxation burden on companies in the oil and gas sector, including the Company, increased in 2009, and is expected to continue to be higher compared to previous years, in particular as a result of the new mineral extraction tax, especially as oil prices increase. In summer 2010, the Government re-introduced the export customs duty on crude oil at the rate of U.S.$20 per tonne. The Government increased this rate to U.S.$40 per tonne with effect from 1 January 2011 and again to U.S.$60 per tonne with effect from 2 April 2013. In addition, the rates of export customs duty for light and heavy petroleum products have also been increased on a number of occasions. According to rate increases, which entered into force on 1 January 2012, the Government increased the rate of export customs duty for light petroleum products from U.S$143.54 to U.S.$164.97 per tonne and the rate of export customs duty for heavy petroleum products from U.S.$95.69 to U.S.$109.98 per tonne. In September 2012, the Government introduced further increases in the rates of export customs duty for light and heavy petroleum products to U.S.$168.88 per tonne and U.S.$112.59 per tonne, respectively. No assurance can be given that further increases of the export customs duty will not occur or have a significant impact in future years. The Company expects generally that these increases in export customs duties will significantly increase its export costs and reduce its profitability.

Corporate Income Tax

Pursuant to the amendments introduced to the 2009 Tax Code in November 2010, with effect from 1 January 2011, the statutory corporate income tax is set at 20% for all future periods. The Company's calculation of deferred tax and income tax expense as at 31 December 2010 and for the year then ended reflected these changes in the 2009 Tax Code. See Note 29 to the 2011 Financial Statements.

The difference between the statutory tax rate and the effective tax rate of the Company in 2012 and 2011, respectively, was primarily due to the application of excess profit tax and withholding tax on income received by the Company and KMG EP in each year. The difference between the statutory tax rate and the effective tax rate of the Company in 2010 was primarily due to the application of withholding tax on income received by the Company and KMG EP on bank deposits.

Deferred Withholding Tax

According to applicable tax legislation, dividends received from Kazakhstan taxpayers should be exempt from withholding tax withheld at the source of payment. From 2007 through 2010, the Company received dividends from TCO

net of withholding tax, although TCO is a Kazakhstan tax payer, as it was uncertain whether the withholding tax exemption under the tax stability regime was applicable to TCO. While the Company has been pursuing a claim to cancel the withholding of tax on the TCO dividends, as at 31 December 2012, the Company had not been successful and, accordingly, the Company decided to recognise the deferred withholding tax on undistributed dividends of TCO since it believes that the Company is likely to continue to receive dividends from TCO net of withholding tax in future years. As at the date of this Base Prospectus, this situation has not changed and the Company continues to recognise the deferred withholding tax on undistributed dividends of TCO.

Excess Profit Tax

Until 1 January 2009, the excess profit tax was applied to the Company based on an internal rate of return for the financial year. Any amount in excess of 20% over the internal rate of return of fields under each Subsoil Use Agreements was subject to a graduated excess profit tax.

The 2009 Tax Code also revised the excess profit tax. While the excess profit tax was formerly based on the internal rate of return of each field, the excess profit tax under the 2009 Tax Code is based on revenue and deductible expenses for each field as determined in accordance with Kazakhstan tax accounting, and ranges from 0 to 60% based on the revenue-to-expense ratio of each field. The Company's management expects that the new excess profit tax will be less onerous with respect to fields with a low revenue-to-expense ratio, but higher with respect to fields with a high revenue-to-expense ratio.

Export Customs Duty/Rent Tax

The 2009 Tax Code revised the rent tax on export of crude oil and gas condensate, which effectively replaced the previous export customs duty. Under the previous tax code, the rent tax applied to oil prices starting from U.S.$19/bbl at a rate of 1% and the maximum rate of 33% applied to oil prices of greater than U.S.$40/bbl. Under the 2009 Tax Code, the rent tax on exports applies to oil prices exceeding U.S.$40/bbl at a rate of 7% and the maximum rate of 32% applies to oil prices of greater than U.S.$180/bbl. The relative impact of this change to the rent tax regime depends largely on the price of oil.

. In summer 2010, the Government re-introduced the export customs duty on crude oil at the rate of U.S.$20 per tonne. The Government increased this rate to U.S.$40 per tonne with effect from 1 January 2011 and again to U.S.$60 per tonne with effect from 2 April 2013. In addition, the rates of export customs duty for light and heavy petroleum products have also been increased on a number of occasions. According to rate increases, which entered into force on 1 January 2012, the Government increased the rate of export customs duty for light petroleum products from U.S$143.54 to U.S.$164.97 per tonne and the rate of export customs duty for heavy petroleum products from U.S.$95.69 to U.S.$109.98 per tonne. In September 2012, the Government introduced further increases in the rates of export customs duty for light and heavy petroleum products to U.S.$168.88 per tonne and U.S.$112.59 per tonne, respectively. The Company expects that these increases in export customs duties will significantly increase its export costs and reduce profitability. No assurance, however, can be given that further increases of the export customs duty will not occur or have a significant impact in future years.

Mineral Extraction Tax/Royalty Regime

The Company's management believes that the mineral extraction tax introduced by the 2009 Tax Code, which effectively replaced the royalty regime (except for TCO, which continues to pay royalty to the Government), will result in an increase in the overall tax burden for upstream companies and has, to date, increased the Company's cost of sales. The previous royalty rate was, for the most part, levied at 2-6% of the weighted average price of oil produced by the relevant entity, less transport and certain additional expenses. Under the 2009 Tax Code, the mineral extraction tax is generally based on the world oil price multiplied by amounts of oil and gas produced by the relevant entity, without deductions. Since 2009, the mineral extraction tax has been levied at the rate of 5.0% to 18.0%, multiplied, for sales of crude oil and gas condensate to Kazakhstan refineries, by a coefficient of 0.5. The Government has the option to lower the mineral extraction tax on a case-by-case basis in respect of oil produced from fields with difficult production conditions. The Company is currently in negotiations with the Government to apply more favourable tax treatment to oil produced by mature fields.

In addition, the 2009 Tax Code provides that income tax shall not be paid on capital gains arising out of a company's sale of a stake in entities unless 50% or more of the property of such entity relates to subsoil use in Kazakhstan. Similarly, non-residents are exempted from withholding tax in relation to dividends received from a Kazakhstan entity, unless (i) they have owned their stake in such entity for three years or less, (ii) 50% or more of the property of such entity relates to subsoil use in Kazakhstan, or (iii) further to amendments introduced to the 2009 Tax Code in July 2011, since 1 January 2012, the entity paying such dividends is not a subsoil surface user during the period for which such dividends were paid.

Tariffs for Oil and Gas Transportation Services

The Company's oil and gas transportation revenue is generated from tariffs charged to its customers.

Oil transportation revenue is generated principally by KTO under long-term contracts for the transportation of crude oil through the pipeline systems operated by KTO. As KTO is considered to be a natural monopoly, the tariffs it charges are fixed by the Natural Monopolies Agency, subject to increase only once per year on request by KTO. The tariff generally covers the costs of financing, operating and maintaining the pipeline, increased by a separate profit element. The domestic oil transit tariff was KZT 1,303 per tonne per 1,000 km, while the export oil transit tariff was KZT 3,331 per tonne per 1,000 km, in 2010 and 2011. The domestic oil transit tariff was KZT 1954.5 per tonne per 1,000km, while the export oil transit tariff was KZT 4732.6 per tonne per 1,000 km, in December 2012. The Company expects this increase in oil transportation tariffs to have a positive impact on KTO's profitability and a weaker negative impact on the Company's upstream businesses and associated entities, such as TCO, KazakhOilAktobe and MMG. As at the date of this Base Prospectus, there have been no further changes to the export or domestic oil transport tariffs. See "*Business—Transport—Transportation of Crude Oil—Crude Oil Transportation Tariffs and Minimum Volumes*".

Gas transportation revenue is generated principally through ICA under long-term contracts for the transportation of natural gas through the pipeline system ICA operates. Under the Law on Natural Monopolies and Regulated Markets (№ 272-I, dated 9 July 1998) and the Concession Agreement (as defined below), ICA's tariffs for domestic natural gas transportation are subject to regulation by the Natural Monopolies Agency. Under the Concession Agreement, Kazakhstan has agreed that ICA is entitled to freely negotiate, determine and agree on international transportation tariffs with its international transit contractor counterparties without regulation by the Natural Monopolies Agency. Most of the tariff rates for international gas transportation, accordingly, are determined by contract and, as such, may be renegotiated as provided in the applicable contract. The contract tariffs are generally a function of costs plus the average rate of return on fixed assets. The tariff for domestic transportation of natural gas in Kazakhstan in 2010 was KZT 171 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for utility companies supplying gas to residential clients and companies engaged in the generation of thermal energy and KZT 420 per 1,000 cubic metres over 100km of pipeline for all other persons. In 2011 and 2012, the tariff for domestic transportation of natural gas in Kazakhstan was KZT 222 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for utility companies supplying gas to residential clients and companies engaged in the generation of thermal energy and KZT 898.5 per 1,000 cubic metres over 100km of pipeline for all other persons. The international gas transit tariff as at 31 December 2010, 2011 and 2012 was U.S.$1.70 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for the transit of Russian, Turkmenistan, Uzbekistan and Kazakhstan natural gas. See "*Business—Transport—Transportation and Storage of Gas—Gas Transportation Tariffs*".

Requirements to Comply with Euro 4 and Euro 5 Ecological Standards

As a result of rules imposed by the Customs Union, the Company's refineries are required to comply with Euro 4 and Euro 5 ecological standards by 2015 and 2016, respectively. In line with the Plan, the Company intends to invest a total of U.S.$2.7 billion, U.S.$1.8 billion and U.S.$1.7 billion to upgrade, modernise and expand the Atyrau, Shymkent and Pavlodar refineries, respectively, in order to enhance production and to comply with such ecological standards.

There can be no assurance that the Plan will be implemented on the expected schedule or within the expected budget. In particular, in the event that the works to ensure compliance with Euro 4 and Euro 5 standards are not completed prior to the 2015 and 2016 deadlines set by the Customs Union, the Company may be forced to close the refineries while such works are completed. Any closure of the refineries, even if temporary, could result in the Company suffering substantial losses, which could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Critical Accounting Policies and Estimates

The 2012 Financial Statements and the 2011 Financial Statements have been prepared in conformity with IFRS. The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. For a full description of the Company's significant accounting policies, see Note 3 of the 2012 and 2011 Financial Statements. Management's selection of appropriate accounting policies and the making of such estimates and assumptions involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used, and actual amounts may differ from these estimates. Set forth below are summaries of the most critical accounting estimates and judgments required of the Company's management.

See Note 4 of the 2012 and 2011 Financial Statements and "*Presentation of Financial, Reserves and Certain Other Information*".

Recoverability of Oil and Gas Assets

The Company assesses each asset or cash generating unit ("**CGU**") every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets 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.

The Company's management has carried out a formal assessment of the recoverable amount of OMG 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 OMG's assets exceeded the estimated recoverable amount by KZT 75 billion, resulting in an impairment charge during 2012. The estimated recoverable amount was based on management's estimate of its fair value, which was derived using the 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 20.0% in production within four years. If the production profile had been assumed to be 5.0% higher or lower than the assumed production profile used in the assessment, this would have had the effect of reducing impairment by more than KZT 55 billion or increasing impairment by more than KZT 55 billion, respectively. If production had been assumed to have remained fixed at the 2012 level, the impairment would have been over KZT 200 billion.

Brent crude oil price assumptions were based on market expectations together with the expectations of an independent industry analysis and research organisation, adjusted for the average realised historical discount on quoted price. If Brent crude oil prices had been assumed to be 5.0% higher or lower than the price assumptions used in the assessment, this would have had the effect of reducing impairment by more than KZT 40 billion or increasing impairment by more than KZT 40 billion, respectively.

The projection of cash flows was limited by the date of licence 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 the 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 licence expiry in order to make cost savings. An exchange rate of KZT 150.45 KZT per U.S.$ 1.00, which was the official exchange rate as at the date of the impairment assessment, was used to convert U.S. Dollar denominated sales. All the derived cash flows were discounted using an after tax weighted average cost of capital of 13.09%.

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

Oil and Gas Reserves

Oil and gas reserves are a material factor in the Company's computation of depreciation, depletion and amortisation ("**DD&A**"). The Company estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers ("**SPE**"). In estimating its reserves under SPE methodology, the Company uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. The Company's management believes that long-term planning price assumptions 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. The Company's proved reserves almost exclusively comprise proved developed reserves. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions.

Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A. The Company has included in proved reserves only those quantities that are expected to be produced during the initial licence period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Company's licence 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.

Assets Retirement Obligations

Oil Production Facilities

Under the terms of certain contracts, legislation and regulations, the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the licence terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each licence period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the licence term, no liability has been recognised. There is some uncertainty and significant judgment involved in making such a determination. The Company's management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

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

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

The long-term inflation and discount rates used to determine the balance sheet obligation across the group companies as at 31 December 2012 were in the ranges from 1.9% to 5.0% and from 4.9% to 7.9%, respectively (2011: from 1.96% to 5.0% and from 6.6% to 7.9%).

Oil and Gas Major Pipelines

According to the Law of the Republic of Kazakhstan "On Trunk Pipeline" (№ 20-V, dated 22 June 2012) (the "**Trunk Pipeline Law**"), which came into force on 4 July 2012, KTO has a legal obligation to decommission its oil pipelines at the end of their respective operating lives and to restore the land to its original condition. This decommissioning will occur when the crude oil reserves of the entities using the pipeline have been fully depleted.

Asset retirement obligations are estimated based on the value of the work to decommission and rehabilitate these pipelines, as calculated by the Company in accordance with the technical regulations applicable in Kazakhstan (pipeline decommission expense is equal to KZT 2.9 million per km). The allowance was determined at the end of the reporting period using the projected inflation rate for the expected period for the fulfilment of these obligations (17 years) and the discount rate applicable at the end of the reporting period, as set out below:

	As at 31 December
	2012
	(%)
Discount rate	6.01
Inflation rate	5.60

The discount rate is based on the risk-free government bonds issued by Kazakhstan.

As at 31 December 2012, the carrying amount of the asset retirement obligation was KZT 15,531.0 million compared to nil as at 31 December 2011.

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 ICA, the Company's management believes that the Trunk Pipeline Law is not applicable to the entity, since ICA is not the owner of the pipelines, but operates the assets under the Concession Agreement between ICA and the Government on the operation of the mainline gas distribution network of Kazakhstan, and does not have a right to liquidate gas pipelines.

Rompetrol Provisions

Under the terms of certain contracts, legislation and regulations, the Company has legal obligations to dismantle and remove tangible assets and restore the territory at each production site. Specifically, the Company's obligation mainly relates to decommissioning and environmental provisions in relation to Port La Nouvelle depot in France and the cleaning of oil sledge pools and the restoration of contaminated land at the Vega Refinery.

The Company has recognised a provision for environmental liability relating to the Rompetrol Group. Environmental damage caused by substances related to the activity of the Rompetrol Group may require the Company to incur restoration costs to comply with the regulations in the various jurisdictions in which the Rompetrol Group operates, and to settle any legal or constructive obligation. Analysis and estimates are performed by the Rompetrol Group together with its technical and legal advisers, in order to determine the probability, timing and amount involved with probable required outflow of resources. Estimated restoration costs, for which disbursements are determined to be probable, are recognised as a provision in the Company's consolidated financial statements. As at 31 December 2012, the discount rate used for calculation of the expected costs to clean the oil sludge pools and restore the contaminated land at the Vega Refinery was 10.1%.

Furthermore, as part of the acquisition of the Rompetrol Group, the Company recognised a provision for decommissioning associated with the Port La Nouvelle depot in France. In determining the amount of this provision, assumptions and estimates were made in relation to discount rates, the expected costs to dismantle and remove the depot from the site and the expected timing of those costs. Changes to these assumptions could have a significant impact on the amount of the provision.

Environmental Remediation

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

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan. Pursuant to a memorandum of understanding signed by the KMG EP with the MEP in July 2005, the

Company agreed to take responsibility for remediation of certain soil contamination and oil waste disposal which resulted from oil extraction dating back to the commencement of production. As at the date of this Base Prospectus, the scope and timing of the remediation plan has not been formally agreed with the Government. Accordingly, the liability has not been discounted. Because the original terms of the liability have not yet been established and management reasonably expects to execute the remediation plan, agreed with the relevant authorities, over a period of up to ten years, the Company 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 of the 2012 Financial Statements.

Deferred Tax Assets

Deferred tax assets are recognised for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and the business nature of such expenses will be proved. Significant judgment by the Company's management is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of the Company's recognised deferred tax assets as at 31 December 2012 was KZT 34.2 billion compared to KZT 10.6 billion as at 31 December 2011 and KZT 10.6 billion as at 31 December 2010. See Note 32 of the 2012 Financial Statements.

Taxation

Deferred tax is calculated with respect to both corporate income tax and excess profit tax. Deferred corporate income tax and excess profit tax are calculated on temporary differences at the expected rates that were enacted by the 2009 Tax Code as at 31 December 2012. Both deferred corporate income tax and excess profit tax bases are calculated under the terms of the tax legislation enacted in the 2009 Tax Code.

In assessing tax risks, the Company's management considers to be probable obligations the known areas at tax positions which the Company 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 of the Subsoil Use Agreement relating to taxation, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities.

See Note 32 of the 2012 Financial Statements.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Company is required to recognise 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. In 2010, the Company acquired interests in SBS and NBK LLP. In 2011, the Company acquired interests in ANS, Karpovskyi Savernyi and UGL. In 2012, the Company acquired interests in Arkagaz and Karachaganak Project Consortium. The effect of the completion of fair valuing is discussed further in Note 5 of the 2012 Financial Statements.

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or CGU 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 Company 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.

Impairment of Exploration and Evaluation Assets

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate impairment. Due to the expiration of the rights in the certain areas under exploration, and uncertainties in relation to whether such rights will be renewed, the Company recognised impairment of some exploration and evaluation assets in the amount of KZT 20.9 million as at 31 December 2011. No impairment was recognised for the year ended 31 December 2012.

Recoverability of Goodwill from Acquisitions

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

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Results of the assessment of the recoverable amount of goodwill allocated to particular CGUs 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.

In assessing the recoverable amount of goodwill allocated to Refinery Company RT, any increase in the discount rate by 1% from 11.8% to 12.8% would result in the excess of the carrying amount of CGU over its recoverable amount by KZT 21,708 million. 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 KZT 107,810 million

For further information in respect of the key assumptions used in the assessment of the recoverable amount of goodwill from acquisitions, see Note 11 of the 2012 Financial Statements.

Results of Operations for the year ended 31 December 2012, as compared to the year ended 31 December 2011

Revenue

For the year ended 31 December 2012, total revenue was KZT 2,960.4 billion compared to KZT 2,625.3 billion for the year ended 31 December 2011, reflecting an increase of KZT 335.1 billion, or 12.8%. This increase was primarily due to a KZT 127.0 billion, or 27.0% increase in sales of crude oil and a KZT 110.4 billion, or 5.9%, increase in sales of refined oil products.

The following table sets forth certain information regarding the Company's revenue for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2012	2011[(1)]	2011 and 2012
		(KZT billions)	
Sales of refined oil products	1,984.0	1,873.6	5.9
Sales of crude oil	597.6	470.6	27.0
Transportation fee	221.8	224.0	(1.0)
Sales of gas and gas products	210.2	192.2	9.4
Other revenue	187.9	155.9	20.5
Less: sales taxes and commercial discounts	(241.1)	(291.0)	(17.1)
Total	**2,960.4**	**2,625.3**	**12.8**

Note:

(1) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

Sales of Refined Oil Products and Crude Oil

The following table sets forth certain information regarding the Company's refined oil products sales, where the Company is a principal, excluding tolling volumes and sales, for the periods indicated:

	For the year ended 31 December	
	2012	2011
Refined oil products sales (*KZT billions*)	1,984.0	1,873.6
Refined oil products volumes sold (*thousand of tonnes*)	13,881	13,408
Average price per tonne of refined oil products (*KZT*)	142,931	139,738

Total revenue from the Company's refined oil products sales for the year ended 31 December 2012 increased by KZT 110.4 billion, or 5.9%, to KZT 1,984.0 billion compared to KZT 1,873.6 billion for the year ended 31 December 2011. This increase was primarily due to a 3.5% increase in the volumes of refined oil products sold, as a result of increased production volumes at the Pavlodar Refinery and the Petromidia Refinery, which were, in turn, due to the impact of the modernisation and expansion programmes at such refineries. This increase in the Company's sales of refined oil products was also attributable to a 2.3% increase in the average price per tonne of refined oil products over the period.

The following table sets forth certain information regarding Rompetrol's refined oil products sales for the periods indicated:

	For the year ended 31 December	
	2012	**2011**
Refined oil products sales (*KZT billions*)	607.3	555.8
Refined oil products volumes sold (*thousand tonnes*)	4,945	4,794
Average price per tonne of refined oil products (*KZT*)	123,403	116,597

For the year ended 31 December 2012, Rompetrol's refined oil product sales increased by 9.3% to KZT 607.3 billion compared to KZT 555.8 billion for the year ended 31 December 2011. This increase primarily reflected the increase in the volumes of refined oil products sold, as a result of increased production volumes at the Petromidia Refinery, which was, in turn, due to the impact of the modernisation and expansion programme at this refinery. This increase in Rompetrol's refined oil products sales was also attributable to higher prices for refined oil products sold by Rompetrol in the European market during 2012.

The following table sets forth certain information regarding the Company's sales revenue and sales volumes of crude oil for the periods indicated:

	For the year ended 31 December	
	2012	**2011**
Crude oil sales revenue (*KZT billions*)[(1)]	597.6	470.6
Crude oil sales volumes (*thousands of tonnes*)[(2)]	8,223	7,656
Average price per tonne of crude oil (*KZT*)[(3)]	72,674	61,741

Notes:

(1) After elimination of intragroup sales of crude oil to KMG RM.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intragroup sales volumes to KMG RM.

(3) Average price per tonne of crude oil is calculated by dividing total crude oil sales revenue (after elimination of intragroup sales of crude oil to KMG RM) by total crude oil sales volumes (after elimination of intragroup sales volumes to KMG RM).

Total revenue from the Company's sales of crude oil increased by KZT 127.0 billion, or 27.0%, to KZT 597.6 billion for the year ended 31 December 2012 compared to KZT 470.6 billion for the year ended 31 December 2011. This increase was primarily a result of the effects of the Company's acquisition of a 10% interest in KPO in June 2012, as well as higher global oil prices for the year ended 31 December 2012. This increase was partially offset by a 1.7% decrease in production volumes primarily as a result of the impact of the strike at the Ozenmunaigaz production unit in May to August 2011 on the Company's production in 2012, as well as an increase in the number of idle wells, low turnaround times and non-execution of geological and technical measures, which created a backlog from the crude oil production plan. Late deliveries and delays in repair works, as well as adverse weather conditions at the beginning of 2012 also contributed to the decrease in production.

The following table sets forth certain information regarding export sales of KMG EP, under the Agency Agreement until 30 April 2012 and exported directly thereafter, and domestic sales of KMG EP to KMG RM for further processing at the Atyrau Refinery for the periods indicated:

	For the year ended 31 December	
	2012	**2011**
Crude oil export sales (*thousand of tonnes*)	6,078	5,758
Average price per tonne of crude oil export sales (*KZT*)	122,103	113,857
Crude oil sales to KMG RM (*thousands of tonnes*)	1,595	1,898
Average price per tonne of crude oil sales to KMG RM (*KZT*)	37,906	27,858

As at the date of this Base Prospectus, the Company does not have access to full information in respect of crude oil export sales of other subsidiaries, jointly-controlled entities and associates of the Company, except for KMG EP.

Total volumes of KMG EP's crude oil export sales (through KMG RM under the Agency Agreement until 30 April 2012 and exported directly since 1 May 2012) increased to 6,078 thousand tonnes for the year ended 31 December 2012 compared to 5,758 thousand tonnes for the year ended 31 December 2011, reflecting an increase of 5.6%, primarily as a result of sales realised in January 2012, which were originally scheduled to be delivered in December 2011 but were delayed due to adverse weather conditions.

Total volumes of KMG EP's domestic crude oil sales through KMG RM under the Relationship Agreement were 1.6 million tonnes for the year ended 31 December 2012 and 1.9 million tonnes for the year ended 31 December 2011, reflecting a decrease of 16.0%. This decrease was principally due to the impact of the strike at the Ozenmunaigaz production unit in May to August 2011 on the Company's production in 2012. Under the Relationship Agreement, KMP EP has a quota of minimum sales required to be provided to the Atyrau Refinery, if requested. In 2011 and 2012, the Atyrau Refinery did not request its quota of minimum sales.

Transportation Fees

For the year ended 31 December 2012, transportation fees were KZT 221.8 billion compared to KZT 224.0 billion for the year ended 31 December 2011, reflecting a decrease of KZT 2.2 billion, or 1.0%. This decrease was primarily attributable to the lower volumes of natural gas transported through the natural gas transportation system operated by ICA. See "*Business—Transport—Transportation and Storage of Gas—Gas Transportation Volumes*".

The Company's transportation fees include payments made in lieu of shipments under ship-or-pay contracts between the Company and certain of its customers, which did not transport all of their agreed volumes, although the Company does not incur any related operating expenses to the extent customers paid to ship committed volumes.

Gas Transportation Revenue

The Company, through ICA, generates transportation revenue from tariffs it charges to its customers. See "*—Main Factors Affecting Results of Operations and Liquidity—Tariffs for Oil and Gas Transportation Services*" and "*Business—Transport—Transportation and Storage of Gas—Gas Transportation Tariffs*".

The following table sets forth certain information regarding ICA's transportation revenue for the periods indicated:

	For the year ended 31 December	
	2012	2011
	(KZT billions)	
Transportation services:		
Central Asia Gas (transit)	54.8	54.0
Russian gas (transit)	17.2	20.1
Kazakhstan gas (to outside of the country)	16.6	15.5
Kazakhstan gas (within the country)	6.3	4.3
Kyrgyzstan gas (transit)	0.03	0.3
Total gas transportation revenue[1]	**94.9**	**94.2**

Note:
(1) Does not include intragroup eliminations.

Gas transportation revenue increased by 0.7% for the year ended 31 December 2012 compared to the year ended 31 December 2011. This increase was primarily attributable to the terms of the new ship-or-pay contracts entered into between ICA and Gazprom in January 2011. See "*Business—Transport—Transportation and Storage of Gas—Gas Transportation Volumes*".

Oil Transportation Revenue

The Company, through KTO, generates transportation revenue from tariffs it charges to its customers. See "*—Main factors Affecting Results of Operations and Liquidity—Tariffs for Oil and Gas Transportation Services*" and "*Business—Transport—Transportation of Crude Oil—Crude Oil Transportation Tariffs and Minimum Volumes*".

The following table sets forth certain information regarding KTO's crude oil transportation revenue for the periods indicated:

	For the year ended 31 December	
	2012	**2011**
	(KZT billions)	
KTO Pipelines:		
Western Branch:		
UAS pipeline	55.6	53.6
Other Western Branch pipelines transport to:		
Atyrau Refinery	4.2	3.8
Aktau seaport	5.0	5.3
CPC Pipeline	4.7	4.4
Eastern Branch pipelines transport to:		
Atasu-Alashankou pipeline	25.3	25.2
Shymkent Refinery	6.4	7.3
Pavlodar Refinery	2.0	2.2
Other fees[1]	7.1	7.8
Total crude oil transportation revenue[2]	**110.3**	**109.6**

Notes:
(1) Includes fees for providing loading and unloading services at railway stations and seaports.
(2) Before elimination of intragroup fees.

Crude oil transportation revenue increased by 0.6% for the year ended 31 December 2012 compared to 2011. This increase was primarily attributable to the increase in oil transportation tariffs in December 2012, which was partially offset by a 0.5% decrease in oil transportation volumes through KTO's pipeline system in 2012 compared to 2011.

Sales of Gas and Gas Products

The Company's gas products include natural gas, which is marketed by KTG, and liquefied natural gas, which is marketed by KMG EP. For the year ended 31 December 2012, sales of gas and gas products were KZT 210.2 billion compared to KZT 192.2 billion for the year ended 31 December 2011, reflecting an increase of KZT 18.0 billion, or 9.4%. This increase was primarily due to an increase in the average price of gas in 2012 compared to 2011.

Other Revenue

The Company generates other revenue from heat and power supply, sales of non-core products, such as dry gas, LPG and sulphur, subleasing of the Company's capital and intangible assets, technical maintenance of production and repair projects. The Company also derives other revenue from the restructuring and sale of certain of its non-core assets.

For the year ended 31 December 2012, other revenue was KZT 187.9 billion compared to KZT 155.9 billion for the year ended 31 December 2011, reflecting an increase of KZT 32.0 billion, or 20.5%. This increase was primarily attributable to the impact of positive exchange rate differences, as well as the sale of certain of the Company's non-core assets.

Cost of Sales

The following table sets forth certain information regarding the Company's cost of sales for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2012	2011(1)	2011 and 2012
	(KZT billions)		
Materials and supplies	1,511.9	1,334.3	13.3
Payroll	190.8	157.3	21.3
Depreciation, depletion and amortisation	137.0	118.7	15.4
Mineral extraction tax	71.9	78.7	(8.6)
Repair and maintenance	31.5	46.3	(32.0)
Electricity	40.7	35.6	14.3
Other taxes	16.1	10.0	61.0
Other	90.9	55.2	64.7
Total	**2,090.8**	**1,836.1**	**13.9**

Note:

(1) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

For the year ended 31 December 2012, cost of sales was KZT 2,090.8 billion compared to KZT 1,836.1 billion for the year ended 31 December 2011, reflecting an increase of KZT 254.7 billion or 13.9%. This increase was primarily attributable to a KZT 177.6 billion, or 13.3%, increase in materials and supplies, a KZT 33.5 billion, or 21.3%, increase in payroll and a KZT 35.7 billion, or 64.7%, increase in other cost of sales.

Materials and supplies expense consists primarily of materials, fuel and other utilities used to run the Company's operations and other expenses, including the purchase of crude oil from third parties, in particular, from Russia for the Pavlodar Refinery. The increase in materials and supplies costs to KZT 1,511.9 billion for the year ended 31 December 2012 compared to KZT 1,334.3 billion for the year ended 31 December 2011 was primarily attributable to the purchase of third-party crude oil at higher crude oil prices as KMG RM purchases certain amounts of crude oil from third parties to supply its refineries, as well as the general increase in prices for raw materials.

The increase in payroll to KZT 190.8 billion for the year ended 31 December 2012 compared to KZT 157.3 billion for the year ended 31 December 2011 was primarily a result of the increase in the salaries of workers at OMG, which was partially offset by a decrease in the number of employees across the Company and its subsidiaries, which was, in turn, primarily attributable to a reduction in the number of staff employed at the Company's headquarters.

Other cost of sales comprises of penalties and emission fees, environmental expenses, social insurance payments, land rent and other compulsory budget payments. The increase in other costs of sales to KZT 90.9 billion for the year ended 31 December 2012 compared to KZT 55.2 million for the year ended 31 December 2011 was primarily attributable to increased environmental expenses, emission fees and other penalties due from various subsidiaries of the Company.

The increase in the Company's depreciation, depletion and amortisation expense to KZT 137.0 billion for the year ended 31 December 2012 compared to KZT 118.7 billion for the year ended 31 December 2011 was primarily due to the effects of the consolidation of the Company's 10% interest in KPO following its acquisition by the Company in June 2012.

The cost to the Company of the mineral extraction tax was KZT 71.9 billion for the year ended 31 December 2012 compared to KZT 78.7 billion for the year ended 31 December 2011, reflecting a decrease of KZT 6.8 billion, or 8.6%. This decrease in the cost of the mineral extraction tax primarily reflects the decrease in production volumes of KMG EP, which was primarily due to the impact of the strike at the Ozenmunaigaz production unit in May to August 2011 on the Company's production in 2012. See "*—Main Factors Affecting Results of Operations and Liquidity—Taxation—Mineral Extraction Tax/Royalty Regime*".

Gross Profit

As a result of the foregoing, the Company's gross profit increased by KZT 80.4 billion, or 10.2%, to KZT 869.6 billion for the year ended 31 December 2012 from KZT 789.2 billion for the year ended 31 December 2011.

General and Administrative Expenses

The following table sets forth certain information regarding the Company's general administrative expenses for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2012	2011[(1)]	2011 and 2012
	(KZT billions)		
Payroll	55.0	54.0	1.9
Charitable donations	15.1	17.3	(12.7)
Depreciation and amortisation	13.8	16.2	(14.8)
Fines and penalties	8.9	13.2	(32.6)
Taxes other than on income	11.9	11.9	0.0
Consulting services	10.3	11.8	(12.7)
Allowance for impairment of financial assets	12.8	3.7	245.9
Other[(2)]	35.3	36.8	(4.1)
Total	**163.1**	**164.9**	**(1.1)**

Notes:

(1) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

(2) The other general and administrative expenses are comprised of travel, communication, representative offices, rental, security, bank services expenses and fines.

For the year ended 31 December 2012, general and administrative expenses were KZT 163.1 billion compared to KZT 164.9 billion for the year ended 31 December 2011, reflecting a decrease of KZT 1.8 billion, or 1.1%. This decrease was primarily attributable to a KZT 4.3 billion, or 32.6%, decrease in fines and penalties, a KZT 2.4 billion, or 14.8%, decrease in depreciation and amortisation and a KZT 2.2 billion, or 12.7%, decrease in charitable donations, partially offset by a KZT 9.1 billion increase in allowances for impairment of finance assets.

The decrease in fines and penalties to KZT 8.9 billion for the year ended 31 December 2012 compared to KZT 13.2 billion for the year ended 31 December 2011 was primarily attributable to the one-time payment by KMG EP in 2011 of KZT 7.9 billion in respect of tax claims relating to 2004 and 2005 following a decision of the Supreme Court in April 2011.

The decrease in depreciation and amortisation to KZT 13.8 billion for the year ended 31 December 2012 compared to KZT 16.2 billion for the year ended 31 December 2011 was primarily attributable to the decrease in the level of fixed and intangible assets held by the Company in 2012 compared to 2011.

The decrease in charitable donations to KZT 15.1 billion for the year ended 31 December 2012 compared to KZT 17.3 billion for the year ended 31 December 2011 was primarily attributable to lower levels of financing provided by the Company in respect of its charitable activities in 2012 compared to 2011.

The increase in allowance for impairment of financial assets to KZT 12.8 billion for the year ended 31 December 2012 compared to KZT 3.7 billion for the year ended 31 December 2011 was primarily attributable to the KZT 9.2 billion impairment of receivables of the Rompetrol Group in 2012.

The increase in payroll expenses, of KZT 1.0 billion or 1.9%, to KZT 55.0 billion for the year ended 31 December 2012, from KZT 54.0 billion for the year ended 31 December 2011 was primarily attributable to the annual adjustment for inflation and the increase in the salaries of workers at the Ozenmunaigaz production unit, which was partially offset by a decrease in the number of employees across the Company and its subsidiaries.

The decrease in other expenses by KZT 1.5 billion, or 4.1%, to KZT 35.3 billion for the year ended 31 December 2012 compared to KZT 36.8 billion for the year ended 31 December 2011 was primarily attributable to the impact of the Company's cost reduction programme.

Transportation and Selling Expenses

The following table sets forth certain information regarding the Company's transportation and selling expenses during the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2012	2011	2011 and 2012
	(KZT billions)		
Rent tax on export of crude oil	159.8	149.8	6.7
Transportation	110.8	101.5	9.2
Customs duty	43.7	51.7	(15.5)
Payroll	14.5	17.1	(15.2)
Depreciation and amortisation	12.8	11.6	10.3
Other	19.1	19.1	—
Total	**360.7**	**350.7**	**2.9**

Transportation and selling expenses are comprised of expenses related to the transportation of the Company's crude oil through the CPC Pipeline and Russia's Transneft System at Samara, and costs related to the supply of oil and energy to physically move oil and gas through the KTO and KTG pipeline systems, as well as port charges, quality bank costs and sales commissions. Other expenses are comprised of public utilities charges, advertising and marketing expenses, travel expenses and payments to third parties for services associated with sales.

For the year ended 31 December 2012, transportation and selling expenses were KZT 360.7 billion compared to KZT 350.7 billion for the year ended 31 December 2011, reflecting an increase of KZT 10.0 billion, or 2.9%. This increase was primarily attributable to a KZT 10.0 billion, or 6.7%, increase in rent tax paid on the export of crude oil and a KZT 9.3 billion, or 9.2%, increase in transportation expenses, which was partially offset by a KZT 8.0 billion, or 15.5%, decrease in customs duty.

The Company paid rent tax of KZT 159.8 billion and customs duty of KZT 43.7 billion for the year ended 31 December 2012 compared to rent tax of KZT 149.8 billion and customs duty of KZT 51.7 billion for the year ended 31 December 2011. The increase in rent tax primarily relates to increased crude oil prices. The decrease in customs duty was primarily due to the one-time payment in 2011 of expenses in relation to the claim for underpaid export customs duty in January 2009.

Impairment of Goodwill

The Company did not record any impairment of goodwill for the year ended 31 December 2012. The Company recorded KZT 2.4 billion impairment of goodwill for the year ended 31 December 2011 in respect of the acquisition of the Batumi Oil Terminal and the Batumi Sea Port.

Impairment of Property, Plant and Equipment and Other Non-Current Assets

For the year ended 31 December 2012, the Company recorded KZT 82.4 billion impairment of property, plant and equipment and other non-current assets compared to KZT 45.5 billion for the year ended 31 December 2011, reflecting an increase of KZT 36.9 billion, or 81.1%. This increase was primarily attributable to a KZT 76.4 billion impairment charge at KMG EP due to the impact of the strike at the Ozenmunaigaz production unit in May to August 2011 on the Company's production in 2012, as well as the decrease in forecasted future production plans. See "*—Employees*" and "*Risk Factors—Risks Related to the Company's Business—Labour unrest may materially adversely affect the Company's business*".

Gain/(Loss) on Disposal of Property, Plant and Equipment

For the year ended 31 December 2012, the Company recorded a net loss on disposal of property, plant and equipment of KZT 3.8 billion compared to a net gain of KZT 3.3 billion for the year ended 31 December 2011. See "*Business—Exploration and Production—Exploration Projects—Significant Exploration Projects of the Company*".

Income from Sale of Shares in Subsidiary

For the year ended 31 December 2012, the Company recorded KZT 9.6 billion of income from the sale of shares in a subsidiary as a result of the disposal by KMG EP of its 51% interest in Kazakhstan Petrochemical Industries LLP to United Chemical Company for KZT 4,860.4 million in April 2012, as well as the disposal by KMG EP of a 49% interest

in KS EP in November 2012, which led to a gain of KZT 4,782.3 million. KMG EP retains the remaining 51% interest in KS EP. The Company recorded no income from the sale of shares in a subsidiary for the year ended 31 December 2011.

Other Operating Income

For the year ended 31 December 2012, the Company recorded KZT 27.5 billion of other operating income compared to KZT 15.4 billion for the year ended 31 December 2011, reflecting an increase of KZT 12.1 billion, or 78.6%. This increase was primarily attributable to income received from the disposal of certain of the Company's non-core assets.

Other Operating Expenses

For the year ended 31 December 2012, the Company recorded KZT 16.8 billion of other operating expenses compared to KZT 11.4 billion for the year ended 31 December 2011, reflecting an increase of KZT 5.4 billion, or 47.4%. This increase was primarily attributable to expenses incurred in connection with the disposal of certain of the Company's non-core assets.

Net foreign exchange loss

For the year ended 31 December 2012, the Company recorded a net foreign exchange loss of KZT 18.0 billion compared to a net foreign exchange loss of KZT 8.8 billion for the year ended 31 December 2011, reflecting an increase of KZT 9.2 billion, or 104.5%. This increase was primarily attributable to depreciation of the Tenge against the U.S. Dollar.

Finance Income

For the year ended 31 December 2012, finance income was KZT 29.0 billion compared to KZT 45.6 billion for the year ended 31 December 2011, reflecting a decrease of KZT 16.6 billion, or 36.4%. This decrease was primarily attributable to a KZT 8.4 billion, or 27.0%, decrease in interest income on bank deposits and bonds, as a result of the lower average balances of bank deposits in 2012 compared to 2011, as well as a KZT 3.4 billion, or 41.5%, decrease in interest income on loans given and a KZT 4.8 billion, or 77.4%, decrease in other finance income.

Finance Cost

For the year ended 31 December 2012, the Company recorded finance cost of KZT 169.2 billion compared to KZT 171.2 billion for the year ended 31 December 2011, reflecting a decrease of KZT 2.0 billion, or 1.2%. This decrease resulted primarily from a KZT 10.8 billion, or 7.0%, decrease in interest on loans and debt securities issued, which was partially offset by a KZT 7.8 billion, or 87.6%, increase in other finance cost. The Company had total borrowings of KZT 2,063.7 billion as at 31 December 2012 compared to KZT 1,917.8 billion as at 31 December 2011. See "*—Debt Obligations*".

Impairment of investments in Joint Ventures

For the year ended 31 December 2012, the Company recorded impairment of investments in joint ventures of KZT 3.0 billion as a result of impairment recorded in respect of investment made to JV Caspi Bitum LLP. See Note 13 to the 2012 Financial Statements. The Company did not record any impairment of investments in joint ventures for the year ended 31 December 2011.

Share of Profit of Joint Ventures and Associates

The Company and its subsidiaries have interests in joint ventures, which are entities in respect of which joint control over the economic activities of the entities is established pursuant to a contractual arrangement, and interests in associates, which are entities over which the Company or the relevant subsidiary exercises significant influence. Investments in joint ventures and associates are accounted for using the equity method. See "*Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates*", "*—Main Factors Affecting Results of Operations and Liquidity—Changes in the Share of Profit of Ventures and Associates*", Note 31 to the 2012 Financial Statements and Note 28 to the 2011 Financial Statements.

A significant portion of the Company's operating profit is attributable to profit from its joint ventures and associates. TCO, KazRosGas and MIBV are the Company's principal joint ventures, while PKI is a significant associate of KMG EP.

The following table sets forth certain information regarding the income (loss) of the Company's jointly-controlled entities and associates for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2012	2011	2011 and 2012
	(KZT billions)		
of the Company:			
TCO	267.8	303.4	(11.7)
MIBV	64.6	80.9	(20.1)
KazRosGas	40.9	39.4	3.8
Kazakhoil Aktobe	11.3	15.5	(27.1)
of KMG EP:			
PKI	34.6	48.6	(28.8)
Other[(1)]	51.9	46.8	10.9
Total	**471.1**	**534.6**	**(11.9)**

Note:

(1) Includes (among others) Kazgermunai and Valsera Holdings B.V., which indirectly owns the Shymkent Refinery through its 99.43% interest in PetroKazakhstan Oil Products LLP, MunayTas and Kazakhturkmunay.

For the year ended 31 December 2012, the share of profit from joint ventures and associates decreased by KZT 63.5 billion, or 11.9%, to KZT 471.1 billion from KZT 534.6 billion for the year ended 31 December 2011. This decrease was primarily due to a KZT 35.6 billion, or 11.7%, decrease in the Company's share of profit from TCO, a KZT 16.3 billion, or 20.1%, decrease in the Company's share of profit from MIBV and a KZT 14.0 billion, or 28.8%, decrease in the Company's share of profit from PKI in 2012.

The decrease in the Company's share of profit from TCO for the year ended 31 December 2012 compared to the year ended 31 December 2011 was primarily due to the decrease in TCO's production of crude oil and gas by 6.2% and 5.9%, respectively, in 2012 compared to 2011.

The decrease in the Company's share of profit from MIBV for the year ended 31 December 2012 compared to the year ended 31 December 2011 was primarily due to higher interest payments under the MMG Facility, which bears interest at a floating rate of one-month LIBOR plus 3.5%, paid by MIBV in 2012 compared to 2011.

The increase in the Company's share of profit from KazRosGas by KZT 1.5 million, or 3.8%, for the year ended 31 December 2012 compared to the year ended 31 December 2011 was primarily due to higher volumes of gas sold by KazRosGas, as well as higher market prices for gas in 2012. The decrease in the Company's share of profit from Kazakhoil Aktobe by KZT 4.2 billion, or 27.1%, for the year ended 31 December 2012 compared to the year ended 31 December 2011 was primarily due to the reallocation of volumes of crude oil intended for export sales to the domestic market in 2012. The decrease in the Company's share of profit from PKI by KZT 14.0 billion, or 28.8%, for the year ended 31 December 2012 compared to the year ended 31 December 2011 was primarily due to the decline in crude oil and oil products sold by PKI in 2012, which was, in turn, due to the late execution of a contract for additional volumes of crude oil to be bought from third parties in order to replace shipments that were reallocated to the domestic market during 2012.

The increase in the Company's share of profit from other joint ventures and associates by KZT 5.1 billion, or 10.9%, for the year ended 31 December 2012 compared to the year ended 31 December 2011 was primarily due to the increase in the average price of crude oil, as well as higher sales volumes.

Income Tax Expenses

Income tax expenses comprise corporate income tax and excess profit tax, which, in turn, includes deferred tax and withholding tax on profits. The Company's effective tax rate increased to 30% for the year ended 31 December 2012 compared to 24.2% for the year ended 31 December 2011, as a result of the application of excess profit tax and withholding tax on income received by the Company and KMG EP. For the year ended 31 December 2012, the Company's excess profit tax rate on profit before income tax of KZT 589.9 billion was 5.3% compared to excess profit tax rate on profit before income tax of KZT 633.2 billion of 3.3% for the year ended 31 December 2011. See "*—Main Factors Affecting Results of Operations and Liquidity—Taxation*".

For the year ended 31 December 2012, the Company recorded income tax expenses of KZT 177.1 billion compared to KZT 153.1 billion for the year ended 31 December 2011, reflecting an increase of KZT 24.0 billion, or 15.7%. This increase was primarily due to a KZT 37.9 billion, or 44%, increase in current corporate income tax and a KZT 10.3 billion, or 49.5% increase in current excess profit tax. This increase was partially offset by a deferred corporate income tax benefit of KZT 18.4 billion.

Profit for the Year

As a result of the foregoing, the Company's profit for the year decreased by KZT 65.3 billion, or 13.6%, to KZT 413.4 billion for the year ended 31 December 2012 from KZT 478.7 billion for the year ended 31 December 2011.

The Company's profit for 2012 and 2011 represented 14.0% and 18.2%, respectively, of the Company's revenue for such years.

Results of Operations for the year ended 31 December 2011, as compared to the year ended 31 December 2010

Revenue

For the year ended 31 December 2011, total revenue was KZT 2,625.3 billion compared to KZT 2,098.9 billion for the year ended 31 December 2010, reflecting an increase of KZT 526.4 billion, or 25.1% This increase was primarily due to a KZT 466.5 billion, or 33.2%, increase in sales of refined oil products.

The following table sets forth certain information regarding the Company's revenue for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2011[1]	2010	2010 and 2011
		(KZT billions)	
Sales of refined oil products	1,873.6	1407.1	33.2
Sales of crude oil	470.6	461.8	1.9
Transportation fee	224.0	261.9	(14.5)
Sales of gas products	192.2	158.1	21.6
Other revenue	155.9	73.6	111.8
Less: sales taxes and commercial discounts	(291.0)	(263.6)	10.4
Total	**2,625.2**	**2,098.9**	**25.1**

Note:
(1) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

Sales of Crude Oil and Refined oil products

The following table sets forth certain information regarding the Company's sales revenue and sales volumes of crude oil for the periods indicated:

	For the year ended 31 December	
	2011	2010
Crude oil sales revenue (*KZT billions*)[1]	470.6	461.8
Crude oil sales volumes (*thousand of tonnes*)[2]	7,656	8,643
Average price per tonne of crude oil (*KZT*)[3]	61,471	53,428

Notes:
(1) After elimination of intragroup sales of crude oil to KMG RM.
(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intragroup sales volumes to KMG RM.
(3) Average price per tonne of crude oil is calculated by dividing total crude oil sales revenue (after elimination of intragroup sales of crude oil to KMG RM) by total crude oil sales volumes (after elimination of intragroup sales volumes to KMG RM).

Total revenue from the Company's sales of crude oil increased by KZT 8.8 billion, or 1.9%, to KZT 470.6 billion for the year ended 31 December 2011 compared to KZT 461.8 billion for the year ended 31 December 2010. This increase was primarily a result of higher global oil prices during the year ended 31 December 2011.

The following table sets forth certain information regarding export sales of KMG EP under the Agency Agreement and domestic sales of KMG EP to KMG RM for further processing at the Atyrau Refinery for the periods indicated:

	For the year ended 31 December	
	2011	**2010**
Crude oil export sales (*thousand of tonnes*)	5,758	6,860
Average price per tonne of crude oil export sales (*KZT*)	113,857	81,131
Crude oil sales to KMG RM (*thousands of tonnes*)	1,898	1,783
Average price per tonne of crude oil sales to KMG RM (*KZT*)	27,858	22,830

Total volumes of KMG EP's exports of crude oil through KMG RM under the Agency Agreement decreased to 5,758 thousand tonnes for the year ended 31 December 2011 compared to 6,860 thousand tonnes for the year ended 31 December 2010.

Total volumes of KMG EP's domestic sales of crude oil through KMG RM under the Relationship Agreement were 1.9 million tonnes for the year ended 31 December 2011 and 1.8 million tonnes for the year ended 31 December 2010, reflecting a decrease of 5.6%. This increase was principally due to the increased demand for crude oil from the Atyrau Refinery. Under the Relationship Agreement, KMP EP has a quota of minimum sales required to be provided to the Atyrau Refinery. In 2011 and 2010, the Atyrau Refinery did not request its quota of minimum sales.

The following table sets forth certain information regarding the Company's refined oil products sales, where the Company is a principal and excludes tolling volumes and sales, for the periods indicated:

	For the year ended 31 December	
	2011	**2010**
Refined oil products sales (*KZT billions*)	1,873.6	1,407.1
Refined oil products volumes sold (*thousand of tonnes*)	13,408	12,245
Average price per tonne of refined oil products (*KZT*)	139,738	114,915

Total revenue from the Company's refined oil products sales for the year ended 31 December 2011 increased by KZT 466.5 billion, or 33.2%, to KZT 1,873.6 billion compared to KZT 1,407.1 billion for the year ended 31 December 2010. This increase in the Company's refined oil products sales was primarily due to a 21.6% increase in the average price per tonne of refined oil products over the period, as well as a 9.5% increase in volumes of crude oil sold.

The following table sets forth certain information regarding Rompetrol's refined oil products sales for the periods indicated:

	For the year ended 31 December	
	2011	**2010**
Refined oil products sales (*KZT billions*)	555.8	424.0
Refined oil products volumes sold (*thousand tonnes*)	4,794	4,338
Average price per tonne of refined oil products (*KZT*)	116,597	98,703

For the year ended 31 December 2011, Rompetrol's refined oil product sales increased by 31.1% to KZT 555.8 billion compared to KZT 424 billion for the year ended 31 December 2010. This increase in Rompetrol's refined oil products sales primarily reflected higher prices for refined oil products sold by Rompetrol in the European market during 2011.

Transportation Fees

For the year ended 31 December 2011, transportation fees were KZT 224.0 billion compared to KZT 261.9 billion for the year ended 31 December 2010, reflecting a decrease of KZT 37.9 billion, or 14.5%. This decrease was primarily attributable to the lower volumes of natural gas transported through the natural gas transportation system operated by ICA, which were, in turn, attributable to the terms of the new ship-or-pay contracts entered into between ICA and Gazprom in January 2011. See "*Business—Transport—Transportation and Storage of Gas—Gas Transportation Volumes*".

The Company's transportation revenue includes payments made in lieu of shipments under ship-or-pay contracts between the Company and certain of its customers, which did not transport all of their agreed volumes, although the Company does not incur any related operating expenses.

Gas Transportation Revenue

The following table sets forth certain information regarding ICA's transportation revenue for the periods indicated:

	For the year ended 31 December	
	2011	**2010**
	(KZT billions)	
Transportation services:		
Central Asia Gas (transit)	54.0	103.0
Russian gas (transit)	20.1	15.4
Kazakhstan gas (to outside of the country)	15.5	13.8
Kazakhstan gas (within the country)	4.3	2.8
Kyrgyzstan gas (transit)	0.3	0.2
Total gas transportation revenue[(1)]	**94.2**	**135.2**

Note:
(1) Does not include intragroup eliminations.

Gas transportation revenue decreased by 30.3% for the year ended 31 December 2011 compared to the year ended 31 December 2010. This decrease in gas transportation fees was primarily attributable to the terms of the new ship-or-pay contracts entered into between ICA and Gazprom in January 2011. See "*Business—Transport—Transportation and Storage of Gas—Gas Transportation Volumes*".

Oil Transportation Revenue

The following table sets forth certain information regarding KTO's crude oil transportation revenue for the periods indicated:

	For the year ended 31 December	
	2011	**2010**
	(KZT billions)	
KTO Pipelines:		
Western Branch:		
UAS pipeline	53.6	55.7
Other Western Branch pipelines transport to:		
Atyrau Refinery	3.8	3.7
Aktau seaport	5.3	7.5
CPC Pipeline	4.4	5.7
Eastern Branch pipelines transport to:		
Atasu-Alashankou pipeline	25.2	24.5
Shymkent Refinery	7.3	6.9
Pavlodar Refinery	2.2	1.5
Other fees[(1)]	7.8	3.9
Total crude oil transportation revenue[(2)]	**109.6**	**109.4**

Notes:
(1) Includes fees for providing loading and unloading services at railway stations and seaports.
(2) Before elimination of intragroup fees.

Crude oil transportation revenue increased by 0.2% for the year ended 31 December 2011 compared to 2010. This increase was primarily attributable to the 3.2% increase in oil transportation volumes through KTO's pipeline system in 2011.

Sales of Gas Products

For the year ended 31 December 2011, sales of gas and gas products were KZT 192.2 billion compared to KZT 158.1 billion for the year ended 31 December 2010, reflecting an increase of KZT 34.1 billion, or 21.6%. This increase was primarily due to the increase in the average price of gas in 2011 compared to 2010.

Other Revenue

For the year ended 31 December 2011, other revenue was KZT 155.9 billion compared to KZT 73.6 billion for the year ended 31 December 2010, reflecting an increase of KZT 82.3 billion, or 111.8%, This increase was primarily attributable to the impact of positive exchange rate differences, as well as the sale of certain of the Company's non-core assets.

Cost of Sales

The following table sets forth certain information regarding the Company's cost of sales for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2011[1]	2010	2010 and 2011
	(KZT billions)		
Materials and supplies	1,334.3	981.0	36.0
Payroll	157.3	121.8	29.1
Depreciation, depletion and amortisation	118.7	102.5	15.8
Mineral extraction tax	78.7	70.9	11.0
Repair and maintenance	46.3	42.5	8.9
Electricity	35.6	32.1	10.9
Other taxes	10.0	10.2	(2.0)
Other	55.2	48.0	15.0
Total	**1,836.1**	**1409.0**	**30.3**

Note:

(1) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

For the year ended 31 December 2011, cost of sales was KZT 1,836.1 billion compared to KZT 1,409.0 billion for the year ended 31 December 2010, reflecting an increase of KZT 427.1 billion or 30.3% This increase was primarily attributable to a KZT 353.3 billion, or 36.0%, increase in materials and supplies, as well as a KZT 35.5 billion, or 29.1%, increase in payroll.

The increase in materials and supplies costs to KZT 1,334.3 billion for the year ended 31 December 2011 compared to KZT 981.0 billion for the year ended 31 December 2010 was primarily attributable to the purchase of such third-party crude oil at higher crude oil prices, as well as the general increase in prices for raw materials (particularly, the price of crude oil, as KMG RM purchases certain amounts of crude oil from third parties to supply its refineries).

The increase in payroll to KZT 157.3 billion for the year ended 31 December 2011 compared to KZT 121.8 billion for the year ended 31 December 2010 was primarily a result of the increase in the number of employees across the Company and its subsidiaries, which was primarily attributable to the acquisition of ANS in June 2011, as well as the general increase in wages due to the annual adjustment for inflation.

The increase in the Company's depreciation, depletion and amortisation expense to KZT 118.7 billion for the year ended 31 December 2011 compared to KZT 102.5 billion for the year ended 31 December 2010 was primarily due to the general increase in the balance of fixed assets in 2011.

The cost to the Company of the mineral extraction tax was KZT 78.7 billion for the year ended 31 December 2011 compared to KZT 70.9 billion for the year ended 31 December 2010, reflecting an increase of KZT 7.8 billion, or 11.0%. This increase primarily reflects the higher average prices of crude oil and refined oil products as the tax is calculated as a percentage of sales. See "*—Main Factors Affecting Results of Operations and Liquidity—Taxation—Mineral Extraction Tax/Royalty Regime*".

Gross Profit

As a result of the foregoing, the Company's gross profit increased by KZT 99.3 billion, or 14.4%, to KZT 789.2 billion for the year ended 31 December 2011 from KZT 689.9 billion for the year ended 31 December 2010.

General and Administrative Expenses

The following table sets forth certain information regarding the Company's general administrative expenses for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2011[1]	2010	2010 and 2011
	(KZT billions)		
Payroll	54.0	50.8	6.3
Charitable donations	17.3	12.0	44.2
Depreciation and amortisation	16.2	15.5	4.5
Fines and penalties	13.2	4.7	180.9
Taxes other than on income	11.9	8.0	48.8
Consulting services	11.8	10.8	9.3
Allowance for impairment of financial assets	3.7	13.1	(71.8)
Obsolete inventory expenses/(recovery)[2].	—	(0.8)	100
Other[2]	36.8	25.0	47.2
Total	**164.9**	**139.1**	**18.5**

Notes:

(1) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

(2) The other general and administrative expenses are comprised of travel, communication, representative offices, rental, security, bank services expenses and fines.

For the year ended 31 December 2011, general and administrative expenses were KZT 164.9 billion, as compared to KZT 139.1 billion for the year ended 31 December 2010, reflecting an increase of KZT 25.8 billion, or 18.5% This increase was primarily attributable to a KZT 8.5 billion, or 180.9%, increase in fines and penalties and a KZT 11.9 billion, or 47.2%, increase in other general and administrative expenses. This increase was partially offset by a KZT 9.4 billion, or 71.8%, decrease in allowances for impairment of financial assets.

The increase in fines and penalties to KZT 13.2 billion for the year ended 31 December 2011 compared to KZT 4.7 billion for the year ended 31 December 2010 was primarily attributable to the accrual by KMG EP of KZT 7.7 billion in respect of tax claims relating to 2004 and 2005 following the decision of the Supreme Court in April 2011, as well as other penalties incurred in relation to export duty payments and environmental pollution.

The increase in other expenses to KZT 36.8 billion for the year ended 31 December 2011 compared to KZT 25.0 billion for the year ended 31 December 2010 was primarily attributable to increases in costs of services and materials.

The increase in payroll expenses to KZT 54.0 billion for the year ended 31 December 2011 from KZT 50.8 billion for the year ended 31 December 2010, reflecting an increase of KZT 3.2 billion, or 6.3%, was primarily attributable to the annual adjustment for inflation, as well as an increase in the number of employees.

The increase in charitable donations by KZT 5.3 million, or 44.2%, to KZT 17.3 billion for the year ended 31 December 2011 compared to KZT 12.0 billion for the year ended 31 December 2010, was primarily attributable to the Company's increased charitable activities, as well as amounts provided by KMG EP to several social funds.

The decrease in allowance for impairment of financial assets by KZT 9.4 billion, or 71.8%, to KZT 3.7 billion for the year ended 31 December 2011 compared to KZT 13.1 billion for the year ended 31 December 2010, was primarily attributable to the decrease in the impairment of receivables of the Company's subsidiaries, as a result of ordinary course activities.

Transportation and Selling Expenses

The following table sets forth certain information regarding the Company's transportation and selling expenses during the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2011	2010	2010 and 2011
	(KZT billions)		
Rent tax on export of crude oil	149.8	98.0	52.9
Transportation	101.5	84.9	19.6
Customs duty	51.7	7.5	589.3
Payroll	17.1	16.5	3.6
Depreciation and amortisation	11.6	13.2	(12.1)
Other	19.1	18.6	2.7
Total	**350.7**	**238.7**	**46.9**

For the year ended 31 December 2011, transportation and selling expenses were KZT 350.7 billion compared to KZT 238.7 billion for the year ended 31 December 2011, reflecting an increase of KZT 112.0 billion, or 46.9%. This increase was primarily attributable to a KZT 51.8 billion, or 52.9%, increase in rent tax paid on the export of crude oil, a KZT 44.2 billion, or 589.3%, increase in customs duty and a KZT 16.6 billion, or 19.6%, increase in transportation expenses.

The Company paid rent tax of KZT 149.8 billion and customs duty of KZT 51.7 billion for the year ended 31 December 2011 compared to rent tax of KZT 98.0 billion and customs duty of KZT 7.5 billion for the year ended 31 December 2010. The increase in rent tax primarily relates to increased crude oil prices. The increase in customs duty was primarily due to the payment in 2011 of expenses in relation to the claim for underpaid export customs duty in January 2009.

Impairment of Goodwill

For the year ended 31 December 2011, the Company recorded KZT 2.4 billion impairment of goodwill compared to no impairment of goodwill for the year ended 31 December 2010. The 2011 impairment of goodwill principally related to the acquisition of the Batumi Oil Terminal and the Batumi Sea Port.

Impairment of Property, Plant and Equipment and Other Non-Current Assets

For the year ended 31 December 2011 the Company recorded KZT 45.5 billion impairment of property, plant and equipment and other non-current assets compared to KZT 10.8 billion for the year ended 31 December 2010, reflecting an increase of KZT 34.7 billion, or 321.3%. This increase was primarily attributable to the impairment losses on property, plant and equipment recognised by KTO in respect of the Batumi Oil Terminal and Batumi Sea Port, as well as impairment losses recognised by KTG in respect of the suspension of the construction of warehouses in 2011.

Gain/(Loss) on Disposal of Property, Plant and Equipment

For the year ended 31 December 2011, the Company recorded a net gain on disposal of property, plant and equipment of KZT 3.3 billion compared to a net loss of KZT 3.3 billion for the year ended 31 December 2010. The net gain for the year ended 31 December 2011 was primarily attributable to dispositions of property, plant and equipment made in the ordinary course of business, while the net loss in 2010 was largely attributable to the losses on dispositions, in the ordinary course, of property, plant and equipment. See "*Business—Exploration and Production—Exploration Projects—Significant Exploration Projects of the Company*".

Other Operating Income

For the year ended 31 December 2011, the Company recorded KZT 15.4 billion of other operating income compared to KZT 4.2 billion for the year ended 31 December 2010, reflecting an increase of KZT 11.2 billion, or 266.7%. This increase was primarily attributable to income received from the disposal of certain of the Company's non-core assets.

Other Operating Expenses

For the year ended 31 December 2011, the Company recorded KZT 11.4 billion of other operating expenses compared to KZT 16.0 billion for the year ended 31 December 2010, reflecting a decrease of KZT 4.6 billion, or 28.8%. This decrease was primarily attributable to the Company's continuing cost reduction programme.

Net foreign exchange loss

For the year ended 31 December 2011, the Company recorded KZT 8.8 billion of net foreign exchange loss compared to KZT 5.7 billion for the year ended 31 December 2010, reflecting an increase of KZT 3.1 billion, or 54.4%. This increase was primarily attributable to the movement of the Tenge against the U.S. Dollar.

Finance Income

For the year ended 31 December 2011, finance income was KZT 45.6 billion compared to KZT 58.7 billion for the year ended 31 December 2010, reflecting a decrease of KZT 13.1 billion, or 22.3%. This decrease was primarily attributable to a KZT 22.2 billion, or 41.7%, decrease in interest income on bank deposits and bonds, as a result of lower average balances of bank deposits in 2011.

Finance Cost

For the year ended 31 December 2011, the Company recorded finance cost of KZT 171.2 billion compared to KZT 152.6 billion for the year ended 31 December 2010, reflecting an increase of KZT 18.6 billion, or 12.2%. This increase resulted primarily from a KZT 12.3 billion, or 8.7%, increase in interest on loans and debt securities issued and a KZT 6.1 billion, or 1,220.0%, increase in net loss on derivatives. The Company had total borrowings of KZT 1,917.8 billion as at 31 December 2011 compared to KZT 1,957.6 billion as at 31 December 2010. See "*—Debt Obligations*". In 2011, the Company wrote off discounted borrowings to finance cost in the amount of KZT 5,885.6 billion and recognised a net loss on derivatives of KZT 6,552.3 billion.

Share of Profit of Joint Ventures and Associates

The following table sets forth certain information regarding the income (loss) of the Company's jointly-controlled entities and associates for the periods indicated:

	For the year ended 31 December		**% change between the years ended 31 December**
	2011	**2010**	**2010 and 2011**
	(KZT billions)		
of the Company:			
TCO	303.4	192.9	57.3
MIBV	80.9	23.7	241.4
KazRosGas	39.4	46.4	(15.1)
Kazakhoil Aktobe	15.5	8.0	93.8
Other[(1)]	6.7	1.0	570.0
of KMG EP:			
PKI	48.6	47.7	1.9
Kazgermunai	40.1	23.5	70.6
Total	**534.6**	**343.2**	**55.8**

Note:

(1) Includes (among others) Valsera Holdings B.V., which indirectly owns the Shymkent Refinery through its 99.43% interest in PetroKazakhstan Oil Products LLP, MunayTas and Kazakhturkmunay.

For the year ended 31 December 2011, the share of profit from joint ventures and associates increased by KZT 191.4 billion, or 55.8%, to KZT 534.6 billion from KZT 343.2 billion for the year ended 31 December 2010. This increase was primarily due to a KZT 110.5 billion, or 57.3%, increase in the Company's share of profit from TCO, as well as a KZT 57.2 billion, or 241.4%, increase in the Company's share of profit from MIBV in 2011 compared to 2010.

The increase in the Company's share of profit from TCO for the year ended 31 December 2011 compared to the year ended 31 December 2010 was primarily due to the increase in the average price of crude oil in 2011. The increase in the Company's share of profit from MIBV, for the year ended 31 December 2011 compared to the year ended 31 December

2010 was primarily due to the increase in the average price of crude oil in 2011 and the 5% increase in MMG's production of crude oil and gas.

The decrease in the Company's share of profit from KazRosGas by KZT 7.0 million, or 15.1%, for the year ended 31 December 2011 compared to the year ended 31 December 2010 was primarily due to a decrease in the volume of export gas sales. The increase in the Company's share of profit from Kazakhoil Aktobe by KZT 7.5 billion, or 93.8%, for the year ended 31 December 2011 compared to the year ended 31 December 2010 was primarily due to the increase in the average price of crude oil. The increase in the Company's share of profit from PKI by KZT 0.9 billion, or 1.8%, for the year ended 31 December 2011 compared to the year ended 31 December 2010 was primarily due to the increase in the average price of crude oil and the consolidation of Turgai Petroleum in September 2010. The increase in the Company's share of profit from Kazgermunai by KZT 16.6 billion, or 70.5%, for the year ended 31 December 2011 compared to the year ended 31 December 2010 was primarily due to the increase in the average price of crude oil and the increase in the volume of export sales in 2011 compared to 2010.

Income Tax Expenses

The Company's effective tax rate decreased to 24.2% for the year ended 31 December 2011 compared to 25.0% for the year ended 31 December 2010, as a result of lower withholding tax on dividends and interest income. For the year ended 31 December 2011, the Company's excess profit tax rate on profit before income tax of KZT 633.2 billion was 3.3% compared to excess profit tax rate on profit before income tax of KZT 529.7 billion of 2.3% for the year ended 31 December 2010. See "*—Main Factors Affecting Results of Operations and Liquidity—Taxation*".

For the year ended 31 December 2011, the Company recorded income tax expenses of KZT 153.1 billion compared to KZT 132.7 billion for the year ended 31 December 2010, an increase of KZT 20.4 billion, or 15.4% This increase was primarily due to a KZT 15.2 billion, or 21.6%, increase in current corporate income tax and a KZT 8.7 billion, or 71.9% increase in current excess profit tax. This increase was partially offset by a deferred corporate income tax benefit of KZT 1.0 billion.

Profit for the Year

As a result of the foregoing, the Company's profit for the year increased by KZT 81.7 billion, or 20.6%, to KZT 478.7 billion for the year ended 31 December 2011 from KZT 397.0 billion for the year ended 31 December 2010.

The Company's profit for 2011 and 2010 represented 18.2% and 18.9%, respectively, of the Company's revenue for such years.

Operating Segments

Overview

For financial reporting purposes, the activities of the Company are divided into five operating segments. The Company's principal operating segments are: 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 activities of the Company are aggregated and presented as the "other" operating segment due to their relative insignificance. The operating segments of the Company comprise the following activities:

- ***Exploration and Production of Oil and Gas***. The Company is engaged in oil and gas exploration and production activities at locations in Kazakhstan. The results of operations of these activities are recorded as part of the exploration and production of oil and gas operating segment.

- ***Transportation of Oil***. The Company partially owns and solely operates the largest crude oil pipeline network in Kazakhstan in terms of length and throughput capacity. The results of operations of these activities are recorded as part of the transportation of oil and gas segment.

- ***Transportation of Gas***. The Company owns and operates Kazakhstan's principal gas pipeline systems, including its two principal networks. The results of operations of these activities are recorded as part of the transportation of gas segment.

- ***Refining and Trading of Crude Oil and Refined Products***. The Company is active in the trading of both the crude oil it produces as well as refined products, including gasoline, jet fuel, diesel and fuel oil. The Company also owns and operates an expanding network of gasoline stations in Kazakhstan and in Romania. The results of operations of these activities are recorded as part of the refining and trading of crude oil and refined products operating segment.

- ***Other.*** The "other" segment is comprised of service subsidiaries of the Company, which provide heating and power, air travel, security and other oil and gas related services.

The following tables set forth certain information regarding the revenue, gross profit and net profit of the operating segments of the Company for the periods indicated:

	For the year ended 31 December								
Segment	**2012**	**2011(1)**	**2010**	**2012**	**2011(1)**	**2010**	**2012**	**2011(1)**	**2010**
	Total revenue			**Gross profit for the year**			**Net profit for the year**		
	(in KZT billions)								
Exploration and production of oil and gas	853.7	721.2	609.2	585.9	486.0	395.4	300.6	284.2	250.3
Transportation of oil	163.9	160.3	161.1	54.1	56.7	63.4	41.8	29.2	45.1
Transportation of gas	262.2	251.7	260.8	64.1	79.6	119.4	(73.7)	71.5	103.3
Refining and trading of crude oil and refined oil products	2,674.9	2,201.8	1,691.6	183.8	186.3	135.4	(23.2)	(35.7)	(80.9)
Other	108.5	78.8	37.6	17.0	17.0	13.3	169.6	202.0	156.1
Elimination	(1,102.7)	(788.6)	(661.3)	(35.3)	(36.4)	(37.0)	1.6	(72.5)	(76.9)
Total	**2,960.4**	**2,625.3**	**2,098.9**	**869.6**	**789.2**	**689.9**	**413.4**	**478.7**	**397.0**

Notes:

(1) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

Exploration and Production of Oil and Gas

The Company's exploration and production of oil and gas segment is the second largest of the Company's segments in terms of revenue before elimination and the Company's most profitable segment. Of the segment's total revenue, 1.2%, 1.5% and 2.6% were derived from external customers and 98.8%, 98.5% and 97.4% from internal customers for the years ended 31 December 2012, 2011 and 2010, respectively. KMG EP, which represented 93.4%, 99.8% and 99.8% of the Company's total oil production volumes for the years ended 31 December 2012, 2011 and 2010, respectively, sells a portion of its oil production to external customers. In addition to external sales, prior to 1 May 2012, KMG EP sold a significant portion of its crude oil production for export through KMG RM under the Agency Agreement. Such sales were made at market prices for onsale to external customers. KMG EP also sells a part of its production internally to KMG RM at a significant discount as discussed below under "*—Refining and Trading of Crude Oil and Refined Oil Products*" below.

KMG EP's revenue includes revenue from sales of crude oil to KMG RM for refining, which revenue is eliminated when consolidated. Under the Relationship Agreement, KMG EP is obligated to sell certain amounts of crude oil to KMG RM, which KMG RM then refines at the Atyrau Refinery to produce refined oil products for sale on Kazakhstan's domestic market. For the years 2006 to 2010, KMG EP was obligated to sell up to 1.9 million tonnes of crude oil per year, if so requested by the Atyrau Refinery. For 2011 to 2015, the amount which KMG EP is obligated to provide under the Relationship Agreement is set out in the Company's budget for that year. In each of 2013 and 2014, KMG EP is obligated to provide up to 1.9 million tonnes of crude oil, if so requested by the Atyrau Refinery. The price of the crude oil under the Relationship Agreement is set at cost, including transportation charges, plus a 3% margin. Based on this formula, the average domestic price of crude oil sold under the Relationship Agreement was KZT 37,906, KZT 27,858 and KZT 22,830 per tonne for the years ended 31 December 2012, 2011 and 2010, respectively. The volume of domestic sales under the Relationship Agreement was 1.6 million tonnes, 1.9 million tonnes and 1.8 million tonnes for the years ended 31 December 2012, 2011 and 2010, respectively. The decrease in the volumes of domestic sales for the year ended 31 December 2012 compared to the year ended 31 December 2011 was primarily attributable to the impact of the strike at the Ozenmunaigaz production unit in May to August 2011 on the Company's production in 2012. The increase in the volumes of domestic sales for the year ended 31 December 2011 compared to the year ended 31 December 2010 was primarily attributable to the higher demand for delivery of crude oil from the Atyrau Refinery pursuant to the Relationship Agreement. KMG EP sells its crude oil for export (other than crude oil sold under the annual intra Company purchase agreement discussed below) to KMG RM at Platt's index quotations adjusted for freight, insurance and quality differentials. The average price per tonne calculated using this formula was KZT 122,103, KZT 113,857 and KZT 81,131 for the years ended 31 December 2012, 2011and 2010, respectively. The volume of such sales was 6.1 million tonnes, 5.8 million tonnes and 6.9 million tonnes for the years ended 31 December 2012, 2011 and 2010, respectively.

Revenue before elimination attributable to this segment increased by 18.4% to KZT 853.7 billion for the year ended 31 December 2012 compared to KZT 721.2 billion for the year ended 31 December 2011, while gross profit increased by 20.6% to KZT 585.9 billion for the year ended 31 December 2012 compared to KZT 486.0 billion for the year ended

31 December 2011. The increases in revenue before elimination and in gross profit for the year ended 31 December 2012 compared to 2011 were primarily attributable to higher global oil prices in 2012.

Revenue before elimination attributable to this segment increased by 18.4% to KZT 721.2 billion for the year ended 31 December 2011 compared to KZT 609.2 billion for the year ended 31 December 2010, while gross profit increased by 22.9% to KZT 486.0 billion for the year ended 31 December 2011 compared to KZT 395.4 billion for the year ended 31 December 2010. The increases in revenue before elimination and in gross profit for the year ended 31 December 2012 compared to 2011 were primarily attributable to higher global oil prices in 2011.

Net profit attributable to the exploration and production of oil and gas segment increased by 5.8% to KZT 300.6 billion for the year ended 31 December 2012 compared to KZT 284.2 billion for the year ended 31 December 2011, primarily as a result of higher global oil prices over the year, which was partially offset by a KZT 77.0 billion impairment charge in 2012 (as compared to KZT 17.0 billion charge in 2011) due principally to the continued effects in 2012 of the strike at the Ozenmunaigaz production unit, which commenced in May 2011 and ended in August 2011, as well as a number of power-cuts. See "*Business—Employees*" and "*Risk Factors—Risks Related to the Company's Business—Labour unrest may materially adversely affect the Company's business*".

Net profit attributable to the exploration and production of oil and gas segment increased by 13.5% to KZT 284.2 billion for the year ended 31 December 2011 compared to KZT 250.3 billion for the year ended 31 December 2010, primarily as a result of higher global oil prices over the year.

Transportation of Oil

The transportation of oil segment is the fourth of the Company's segments in terms of revenue. The Company, through KTO, generates oil transportation revenue from tariffs it charges to its customers under long-term contracts for the transportation of crude oil through the pipeline systems KTO operates. Of the total revenue of the segment, 84.8%, 84.4% and 84.2% were derived from external customers and 15.2%, 15.6% and 15.8% from internal customers for the years ended 31 December 2012, 2011 and 2010, respectively.

The revenue before elimination attributable to this segment increased by 2.2% to KZT 163.9 billion for the year ended 31 December 2012 compared to KZT 160.3 billion for the year ended 31 December 2011, primarily as a result of higher transportation tariffs with effect from December 2012, while gross profit decreased by 4.6% to KZT 54.1 billion for the year ended 31 December 2012 compared to KZT 56.7 billion for the year ended 31 December 2011. This decrease was primarily attributable to the increase in the costs of goods and services sold.

The revenue before elimination attributable to this segment decreased by 0.5% to KZT 160.3 billion for the year ended 31 December 2011 compared to KZT 161.1 billion for the year ended 31 December 2010, while gross profit decreased by 10.6% to KZT 56.7 billion for the year ended 31 December 2011 compared to KZT 63.4 billion for the year ended 31 December 2010. These decreases were primarily attributable to the increase in the costs of goods and services sold.

Net profit attributable to the transportation of oil segment increased by 43.2% to KZT 41.8 billion for the year ended 31 December 2012 compared to KZT 29.2 billion for the year ended 31 December 2011, primarily as a result of a KZT 13.8 billion charge recognised by the Company in 2011 (as compared to a KZT 0.9 billion charge in 2012) as a result of the impairment at Batumi Industrial Holdings Limited ("**BIHL**"), a wholly-owned subsidiary of KTO, which was caused by the decrease of forecasted future transhipment volumes at the Batumi Sea Port and Batumi Oil Terminal.

Net profit attributable to the transportation of oil segment decreased by 35.3% to KZT 29.2 billion for the year ended 31 December 2011 compared to KZT 45.1 billion for the year ended 31 December 2010, primarily as a result of the impairment charge in 2011 described above.

Transportation of Gas

The transportation of gas segment is the third largest of the Company's segments in terms of revenue. The Company's gas transportation revenue is generated from tariffs KTG charges to its customers under long-term contracts for the transportation of natural gas through the pipeline system it operates. The Company's transportation revenue also includes payments made in lieu of shipments under ship-or-pay contracts between the Company and certain of its customers, which did not transport all of their agreed volumes. Such payments generate revenue for KTG without offsetting operating costs to the extent of the volumes paid for but not transported. Of the total revenue of the segment nearly 100% is derived from external customers.

The revenue before elimination attributable to this segment increased by 4.2% to KZT 262.2 billion for the year ended 31 December 2012 compared to KZT 251.7 billion for the year ended 31 December 2011, while gross profit decreased by

19.5% to KZT 64.1 billion for the year ended 31 December 2012 compared to KZT 79.6 billion for the year ended 31 December 2011. These decreases were primarily attributable to the increase in the cost of goods and services sold.

The revenue before elimination attributable to this segment decreased by 3.5% to KZT 251.7 billion for the year ended 31 December 2011 compared to KZT 260.8 billion for the year ended 31 December 2010, while gross profit decreased by 33.3% to KZT 79.6 billion for the year ended 31 December 2011 compared to KZT 119.4 billion for the year ended 31 December 2010. These decreases were primarily attributable to lower volumes of natural gas transported through the natural gas transportation system operated by ICA, which were, in turn, attributable to the terms of the new ship-or-pay contracts entered into between ICA and Gazprom in January 2011.

Net loss attributable to the transportation of gas segment was KZT 73.7 billion for the year ended 31 December 2012, primarily as a result of a dividend paid to the Company by KazRosGas in the amount of KZT 143 billion. Net profit attributable to the transportation of gas segment was KZT 71.5 billion for the year ended 31 December 2011.

Net profit attributable to the transportation of gas segment decreased by 30.8% to KZT 71.5 billion for the year ended 31 December 2011 compared to KZT 103.3 billion for the year ended 31 December 2010, primarily as a result of the lower volumes of natural gas transported through the natural gas transportation system operated by ICA. See "*—Results of Operations for the year ended 31 December 2011, as compared to the year ended 31 December 2010—Revenue—Transportation Fees*".

Refining and Trading of Crude Oil and Refined Oil products

The refining and trading of crude oil and refined oil products is the largest of the Company's segments in terms of revenue before elimination, although it has not been profitable in recent years. Of the segment's total revenue, 92.0%, 98.8% and 98.7% were derived from external customers (*i.e.*, non-affiliates and joint ventures) and 8.0%, 1.2% and 1.3% from internal customers (*i.e.*, the Company and its subsidiaries) for the periods ended 31 December 2012, 31 December 2011 and 31 December 2010, respectively.

Although a portion of the segment's revenue is derived from sales of refined oil products to domestic customers, more than half of the segment's revenue (55.4% for the year ended 31 December 2012, 46.3% for the year ended 31 December 2011 and 44.7% for the year ended 31 December 2010) is derived from sales of refined oil products by Rompetrol in the European markets at global prices. A significant portion of the oil that was refined for domestic sales in 2012 was purchased by KMG RM from KMG EP at below market prices. See "*—Results of Operations for the year ended 31 December 2012, as compared to the year ended 31 December 2011—Revenue—Sales of Refined Oil Products and Crude Oil*".

A relatively small portion of the revenue of the segment in 2012 was derived from the provision of refining services to third parties, namely AktobeMunayGas and Kazakhoil Aktobe LLP. Since a significant portion of the revenue of the segment is based on a minimal mark-up on the final refined product prices over the prices paid for crude oil purchased from KMG EP, the gross profit margins of this segment are lower than those of the exploration and production of oil and gas segment. In addition, the net losses at Rompetrol in 2012, 2011 and 2010 adversely affected the performance of this segment.

The gross profit margin of the refining and trading of crude oil and refined oil products segment was 6.9% for the year ended 31 December 2012 compared to 8.5% for the year ended 31 December 2011 and 8.0% for the year ended 31 December 2010.

Revenue before elimination attributable to this segment increased by 21.5% to KZT 2,674.9 billion for the year ended 31 December 2012 compared to KZT 2,201.8 billion for the year ended 31 December 2011. This increase was primarily attributable to the increase in the volumes of refined oil products sold as a result of increased production volumes at the Pavlodar Refinery and the Petromidia Refinery, which were, in turn, due to the impact of the modernisation and expansion programmes at such refineries. This increase was also attributable to the increase in the average price per tonne of refined oil products over the period.

Revenue before elimination attributable to this segment increased by 30.2% to KZT 2,201.8 billion for the year ended 31 December 2011 compared to KZT 1,691.5 billion for the year ended 31 December 2010. This increase was primarily attributable to the increase in the average price per tonne of refined oil products, as well as the increase in the average price per tonne of refined oil products over the period.

Gross profit attributable to this segment decreased by 1.3% to KZT 183.8 billion for the year ended 31 December 2012 compared to KZT 186.3 billion for the year ended 31 December 2011. This decrease was primarily attributable to the increase in the cost of goods and services sold.

Gross profit attributable to this segment increased by 37.6% to KZT 186.3 billion for the year ended 31 December 2011 compared to KZT 135.4 billion for the year ended 31 December 2010. This increase was primarily attributable to the increase in the average price per tonne of refined oil products.

Net loss attributable to the refining and trading of crude oil and refined oil products before elimination decreased by 35.0% to a net loss of KZT 23.2 billion for the year ended 31 December 2012 compared to a net loss of KZT 35.7 billion for the year ended 31 December 2011. This decrease was primarily a result of lower finance costs in 2012, as compared to 2011.

Net loss attributable to the refining and trading of crude oil and refined oil products before elimination decreased by 55.9% to a net loss of KZT 35.7 billion for the year ended 31 December 2011 compared to a net loss of KZT 80.9 billion for the year ended 31 December 2010. This decrease was primarily a result of improved results and increased tariffs imposed at the Pavlodar Refinery, the Atyrau Refinery and the Shymkent Refinery, as well as the increase in the average price per tonne of refined oil products.

Other

The "other" segment is comprised of service subsidiaries of the Company, which provide heating and power, air travel, security and other oil and gas related services. Of the segment's total revenue, 80.9%, 65.9% and 45.0% were derived from external customers and 19.1%, 34.1% and 55.0% from internal customers for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 respectively.

Revenue before elimination attributable to this segment increased by 37.7% to KZT 108.5 billion for the year ended 31 December 2012 compared to KZT 78.8 billion for the year ended 31 December 2011 due to an increase in revenues of ANS, which was consolidated for the full 12 months of 2012 compared to a portion of 2011 following the Company's acquisition of ANS in June 2011. Gross profit was KZT 17.0 billion for each of the years ended 31 December 2012 and 2011.

Revenue before elimination attributable to this segment increased by 109.6% to KZT 78.8 billion for the year ended 31 December 2011 compared to KZT 37.6 billion for the year ended 31 December 2010, while gross profit increased by 27.6% to KZT 17.0 billion for the year ended 31 December 2011 compared to KZT 13.3 billion for the year ended 31 December 2010. This increase in revenue of the "other" segment was attributable primarily to the acquisition of a 100% interest in ANS and consolidation of its revenues in 2011. This increase in gross profit of the "other" segment was primarily due to the increase in the revenue attributable to this segment in 2011.

Net profit attributable to the "other" segment decreased by 16.0% to KZT 169.6 billion for the year ended 31 December 2012 compared to KZT 202.0 billion for the year ended 31 December 2011, primarily as a result of a 75.0% decrease in finance income, which was, in turn, due to the decrease in interest income on bank deposits and bonds in 2012, reflecting the lower average balances of bank deposits in the later year. This decrease was also attributable to the decrease in interest income on loans provided and the decrease in other finance income.

Net profit attributable to the "other" segment increased by 29.3% to KZT 202.0 billion for the year ended 31 December 2011 compared to KZT 156.2 billion for the year ended 31 December 2010, primarily as a result of the increase in the levels of dividends received by the Company, mainly from TCO.

Liquidity and Capital Resources

Cash Flows

The following table sets forth certain information regarding the principal items of the statement of cash flows for the periods indicated:

	For the year ended 31 December			% change between the years ended 31 December	
	2012	2011[(1)]	2010	2011 and 2012	2010 and 2011
		(KZT billions)			
Net cash flows from operating activities	93.9	73.4	130.5	27.9	(43.8)
Net cash flows (used in)/from investing activities	(168.4)	3.3	(126.1)	(5,203)	102.6
Net cash flows (used in)/from financing activities	(93.9)	(137.4)	69.4	31.7	(298.0)

Notes:

(1) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

Net Cash Flows from Operating Activities

For the year ended 31 December 2012, net cash flows from operating activities were KZT 93.9 billion compared to KZT 73.4 billion for the year ended 31 December 2011, reflecting an increase of KZT 20.5 billion, or 27.9%. This increase was primarily attributable to a KZT 20.1 billion, or 6.0%, increase in cash generated from operations, mainly as a result of the increase in the price of crude oil in 2012.

For the year ended 31 December 2011, net cash flows from operating activities were KZT 73.4 billion compared to KZT 130.5 billion for the year ended 31 December 2010, reflecting a decrease of KZT 57.1 billion, or 43.8%. This decrease was primarily attributable to a KZT 32.1 billion, or 8.7%, decrease in cash generated from operations, a KZT 17.2 billion, or 35.2%, decrease in interest received and a KZT 1.7 billion, or 1.0%, increase in income taxes paid.

Net Cash Flows From / (Used in) Investing Activities

Net cash flows from/(used in) investing activities principally reflect acquisitions and dispositions of subsidiaries, joint ventures and associates, purchases and sales of property, plant and equipment and intangible property, distributions received from jointly-controlled entities and associates and placements of time deposits.

For the year ended 31 December 2012, net cash flows used in investing activities were KZT 168.4 billion compared to net cash flows from investing activities of KZT 3.3 billion for the year ended 31 December 2011. The change in net cash flows (used in)/from investing activities in 2012 primarily reflected KZT 179.2 billion of net cash used in the placement of bank deposits compared to KZT 145.8 billion in withdrawals of bank deposits in 2011, KZT 150.0 billion of cash used by the Company to pay the purchase price for a 5.0% interest in KPO in June 2012 (a further 5.0% interest in KPO was contributed to the Company by Samruk-Kazyna) and KZT 452.8 billion in cash used in the purchase of property, plant and equipment and intangible assets, which reflected a decrease of KZT 5.7 billion, or 1.2%, over the levels of cash used in the purchase of property, plant and equipment and intangible assets in 2011. The net cash flows used in investing activities in 2012 were partially offset by a KZT 98.6 billion, or 24.3%, increase in distributions received from joint ventures and associates in 2012 compared to 2011.

For the year ended 31 December 2011, net cash flows from investing activities were KZT 3.3 billion compared to net cash flows used in investing activities of KZT 126.1 billion for the year ended 31 December 2010. The change in net cash flows from/(used in) investing activities in 2011 primarily reflected a KZT 16.5 billion, or 12.8%, increase in net placement of bank deposits, the a 116.0 billion, or 40.1%, increase in distributions received from joint ventures and associates and the recognition of KZT 41.4 billion in cash in respect of the repayment by Samruk-Kazyna of a loan made to it by the Company in 2011. The net cash flows from investing activities in 2011 were partially offset by a KZT 94.7 billion, or 2,492.1%, increase in cash used in the acquisition of and contribution to joint ventures in 2011 compared to 2010.

Net Cash Flows (Used in) / from Financing Activities

For the year ended 31 December 2012, net cash flows used in financing activities were KZT 93.9 billion compared to KZT 137.4 billion for the year ended 31 December 2011, reflecting a decrease of KZT 43.5 billion, or 31.7% This

decrease was primarily attributable a KZT 278.6 billion, or 97.9%, increase in proceeds from borrowings and the recognition of KZT 27.3 billion in proceeds from the initial public offering of KTO, partially offset by a KZT 131.6 billion, or 38.5%, increase in repayments of borrowings and the recognition of a KZT 143.2 billion dividend paid to holders of non-controlling interests in 2012.

For the year ended 31 December 2011, net cash flows used in financing activities were KZT 137.4 billion compared to net cash flows from financing activities of KZT 69.4 billion for the year ended 31 December 2010. The change in net cash flows (used in)/from financing activities in 2011 primarily reflected a KZT 1,006.9 billion, or 78.0%, decrease in proceeds from borrowings due to the lower level of new borrowings, partially offset by a KZT 949.0 billion, or 73.5%, decrease in cash flows used in the repayment of borrowings in 2011 compared to 2010.

Deposits with Kazakhstan Banks

As at 31 December 2012, the Company reduced the levels of deposits held with Kazakhstan banks as compared to previous periods and had deposits of U.S.$4.5 billion (compared to U.S.$4.6 billion as at 31 December 2011 and U.S.$6.7 billion as at 31 December 2010) with Kazakhstan banks, of which U.S.$1.1 billion (compared to U.S.$0.6 billion as at 31 December 2011 and U.S.$1.8 billion as at 31 December 2010) was held with Kazkommertsbank, U.S.$2.2 billion (compared to U.S.$2.9 billion as at 31 December 2011 and U.S.$2.2 billion as at 31 December 2010) was held with Halyk Bank and nil (compared to U.S.$2.0 million as at 31 December 2011 and nil as at 31 December 2010) was held with BTA Bank. In September 2010, the Company applied (i) deposits at Halyk Bank to repay KZT 75.05 billion of the KZT 180.5 billion original principal amount of the NBK Loan, (ii) deposits at BTA Bank (in the amount of KZT 142 billion) and at Kazkommertsbank (in the amount of KZT 48 billion) to redeem the Company Bonds in the amount of KZT 190 billion, and (iii) deposits at BTA Bank (in the amount of KZT 142 billion) and Kazkommertsbank (in the amount of KZT 10 billion) to make the Loan to S-K. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company is exposed to the Kazakhstan banking sector.*"

Capital Expenditures

The following table sets forth certain information regarding the Company's total capital expenditures, by segment, including acquisitions through business combinations, for the periods indicated. The principal acquisitions of the Company during the years ended 31 December 2012, 2011 and 2010 are described under "*—Main Factors Affecting Result of Operations and Liquidity—Acquisitions*".

	For the year ended 31 December			% change between the years ended 31 December	
	2012	2011	2010	2011 and 2012	2010 and 2011
		(*KZT billions*)			
Exploration and production of oil and gas	546.6	272.7	268.3	100.4	1.6
Transportation of oil and gas	138.5	104.3	88.9	32.8	17.3
Refining and trading of crude oil and refined oil products	95.7	74.3	57.5	28.7	29.2
Other	59.8	51.5	26.9	16.1	91.4
Elimination	(2.4)	(3.8)	(1.8)	(36.8)	111.1
Total capital expenditures	**838.2**	**499.0**	**439.8**	**68.0**	**13.5**

For the year ended 31 December 2012, the Company's most significant capital expenditures included the Company's acquisition of a 10.0% interest in KPO (KZT 301.2 billion); exploration and development within the North Caspian Sea Project (KZT 158.9 billion); production support and volume increases at KMG EP capital expenditures (KZT 137.8 billion); modernisation of the refineries owned by KMG RM, including the construction of an aromatic hydrocarbons production complex and a deeper oil refining complex at the Atyrau Refinery (KZT 103.6 billion); upgrades to the KTG pipeline systems (KZT 7.7 billion); and upgrades to the KTO pipeline systems (KZT 20.4 billion).

For the year ended 31 December 2011, the Company's most significant capital expenditures included exploration and development within the North Caspian Sea Project (KZT 161.4 billion); KMG EP capital expenditures to facilitate production levels (KZT 100.9 billion); modernisation of the KMG RM refineries, including the construction of an aromatic hydrocarbons production complex at the Atyrau Refinery (KZT 48.2 billion); upgrades to the KTG pipeline systems (KZT 48.6 billion); upgrades to the KTO pipeline systems (KZT 50.3 billion); and reconstruction at the Petromidia Refinery (KZT 25.5 billion).

For the year ended 31 December 2010, the Company's most significant capital expenditures included exploration and development within the North Caspian Project (KZT 175.1 billion); KMG EP capital expenditures to facilitate production

levels (KZT 82.5 billion); modernisation of the KMG RM refineries, including the construction of an aromatic hydrocarbons production complex at the Atyrau Refinery (KZT 26.3 billion); upgrades to the KTG pipeline systems (KZT 53.4 billion); upgrades to the KTO pipeline systems (KZT 25.9 billion); and reconstruction at the Petromidia Refinery (KZT 27.4 billion).

The exploration and production of oil and gas segment represented 65.2%, 54.6%, and 60.0% of the capital expenditures of the Company for the years ended 31 December 2012, 2011 and 2010, respectively. Capital expenditures for exploration and production in 2012, 2011 and 2010 related mainly to offshore exploration projects and exploration and development within the North Caspian Project. In 2012, 2011 and 2010, the largest project of the exploration and production of oil and gas segment in terms of capital expenditures (excluding acquisitions) was the exploration and development of prospective fields within the North Caspian Project area. See "*Business—Exploration and Production—Exploration Projects—NCPC*".

The transportation of oil and gas segment represented 16.5%, 20.9% and 20.2% of the capital expenditures of the Company for the years ended 31 December 2012, 2011 and 2010, respectively. In 2012 and 2011, the largest projects of the transportation of oil and gas segment in terms of capital expenditures (excluding acquisitions) related to upgrades to the KTO pipeline systems. In 2010, the largest projects of the transportation of oil and gas segment in terms of capital expenditures (excluding acquisitions) related to upgrades to the KTG pipeline system.

The refining and trading of crude oil and refined oil products segment represented 11.4%, 14.9% and 13.1% of the capital expenditures of the Company for the years ended 31 December 2012, 2011 and 2010, respectively. Capital expenditures for this segment decreased in 2012 compared to 2011 principally as a result of delays in the construction of the deeper oil refining complex at the Atyrau Refinery. Capital expenditures for this segment increased in 2011 compared to 2010 principally as a result of the development of the construction of the aromatic hydrocarbons production complex at the Atyrau Refinery.

The other segment represented 7.1%, 10.3%, and 6.1% of the capital expenditures of the Company for the years ended 31 December 2012, 2011 and 2010, respectively.

In 2012, the most significant capital expenditures of joint ventures, included TCO (KZT 206.8 billion), AGP (KZT 110.4 billion) and CPC (KZT 202.3 billion). In 2011, the most significant capital expenditures of joint ventures, included CPC (114.4 billion), MMG (22.7 billion), AGP (63.4 billion) and TCO (106.6 billion). In 2010, the most significant capital expenditures of joint ventures, included the construction of the Asia Gas Pipeline (KZT 111.2 billion).

The following table sets forth the Company's budgeted expenditures for the years indicated:

	For the year ended 31 December				
	2013(E)	2014(E)	2015(E)	2016(E)	2017(E)
			(*KZT billions*)		
Exploration and production of oil and gas	416.3	333.7	329.1	310.4	293.4
Transportation of oil and gas	118.7	79.9	61.5	64.1	58.2
Refining and trading of crude oil and refined oil products	232.3	320.5	207.7	31.2	31.4
Other	29.7	30.3	15.8	11.1	2.3
Total capital expenditures	**797.0**	**764.4**	**614.1**	**416.8**	**385.3**

For the year ended 31 December 2013, the anticipated budgeted capital expenditures are KZT 797.0 billion. The Company's most significant capital expenditures budgeted for in 2013 include exploration and development within the North Caspian Sea Project (KZT 125.0 billion); KMG EP capital expenditures to facilitate production levels (KZT 176.1 billion); modernisation of the KMG RM refineries, including the construction of an aromatic hydrocarbons production complex and a deeper oil refining complex at the Atyrau Refinery (KZT 113.0 billion) and a reconstruction and modernisation project at the Pavlodar Refinery (KZT 62.1 billion); upgrades to the KTG pipeline systems (KZT 68.7 billion); and upgrades to the KTO pipeline systems (KZT 33.2 billion).

The Company plans to spend a total of KZT 1,862.6 billion (U.S.$12.4 billion) over the next five years on the following projects:

- Production support and volume increases at KMG EP (KZT 344.5 billion (U.S.$2.3 billion));

- Cash calls for Kashagan (KZT 120.3 billion (U.S.$0.8 billion), this amount is subject to increase in the event of potential delays in the Kashagan project.);

- Modernisation of the Atyrau Refinery (KZT 347.1 billion (U.S.$2.3 billion), including (i) KZT 74.3 billion (U.S.$0.5 billion) for the construction of the aromatic hydrocarbons production complex, and (ii) KZT 272.8 billion (U.S.$1.8 billion) for the deeper oil refining complex);

- Reconstruction of the Pavlodar Refinery (KZT 257.8 billion (U.S.$1.7 billion));

- Construction of the "West-North-Centre" gas pipeline (also known as the Astana gas pipeline) (KZT 208.1 billion (U.S.$1.4 billion)); the Company expects that KZT 195.1 billion of the capital expenditures relating to the construction of the "West-North-Centre" gas pipeline will be funded by way of an equity contribution from the State and the remaining KZT 13 billion will be funded from the Company's cash flows; and

- Various exploration projects of the Company (KZT 566.2 billion (U.S.$3.8 billion)).

In addition, the Company's joint ventures plan to spend a total of KZT 4,215.5 billion (U.S.$28.0 billion) over the next five years on the following significant projects:

- Expansion projects at the Tengiz Field by TCO (KZT 2,871.4 billion (U.S.$19.3 billion));

- Further development of the capacity of the Asia Gas Pipeline to 55 bcm per year by AGP (KZT 690.8 billion (U.S.$4.6 billion));

- CPC Pipeline expansion projects by CPC (KZT 489.0 billion (U.S.$3.2 billion));

- Development of the Beineu-Bozoi-Shymkent Gas Pipeline at BSGP (KZT 280.1 billion (U.S.$1.9 billion));

- Reconstruction of the Shymkent Refinery (KZT 200.8 billion (U.S.$1.3 billion)); and

- Other investment projects (KZT 17.1 billion (U.S.$113.8 million)).

The Company's share in the capital expenditures for such projects will be proportionate to its interest in the relevant joint venture. Other than the planned capital expenditures with respect to the development of the Beineu-Bozoi-Shymkent Gas Pipeline, capital expenditures for these projects will be funded without recourse to the Company.

See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's business requires significant capital expenditures and the Company may be unable to finance its planned capital expenditures*".

Commitments

Commitments in Joint Ventures

Certain joint ventures of the Company (TCO, Kazakhturkmunay LLP, NCPC, Kazakhoil Aktobe) and KMG EP (Kazgermunai) have commitments under their licence agreements with Kazakhstan. Under these agreements, the foreign partners are obligated to make certain investments as dictated by agreed time schedules.

As a participant in TCO and KPO and as an indirect participant in each of Zhambai LLP, Caspian Meruerty Operating Company B.V. and Kurmangazy Petroleum LLP through JSC Offshore Oil Company KazMunayTeniz ("**KazMunayTeniz**"), the Company is called upon from time-to-time to make cash contributions. The Company is also obligated to make capital contributions when and to the extent required by NCPC, which is a jointly-controlled asset of the Company, in order to fund its operations.

Commitments under Oilfield Licences and Contracts

Investment and Other obligations of ICA under the Agreement with the Government

Investments for the improvements of gas transportation assets

KTG operates the mainline gas distribution network in Kazakhstan pursuant to an agreement (the "**Concession Agreement**") between ICA and the Government. Under the terms of the Concession Agreement, ICA, which is a subsidiary of KTG, has an obligation to invest U.S.$30 million each year for the improvement and repair of the gas transportation assets transferred and for investments in new gas transportation assets (the "**Investment Commitment**"). According to the Concession Agreement, ICA will be reimbursed for the net book value of the above investments at the

time the Concession Agreement expires. While the Concession Agreement had an initial term that expired in 2012, the Concession Agreement has been extended until 2017. ICA has a further option to extend the Concession Agreement for an additional five year period, although ICA is currently negotiating with the Government to terminate the Concession Agreement and transfer ownership of the pipelines to ICA and expects that this transfer will occur by the end of 2013.

This obligation is contingent upon the fulfilment of certain conditions, including that the physical throughput of gas remains stable or increases from its 1996 level and that the terms of gas transport contracts with foreign customers remains as favourable as they were prior to establishment of the Concession Agreement. If gas tariffs and cash payment defaults by customers make it impractical to carry out improvement and investment, ICA is entitled to apply to the Government for an adjustment of the domestic tariff or an adjustment to the level of its investment obligations.

ICA has committed to make similar investments during the current first five year extension of the concession period amounting to not less than U.S.$30 million per year and not less than U.S.$150 million in the aggregate by the end of the fifth year of such extension period. The level of investment required in the event that ICA opts to further extend the Concession Agreement will be negotiated separately between the parties. As at 31 December 2012, ICA had KZT 52.3 billion in contractual commitments related to this investment obligation.

Prior to 31 December 2005, ICA paid to the Government 10% of its net profits under the Concession Agreement. On 31 March 2006, Kazakhstan, as represented by the Ministry of Finance, and ICA agreed to certain amendments (the "**Amendments**") to the Concession Agreement. According to the Amendments, during the years from 1 January 2008 to 31 December 2012 and the five-year optional extension period, the annual payment shall be agreed at the beginning of each period, in case it is not agreed, KTG shall pay KZT 2.1 billion. For the year ended 31 December 2012, the annual payment was KZT 3.3 billion.

In July 2012, ICA entered into an addendum to the Concession Agreement (the "**Addendum**") in respect of additional charges of KZT 3.1 billion in respect of 2011 to be paid in 2012 and additional charges equating to the difference between 25.0% of KTG's net income and the earlier agreed amount of KZT 2.1 billion, which will be paid in 2013.

The Concession Agreement mandates certain new investments, which include (i) the construction of a natural gas transportation link to the city of Astana (the "**New Assets**"), and (ii) the rehabilitation or replacement of certain compressors along the Makat Northern Caucasus Pipeline, the replacement of certain segments of the Southern Pipeline Network and the replacement of certain compressors at the Poltoratskoye underground gas storage (the "**Enhancements**"). ICA's obligation to make new investments, including to construct the New Assets and effect the Enhancements, is contingent upon (i) a demonstration of the feasibility and necessity of such new investments, and (ii) in relation to the domestic transportation system, the conclusion of an agreement with an authorised state agency granting ICA certain tax and other privileges and the conclusion of transportation contracts with customers providing for a level of throughput volumes satisfactory to ICA. Upon the expiration of the concession period (as it may be extended), ICA is obligated to transfer the Enhancements for the benefit of Kazakhstan at their then current market value less depreciation. ICA may freely dispose of the New Assets, provided that the Kazakhstan Government is offered a right of first refusal on arms length terms and conditions.

Royalties

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

Also, ICA has not received any indication from Government authorities that royalties should have been or should be charged, nor that ICA is liable for any past royalty amounts. The Company's management is working to clarify the matter with the Government and believes that no past or future royalty will be payable by ICA or its customers.

Kyrgyz By-Pass

ICA is obliged to design and construct the Kyrgyz By-Pass at a cost, which was estimated in the Concession Agreement to be U.S.$90 million to U.S.$100 million. This asset will be transferred to Kazakhstan at the later of the end of the term of the Concession Agreement or after twenty years from the completion of the by-pass for consideration of U.S.$1. Construction of this bypass has not yet begun.

Commitments of KTG under the Hydrocarbon Agreement

In December 2000, KTG signed an agreement (the "**Hydrocarbon Agreement**") with the Investment Agency of Kazakhstan on exploration and production of hydrocarbons in North-Ucharal and UcharalKempirtobe territories and blocks including Amangeldy, Anabai, Airakty and Kumyrly gas fields, Zhambyl oblast, South Kazakhstan. The term of the Hydrocarbon Agreement is 31 years. In November 2003, KTG started production and sale of gas from Amangeldy gas field.

Under the Hydrocarbon Agreement, KTG is committed to making certain payments, either annually or based on reaching certain milestones in the exploration, development and production periods.

These payments include a commercial discovery bonus, royalty and certain taxes. The commercial discovery bonus is defined as 0.05% of commercial amounts of discovered hydrocarbons.

Under the Hydrocarbon Agreement, from 2000 to 2005, KTG was required to invest U.S.$94.3 million for the exploration of hydrocarbons. In accordance with the letter from the MEMR dated 13 December 2006, the exploration period was extended to December 2013 and the minimum work programme was increased by U.S.$35.9 million for this period. As at 31 December 2012, the Company had commitments under the incomplete portion of minimum work programs of KZT 0.7 billion compared to KZT 34.1 billion as at 31 December 2011 and KZT 33.9 billion as at 31 December 2010.

Under the terms of the Hydrocarbon Agreement, KTG assumed a long-term obligation to repay to the Government KZT 4.1 billion related to historical costs of geological and geophysical data and drilling works incurred by the Government. Payment of KZT 2.3 million in respect of these historical costs is required to be made in quarterly instalments over 10 years from the date of commencement of production, provided that reserves are proved and commercial production has commenced. The payment schedule of the remaining portion of these historical costs of KZT 1.8 billion will be agreed with the Government upon confirmation of a commercial discovery on these gas fields. Production of gas commenced at Amangeldy gas field and, accordingly, KTG recognised liabilities related to payment of historical costs on Amangeldy gas field.

In July 2012, KTG assigned its subsoil use rights with respect to the Amangeldy gas field to Amangeldy Gas LLP, a wholly-owned subsidiary of the Company.

Capital Commitments of KMG Kashagan B.V.

As at 31 December 2012, KMG Kashagan B.V. had capital expenditure commitments for 2013 to purchase, construct or develop undivided interest in exploration and appraisal assets and development oil and gas assets of U.S.$0.8 billion. KMG Kashagan B.V. also had capital commitments for the period from 2011 to 2015 in the amount of U.S.$2.6 billion as at 31 December 2012, of which, to date in 2013, U.S.$1.8 billion of such commitments has been spent.

Contractual Commitments of KTO for Acquisition of Property, Plant and Equipment, Inventory and Services

As at 31 December 2012, KTO had contractual commitments to acquire property, plant and equipment and construction services for the amount of KZT 5.6 billion. In addition, as at 31 December 2012, KTO had committed to purchase inventory (materials and spare parts) and services for the amount of KZT 1.9 billion.

As at 31 December 2012, KTO had contractual commitments of its joint ventures to acquire property, plant and equipment and construction services for the amount of KZT 11.6 billion. In addition, as at 31 December 2012, KTO had capital commitments of its joint ventures to purchase inventory (materials and spare parts) and services for the amount of KZT 1 billion.

Contractual Commitments of KMT

According to the terms of exploration contracts signed with the Government, KMT has certain commitments relating to the fulfilment of minimal work programmes under related oil and gas projects. As at 31 December 2012, KMT had contractual commitments under the 2013 approved budget amounting to KZT 11.2 billion.

Contractual Commitments of MMG

MMG's oil and gas fields are located on land belonging to the Mangistau district administration. In accordance with the Subsoil Use Agreement, MMG has to perform annual minimal work programmes under certain projects. These minimal work programmes are subject to the consent of the governmental agency ZAPKAZNEDRA. In accordance with these minimal work programmes, for the year ended 31 December 2012, MMG's commitments in respect of capital and operational expenditures amounted to KZT 326.8 billion, including obligations to drill 105 wells and to produce 5,946 thousand tonnes of crude oil and 534 mcm of natural gas. As at 31 December 2012, MMG had incurred KZT 564.7 billion in respect of capital and operational expenditures, drilled 117 wells (in excess of the target provided in the minimal work programmes) and produced 5,921 thousand tonnes of crude oil (out of the 5,946 targeted in the minimal work programmes) and 541 mcm of natural gas (in excess of the target provided in the minimal work programmes). Management believes that as at 31 December 2012, MMG had substantially fulfilled the requirements of the minimal work programme, and deviations, if any, will be resolved through negotiations with ZAPKAZNEDRA without any material effect on the Group's consolidated financial statements. As at 31 December 2012, MMG had not yet agreed the annual minimal work programme for 2013 with ZAPKAZNEDRA.

As at 31 December 2012, MMG had capital commitments under the work programme of KZT 23.1 billion for 2013 and KZT 146.6 billion for 2014 to 2018.

In addition, as at 31 December 2012, MMG had contractual commitments with respect to investments for exploration works at the Makhambet and Bobek oilfields in 2013 to 2014 of KZT 13.3 billion.

Commitments under oilfield licenses and contracts

As at 31 December 2012, the Company had the following liabilities related to minimal working programme in accordance with terms of licences, production sharing agreements and subsoil use agreements, signed with the government:

Year	**Capital expenditures**	**Operational expenditures**
	(KZT billions)	
2013	193.0	11.4
2014	153.8	4.4
2015	2.5	3.2
2016	0.1	3.3
2017-2024	—	12.6
Total	**349.4**	**34.9**

See Note 36 of the 2012 Financial Statements and Note 33 of the 2011 Financial Statements for additional obligations to which the Company is committed.

Contractual Commitments of Kazgermunai

As at 31 December 2012, the Company's share in the commitments of Kazgermunai was KZT 4.6 billion in respect of capital expenditures and KZT 4.1 billion in respect of operational expenditures for 2013.

Contractual Commitments of UGL

As at 31 December 2012, the Company's share in the commitments of UGL was KZT 9.9 billion in respect of capital expenditures for 2013.

Contractual Commitments of KS EP

As at 31 December 2012, the Company's share in the commitments of KS EP was KZT 4.7 billion and KZT 1.5 billion in respect of capital expenditures for 2013 and 2014, respectively, and KZT 0.2 billion and KZT 34 million in respect of operational expenditures for 2013 and 2014, respectively.

Contractual Commitments of KMG RM

As at 31 December 2012, KMG RM's capital commitments were KZT 369.9 billion and mainly comprised the capital commitments of the Atyrau Refinery in respect of the construction of the aromatics production complex. In October 2009, KMG RM entered into a contract with Sinopec Engineering for the construction of the aromatics production complex at the Atyrau Refinery, which has a total construction cost of KZT 159.0 billion and planned to be completed by 2013.

Capital Commitments of KPO

As at 31 December 2012, the Company's share in the capital commitments of KPO to purchase, construct or develop oil and gas assets was KZT 3.8 billion for 2013.

Commitments of Rompetrol

As at 31 December 2012, Rompetrol Rafinare had contracted capital expenditures of KZT 3.0 billion relating to the proposed capacity increase of the Petromidia Refinery, as well as improvements to meet Euro 4 and 5 standards at this refinery.

As at 31 December 2012, Rompetrol Rafinare had non-group commitments for the purchase of raw materials and utilities of U.S.$133.7 million and for petroleum products and utilities of U.S.$198.4 million. As at 31 December 2012, Rompetrol Petrochemicals S.R.L. had non-group commitments for the purchase of raw materials and utilities of U.S.$6.1 million and for petrochemical product sales of U.S.$43.6 million.

Debt Obligations

Over the past few years, the Company and its subsidiaries, joint ventures and associates have raised significant amounts through short-term and long-term borrowings to supplement the net cash generated by the Company's operating activities in order to fund the capital expenditures required to develop the Company's upstream, midstream and downstream operations and to acquire new businesses, assets and Subsoil Use Agreements.

The following table sets forth certain information regarding the total borrowings of the Company and its subsidiaries (excluding obligations of non-consolidated joint ventures and associates except to the extent guaranteed by the Company or its subsidiaries) and certain rate and currency denomination information related thereto as at the dates indicated:

	As at 31 December		
	2012	**2011**	**2010**
	(KZT millions, except for percentages)		
Total borrowings	2,063.6	1,917.8	1,957.6
Fixed interest rate borrowings	1,560.5	1,363.4	1,214.5
Weighted average of fixed interest rates	8.01%	8.13%	8.32%
Variable interest rate borrowings	503.1	554.3	743.0
Weighted average of variable interest rates	4.89%	8.92%	6.36%
U.S. Dollar denominated borrowings	1,760.3	1,631.9	1,712.5
Tenge denominated borrowings	265.7	250.5	216.3
Euro denominated borrowings	36.6	35.3	28.6
Other currency denominated borrowings	1.0	0.2	0.2
Current portion	469.9	282.9	479.1
Non-current portion	1,593.7	1,634.8	1,478.4

The Company's total borrowings increased by 7.6% to KZT 2,063.6 billion as at 31 December 2012 from KZT 1,917.8 billion as at 31 December 2011. This increase was principally due to the entry into of a loan agreement for an amount of U.S.$1.0 billion with the participants of the KPO consortium in connection with the Company's acquisition of a 5.0% interest in KPO (a further 5.0% interest in KPO was contributed to the Company by Samruk-Kazyna), as well as drawdowns by Atyrau Refinery LLP under its credit facilities with JSC Development Bank of Kazakhstan. See "*—Principal Debt Obligations of the Company and its Subsidiaries*". The Company's long-term borrowings (excluding the current portion of long-term debt) decreased to KZT 1,593.7 billion as at 31 December 2012 from KZT 1,634.8 billion as at 31 December 2011. This decrease was principally due to: the early repayment by KMG EP of the U.S.$1.4 billion floating rate notes due 2016 issued by PKI in 2006; reallocation of the Series 1 Notes issued under the Programme from the non-current portion to the current portion; and repayment of the U.S.$300 million loan facility with VTB Capital plc. The decrease in the Company's long-term borrowings in 2012 was partially offset by the entry into of the U.S.$1.0 billion loan for the purpose of acquiring a 5% interest in KPO in June 2012.

The Company's total borrowings decreased by 2.0% to KZT 1,917.8 billion as at 31 December 2011 from KZT 1,957.6 billion as at 31 December 2010. This decrease was principally due to the scheduled amortisation of various borrowings, including the loan facility granted by Credit Suisse to KTG, as well as the repayment of the U.S.$250 million bonds issued by ICA. The Company's long-term borrowings (excluding the current portion of long-term debt) increased to KZT 1,634.8 billion as at 31 December 2011 from KZT 1,478.4 billion as at 31 December 2010. This increase was principally due to the loan received from Samruk-Kazyna in January 2011, the entry into the VTB Capital Credit Facility

(as defined below) and the entry into of the ING Facility. See "—*Principal Debt Obligations of the Company and its Subsidiaries*".

Financial Policy

The objectives of the Company's financial policy are to:

- monitor the Company's leverage and take steps to decrease the overall level of the Company's debt, by repayment of such debt at maturity without refinancing;
- maintain an optimal working capital position at the level of the Company's subsidiaries; and
- maintain a high level of financial flexibility within the Company's group.

In line with this policy, the Company aims to finance projects without affecting its balance sheet by entering into non-recourse project financing, by and entering into acquisition financing with limited recourse to the acquired asset and applying its own cash realised from dividends received from its subsidiaries, joint ventures and associates. In financing projects undertaken by the Company or its subsidiaries, the Company generally arranges financing at the Company level and then allocates such liquidity to fund projects, as and when needed, by different entities within the Company's group. Separately, the Company encourages its joint ventures and associates to participate in financing directly.

The Company's policy is to maintain a total debt to EBITDA ratio of less than 3.5 and a net debt to net capitalisation ratio of less than 0.5, in line with certain of the covenants imposed on it by various of its debt instruments. See "—*Certain Provisions and Terms of Debt Obligations*".

Principal Debt Obligations of the Company and its Subsidiaries

The following describes the principal outstanding or available debt obligations of the Company and its subsidiaries:

- In December 2012, BSGP entered into a U.S.$1.8 billion syndicated loan facility with, *inter alia*, the China Development Bank for the purpose of financing the development, construction and operation of the Bozoi-Shymkent part of the Beineu-Bozoi-Shymkent Gas Pipeline. The loan bears interest at a rate of three-month LIBOR plus 2.7% per annum for the duration of the guarantee period and, thereafter, at a rate of three-month LIBOR plus 3.2% per annum. The loan matures on 11 March 2028. The loan is secured by corporate guarantees from the Company and CNPC until the expiry of the guarantee period in December 2015. As at 31 December 2012, the outstanding principal amount under this loan was nil.
- Atyrau Refinery LLP has entered into a number of loan agreements to finance the construction of the deeper oil refining complex at the Atyrau Refinery and the cost of related goods and services, as follows:
    - In August 2012, Atyrau Refinery LLP entered into a second loan agreement with JSC Development Bank of Kazakhstan for a principal amount of U.S.$252.0 million. This loan bears interest at a fixed rate of 5.0% per annum and matures on 17 December 2025. The loan is guaranteed by the Company. As at 31 December 2012, the outstanding principal amount under this loan was KZT 38.0 billion. See "*Business—Refining, Marketing and Trading—KMG RM—Atyrau Refinery*"
    - In August 2012, Atyrau Refinery LLP also entered into a U.S.$297.5 million loan facility with Japan Bank for International Cooperation and Bank of Tokyo Mitsubishi UFJ, Ltd. Two tranches have been provided under this facility: (i) the first tranche comprises a loan from Japan Bank for International Cooperation and bears interest at a rate of CIRR plus 2.19% per annum; and (ii) the second tranche comprises a loan from Bank of Tokyo Mitsubishi UFJ secured by Nippon Export and Investment Insurance Agency and bears interest at a rate of six-month LIBOR plus 1.1% per annum. The facility matures on 15 December 2025 and is guaranteed by the Company. As at 31 December 2012, the aggregate outstanding principal amount under this loan facility was nil.
    - In June 2012, Atyrau Refinery LLP entered into a U.S.$1.1 billion loan agreement with the Export-Import Bank of China. This loan is secured by China Export & Credit Insurance Corporation (SINOSURE) and bears interest at a rate of six-month LIBOR plus 4.1% per annum and matures on 6 November 2025. The loan is guaranteed by the Company. As at 31 December 2012, the outstanding principal amount under this loan was nil.
- In July 2012, the Company entered into a U.S.$986 million carry loan agreement with the other participants in NCPC for the purpose of financing the future capital expenditures related to the North Caspian Project (Kashagan Field). This loan bears interest at a rate of twelve-month LIBOR plus 3% per annum and matures in July 2016. As at

31 December 2012, the outstanding principal amount under this loan agreement was nil. See "*—Capital Expenditures*", and "*Business—Exploration and Production—Exploration Projects—NCPC—Kashagan Field*".

- In June 2012, the Company entered into a U.S.$1.0 billion loan agreement with Agip, Karachaganak B.V., BG Karachaganak Limited, Chevron International Petroleum Company, Lukoil Overseas Karachaganak B.V. and FPSAIMC LLP for the purpose of acquiring a 5.0% interest in Karachaganak. This loan bears interest at a rate of twelve-month LIBOR plus 3% per annum multiplied by 1.25 and matures on 13 July 2015. Under this loan agreement, the Company has undertaken an obligation to provide collateral in the form of its 5% share in the Karachaganak project to the consortium. The loan is also guaranteed by the Company. As at 31 December 2012, the outstanding principal amount under this loan was KZT 129.8 billion.

- In February 2012, Rompetrol entered into a U.S.$200.0 million syndicated loan agreement with J.P. Morgan Limited, Citigroup Global Markets Limited, the Royal Bank of Scotland plc, Unicredit Bank Austria AG and Unicredit Bank AG London Branch. This loan bears interest at a rate of three-month LIBOR plus 3.55% per annum and matures on 28 February 2017. In August 2012, the loan agreement was amended to increase the facility amount by U.S.$50.0 million to U.S.$250.0 million and to add VTB Capital plc to the syndicate group. The loan is guaranteed by the Company. As at 31 December 2012, the outstanding principal amount under this loan was KZT 37.7 billion.

- In December 2011, KMG RM entered into a U.S.$270.0 million revolving credit agreement with Halyk Bank for the purpose of financing its working capital. This loan bears interest at a rate of up to 7.5% per annum and matures on 28 December 2013. As at 31 December 2012, the outstanding principal amount under this loan was KZT 32.4 billion.

- In September 2011, NMSK Kazmortransflot JSC entered into a U.S.$103.5 million loan agreement with ATFBank JSC for the purpose of the acquisition of two tankers. This loan bears interest at a rate of three-month LIBOR plus 4.21% per annum and matures on 24 September 2018. As at 31 December 2012, the outstanding principal amount under this loan was KZT 14.7 billion.

- In July 2011, KMG Finance entered into a U.S.$1.0 billion syndicated loan agreement with a number of international banks, including ING Bank N.V., as agent (the "**ING Facility**"). The proceeds of this loan were used for general corporate purposes, including the repayment of the KMG RM Facility in full in August 2011. The ING Facility bears interest at a rate of three-month LIBOR plus 2.1% per annum and matures on 15 July 2016. The ING Facility is guaranteed by the Company. As at 31 December 2012, the outstanding principal amount under the ING Facility was KZT 150.7 billion.

- In January 2011, the Company received a KZT 23.3 billion loan from Samruk-Kazyna for the purpose of constructing the Beineu-Bozoi-Shymkent Gas Pipeline. The proceeds of this loan were transferred to KTG. The loan bears interest at a rate of 2% per annum and matures on 25 January 2024. The Company partially repaid this loan in 2012 and, as at 31 December 2012, the amortised cost of this loan was KZT 6.6 billion.

- Five Series of Notes have been issued under the Programme to date, as follows:

  - In November 2010, the Company issued its Series 5 Notes consisting of U.S.$1.25 billion 6.375% due 2021.

  - In May 2010, KMG Finance issued its Series 4 Notes, guaranteed by the Company, under the Programme consisting of U.S.$1.5 billion 7% Notes due 2020.

  - In July 2009, KMG Finance issued its Series 3 Notes, guaranteed by the Company, under the Programme consisting of U.S.$1.5 billion 11.75% Notes due 2015, which were issued in two tranches and consolidated to form a single series.

  - In July 2008, KMG Finance issued two series of Notes, guaranteed by the Company, which remain outstanding under the Programme, the Series 1 Notes consisting of U.S.$1.4 billion 8.375% Notes due 2013 and the Series 2 Notes consisting of U.S.$1.6 billion 9.125% Notes due 2018.

  In October 2010, the Company was substituted as primary obligor in respect of the Series 1 Notes, the Series 2 Notes, the Series 3 Notes and the Series 4 Notes issued under the Programme. Upon such substitution, KMG Finance was released from its obligations in respect of such Notes and the Company's guarantee thereof was cancelled, although no other changes to the terms of such Notes were affected.

- In October 2010, the Company issued KZT 100 billion zero coupon bonds due 2017. The bonds are listed on the KASE and are placed at a discounted nominal value of KZT 64.4 billion discounted at an interest rate of 6.5%.

- In September 2010, the Company applied deposits at Halyk Bank to repay KZT 75.05 billion of the KZT 180.5 billion original principal amount of the NBK Loan. At the same time, the Company applied deposits at BTA Bank (in the amount of KZT 142 billion) and Kazkommertsbank (in the amount of KZT 48 billion) to fully redeem the KZT 190 billion 5.0% bonds due 2044 (the "**Company Bonds**"). Samruk-Kazyna re-invested a portion of the proceeds it received from the redemption of the Company Bonds to subscribe for newly issued shares of the Company in the amount of KZT 111 billion, while it used the balance of these redemption proceeds to repay KZT 79.0 billion of the KZT 190 billion original principal amount of the S-K Bonds. The Company also applied deposits at BTA Bank (in the amount of KZT 142 billion) and Kazkommertsbank (in the amount of KZT 10 billion) to make a loan to Samruk-Kazyna in the aggregate principal amount of KZT 152 billion, bearing interest at a rate of 7.0% for a period of 20 years (the "**Loan to S-K**"), which has since been repaid through offsetting dividends otherwise payable by the Company to Samruk-Kazyna, in its capacity as the sole shareholder of the Company. The NBK Loan has since been repaid in full. After giving effect to all of the foregoing as of 31 December 2012, the Company continued to be a creditor under the Loan to S-K in the amount of KZT 36.7 billion.

- In July 2010, the Company issued bonds on the KASE in a total amount of KZT 245.7 billion, bearing interest at a rate of 7.0% per annum and maturing in 2013, KZT 220.0 billion of which bonds were subscribed by KMG EP in the initial placement. Although these bonds are listed on the KASE, it is expected that KMG EP will hold them to maturity to have the benefit of a separate agreement, which permits KMG EP to offset dividends otherwise payable to KMG, in its capacity as a shareholder of KMG EP, against the Company's obligation to pay principal and interest on these bonds. As at 31 December 2012, the outstanding principal amount of the bonds outstanding was KZT 134.1 billion.

- On 29 October 2009, KMG RM entered into a contract with Sinopec Engineering for construction of the aromatics production complex at the Atyrau Refinery at a cost of U.S.$1.1 billion, which the Company will fund through external financing by drawing on a credit line signed with JSC Development Bank of Kazakhstan on 30 July 2010 for a total amount of approximately U.S.$1,063.7 million for 13 years. The credit line is split into two tranches. The first tranche is denominated in U.S. Dollars, provides a total amount of U.S.$884 million and bears interest at a rate of six-month LIBOR plus 4.5% per annum. The second tranche is denominated in Tenge, provides a total amount of KZT 26.4 billion and bears interest at a fixed rate of 9% per annum. Moveable and real property of the Atyrau Refinery has been pledged as collateral for the loan. As at 31 December 2012, the outstanding principal amount under the first tranche of this loan was U.S.$383.3 million, including a U.S.$218.0 million drawn-down in 2012, and the outstanding principal amount under the second tranche of this loan was KZT 26.4 billion.

- In October 2009, in order to fund a portion of its share of the 2009 cash call for the North Caspian Project (Kashagan Field), the Company issued bonds on the KASE, which were fully subscribed by JSC Development Bank of Kazakhstan, in a total principal amount of KZT 120 billion. The bonds bear interest at a rate of 6 month LIBOR plus 8.5% per annum, payable semi-annually after a three-year grace period, and mature in 2019. As at 31 December 2012, the outstanding principal amount of these bonds was KZT 112 billion.

- In December 2009, Credit Suisse refinanced its loan granted to KTG-Tbilisi, and guaranteed jointly by KTG and ICA, which had originally been extended on 27 February 2007 for an amount equivalent to U.S.$50 million. During 2009, KTG-Tbilisi had breached certain covenants relating to the original loan. The refinanced loan bears interest at a rate of LIBOR plus 7.3% per annum and matures in February 2014. In connection with the refinancing, the Company signed a sub-participation agreement pursuant to which the rights and obligations of KTG-Tbilisi under the refinanced loan have been transferred to KTG. As at 31 December 2012, the outstanding principal amount under this loan was U.S.$19.6 million and KTG was in compliance with all covenants imposed in connection with this refinancing.

- In October 2008, an agreement was signed implementing a new contractual and governance framework for NCPC, including the transfer of an additional 8.48% interest in NCPC to the Company from the other participants in NCPC, each of whom in turn decreased its interest in NCPC on a *pro rata* basis, for consideration of U.S.$1.78 billion, which is payable by the Company in three equal annual instalments after the commencement of production operations at Kashagan. Under the agreement, the Company will not be responsible for contributing to further costs relating to the project at the Kashagan Field if there is a material redesign of the project or if production fails to start by October 2013. As at 31 December 2012, the outstanding amount of the consideration payable by the Company, including capitalised interest, was KZT 339.5 billion. The loan is reflected on the Company's balance sheet included in the 2012 Financial Statements as "Payable for the acquisition of additional interest in North Caspian Project".

Principal Debt Obligations of Non-Consolidated Jointly-Controlled Entities and Associates

In addition, although these are not consolidated with the borrowings of the Company, certain jointly-controlled entities and associates of the Company and its subsidiaries have significant debt obligations, the most important of which are described below:

- AGP has entered into two loan facilities in connection with the construction of the Asia Gas Pipeline, as follows:
  - In December 2012, AGP entered into a U.S.$4.7 billion loan facility with a Chinese development bank for the purpose of financing the construction of the third line of the Asia Gas Pipeline. The loan bears interest at a rate of LIBOR plus 2.35% and matures on 27 December 2027. As at 31 December 2012, the outstanding principal amount under this loan was nil.
  - In October 2008, AGP entered into a U.S.$7.5 billion syndicated loan facility with a Chinese development bank for the purposes of financing the construction of the Asia Gas Pipeline. The loan bears interest at a rate of LIBOR plus 2.15% per annum and matures on 22 October 2023. As at 31 December 2012, the outstanding principal amount under this loan was KZT 1,054.0 billion.
- On 15 April 2009, MIBV entered into the U.S.$3.0 billion MMG Facility, which provides non-recourse financing secured by a pledge over MMG's shares and the shares of MIBV. The MMG Facility bears interest at a rate of one-month LIBOR plus 3.5% and matures on 31 May 2019. As at 31 December 2012, the outstanding principal amount under this loan was KZT 84.9 billion.
- On 12 August 2008, KCP entered into a U.S.$1.18 billion credit facility with a term of ten years, subject to extension for up to five additional years. This credit facility was entered into for the purpose of financing construction of the Kenkiyak-Kumkol pipeline. KCP had the right to draw down the loan in four tranches, three of which were drawn down during 2008 in an aggregate principal amount of U.S. $1.0 billion. The availability period for this credit facility expired at the end of 2011. Amounts borrowed under the facility accrue interest at a rate of six-month LIBOR plus 2% per annum and are guaranteed by CNPC. As at 31 December 2012, the outstanding principal amount under this facility was U.S. $1.0 billion (including the capitalised interest).

Certain Provisions and Terms of Debt Obligations

As at 31 December 2012, the subsidiaries, joint ventures and associates of the Company also had the following material notes issued and outstanding under indentures with standard market terms: (i) U.S.$1,100 million 6.124% notes due 2014 issued by Tengizchevroil Finance Co. S.A.R.L. on 16 November 2004 and guaranteed by TCO; (ii) U.S.$2,200 million 6.124% notes due 2014 issued by Tengizchevroil Finance Co. S.A.R.L. on 16 November 2004 and guaranteed by TCO; (iii) U.S.$600 million 6.375% notes due 2017 issued by Intergas Finance B.V. on 14 May 2007 and guaranteed by ICA, the outstanding principal amount of which was reduced to U.S.$540 million in February 2009 when Intergas Finance B.V. purchased and cancelled U.S.$60 million in principal amount of these notes; (iv) U.S.$300 million notes due 2019 issued by KCP Finance B.V. on 22 December 2004 and guaranteed on a limited recourse basis by KCP and CNPC with an interest rate of 8.8% from 12 February 2013 up to the full repayment; and (v) U.S.$300 million notes due 2020 issued by KCP Finance B.V. on 23 September 2005 and guaranteed on a limited basis by KCP and CNPC with an interest rate of 7% for the first four years and 8.8% for the remaining period up to the full repayment.

The debt arrangements of the subsidiaries, jointly-controlled entities and associates of the Company contain standard market terms, including certain financial and other restrictive covenants. By way of example, under the ING Facility, the Company (as guarantor) must comply with a number of financial covenants, including maintaining: (i) a ratio of net debt to consolidated EBITDA of not more than 4.0:1; (ii) a ratio of consolidated financial indebtedness of "material subsidiaries" (as defined in the ING Facility), excluding financial indebtedness guaranteed by the Company and financial indebtedness of Kashagan B.V., to consolidated EBITDA of such material subsidiaries of not more than 2.5:1; and (iii) a ratio of net debt to net capitalisation of not more than 0.55.1. See "*Risk Factors—Risks Relating to the Company—The Company is required to comply with certain financial and other restrictive covenants*".

The following table sets forth the estimated scheduled maturities of the Company's long-term debt as at 31 December 2012, assuming that all credit lines available to the Company had been fully-drawn down as at such date:

Year Due	Amount Due[(1)]
	(KZT billions)
2013	599.7
2014	253.1
2015	506.8
2016	147.1
2017	257.4
2018	330.9
2019	80.5
2020	290.2
2021	239.6
2022 and after	163.7

Note:

(1) Excluding the loan facility made available to the Company by the National Fund of Kazakhstan. The Company has no current intentions to draw down any funds under this facility in 2013. See "—*National Fund of Kazakhstan*".

The Company's short-term borrowings (including the current portion of long-term debt) increased to KZT 470.0 billion as at 31 December 2012 from KZT 282.9 billion as at 31 December 2011. This increase was primarily due to the entry into of a number of new loan agreements, as described above. The Company's short-term borrowings (including the current portion of long-term debt) decreased to KZT 282.9 billion as at 31 December 2011 from KZT 479.1 billion as at 31 December 2010. This decrease was primarily due to the repayment of the KMG RM Facility in 2011.

The weighted average interest rate on the Company's fixed interest rate borrowings decreased to 8.01% as at 31 December 2012 from 8.13% as at 31 December 2011, primarily due to the entry into of the U.S.$252.0 million loan with JSC Development Bank of Kazakhstan to finance the construction of the deeper oil refining complex and the cost of related goods and services at the Atyrau Refinery, which bears interest at a fixed rate of 5.0% per annum. The weighted average interest rate on the Company's variable interest rate borrowings decreased to 4.89% as at 31 December 2012 from 8.92% as at 31 December 2011, primarily reflecting the entry into of the U.S.$1 billion loan in connection with the acquisition of a 5.0% interest in KPO (a further 5.0% interest in KPO was also contributed to the Company by Samruk-Kazyna), which bears interest at a rate of LIBOR plus 1.25% per annum, as well as lower average LIBOR rates in 2012 compared to 2011.

The weighted average interest rate on the Company's fixed interest rate borrowings decreased to 8.13% as at 31 December 2011 from 8.32% as at 31 December 2010, primarily due to the issuance by the Company of the Series 5 Notes under the Programme in November 2010. The weighted average interest rate on the Company's variable interest rate borrowings increased to 8.92% as at 31 December 2011 from 6.36% as at 31 December 2010, primarily reflecting the change in the interest rate on the KMG RM Facility from LIBOR plus 2.05% to LIBOR plus 1.55% following the upgrade of the Company's long-term credit rating in December 2010, as well as the decrease in LIBOR by 5.0%.

National Fund of Kazakhstan

In 2012, the National Fund of Kazakhstan made a loan facility of U.S.$4.0 billion available to the Company, U.S.$2.5 billion of which may be drawn down in 2013 and U.S.$1.5 billion of which may be drawn down in 2015. The Company has not drawn down, and has no current intentions to draw down, any funds under this facility in 2013.

Quantitative and Qualitative Disclosures about Market Risk

The Company operates in a highly competitive industry, and faces intense competition for new Subsoil Use Agreements, qualified staff and markets for its crude oil exports and its refined oil products.

The Company is subject to risks relating to reserves and production, evaluation of oil and gas reserves, Kazakhstan environmental legislation, prices for crude oil, gas and refined oil products, foreign currency, liquidity, credit, interest rates, taxation and other risks. The Company does not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and commodity agreements, to manage these market risks.

Reserves and Production

The Company's ability to acquire oil and gas reserves is one of the key factors to its success. New exploration acreage must be acquired through acquisitions or obtaining additional Subsoil Use Agreements. The Company is actively

pursuing acquisitions while adhering to its investment criteria. The Company believes it is well positioned to continue to succeed as it has a continual involvement in the oil and gas industry, including its pre-emptive right to all Subsoil Use Agreements in Kazakhstan and with the Government, and the financial capacity to execute transactions.

The Company's ability to develop its reserves is another key to its success. The Company has introduced and continues to utilise Western technology in developing reserves. The Company has the financial capacity to acquire and implement this technology but it competes for properly qualified and trained staff necessary to fully utilise this technology. The Company has addressed this through offering competitive compensation packages to its employees and recruiting on a worldwide basis.

Evaluation of Oil and Gas Reserves

The process of estimating the Company's oil and gas reserves is complex and requires significant assumptions and decisions in the evaluation of engineering, geological, geophysical and financial information. On an annual basis, the Company obtains evaluations of reserves from the Company's professional engineering staff prepared in accordance with Kazakhstan methodology and independent evaluations for some of its subsidiaries and joint ventures in accordance with PRMS. These reserve evaluations may change substantially from year to year as a result of numerous factors, including, but not limited to, the development of economic conditions under which the Company operates its business. As a result, despite all reasonable efforts involved in the process of evaluation, the estimation of the Company's reserves may materially change from period to period.

Kazakhstan Environmental Legislation

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 as discussed in Note 36 of the 2012 Financial Statements, management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Company's financial position, statement of comprehensive income or cash flows based on the current state of the law.

Prices for Crude Oil, Gas and Refined oil products Risk

The Company's operating results and financial condition depend substantially upon prevailing prices of crude oil, gas and refined oil products. Historically, prices for crude oil have fluctuated widely for many reasons, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and refined oil products;
- changes in geopolitics and geopolitical uncertainty;
- weather conditions and natural disasters;
- access to pipelines, railways and other means of transporting crude oil, gas and refined oil products;
- prices and availability of alternative fuels;
- the ability of the members of OPEC, and other crude oil producing nations, to set and maintain specified levels of production and prices;
- political, economic and military developments in Kazakhstan, neighbouring countries and other oil producing regions, particularly the Middle East;
- Kazakhstan and foreign governmental regulations and actions, including export restrictions and taxes;
- market uncertainty and speculative activities; and
- global and regional economic conditions.

A substantial amount of the Company's crude oil and refined oil products are sold on the spot market or under short-term contracts at market sensitive prices. Market prices for export sales of crude oil and refined oil products are subject to volatile trading patterns in the commodity futures market. The Company's revenue and net income fluctuate significantly

with changes in crude oil prices. Crude oil prices have been particularly volatile in recent years, declining in mid-2010 before recovering later in the year and into 2011. While crude oil prices declined in June 2012, prices recovered in July 2012 and crude oil prices in 2012 generally remained high for the second year in a row. According to the EIA, the spot price of Brent crude oil averaged U.S.$111.67/bbl in 2012, as compared to an average of U.S.$111.26/bbl in 2011. The average monthly price for Brent crude oil in December 2012 was U.S.$109.49/bbl, an increase of 1.5% from U.S.$107.87/bbl in December 2010. As at the date of this Base Prospectus, the price of crude oil remains high, although still below the record high prices. High oil prices have historically had a considerable positive impact on the Company's business, prospects, financial condition, cash flows and results of operations. As at 8 April 2013, the spot price for Brent crude oil was U.S.$103.16/bbl. There can be no assurance as to the level of oil prices that will be maintained in the future. See "*—Main Factors Affecting Results of Operations and Liquidity—Changes in Crude Oil and Refined oil Product Prices*". Average selling prices can differ from quoted market prices due to the effects of uneven volume distributions during the period, quality differentials, different delivery terms compared to quoted benchmarks, different conditions in local markets and other factors. Domestic prices generally follow the trend of world market prices but are volatile due to the nature of the Kazakhstan market, however, sales prices for exported crude oil have been significantly higher than the domestic sales prices. Apart from KMG EP, which has recently entered into derivatives contracts to hedge its exposure to a decrease in oil prices related to a portion of its oil production, the Company does not use any derivative instruments to hedge its production in order to decrease its price risk exposure. See "*—Main Factors Affecting Results of Operations and Liquidity—Changes in Crude Oil and Refined oil Product Prices*".

See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's revenue and net profits fluctuate significantly with changes in crude oil prices, which prices are historically volatile and are affected by a variety of factors beyond the Company's control*".

Foreign Currency Risk

The Company's principal exchange rate risk involves changes in the value of the U.S. Dollar relative to the Tenge and to a much lesser extent, relative to other currencies. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly, although, until its devaluation by the NBK in February 2009, the Tenge had generally appreciated in value against the U.S. Dollar over the past decade. On 4 February 2009, however, the NBK devalued the Tenge by 18% against the U.S. Dollar, due in part to pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas). Devaluation of the Tenge was also intended to enhance the competitiveness of Kazakhstan exports. As at 31 December 2012, the official KZT/U.S.$ exchange rate reported by the KASE was KZT 150.74 per U.S.$1.00, reflecting a depreciation of the Tenge against the U.S. Dollar by 1.6% from 31 December 2011. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—In February 2009, the NBK devalued the Tenge by 18%, any further devaluation of the Tenge could have an adverse impact on the Company and Kazakhstan's public finances and economy*". On 30 December 2009, the Chairman of the NBK, Grigori Marchenko, announced the extension of the KZT/U.S. Dollar corridor until 20 March 2011, which was not further extended. The NBK may reintroduce a corridor at any time in the future and at any level in its sole discretion.

Most of the Company's cash inflows (approximately 72% in 2012), as well as its accounts receivable balances, are denominated in U.S. Dollars, while a significant amount of the Company's costs of sales (approximately 47%) are denominated in Tenge. On the revenue side, all of the Company's export revenue, including the exports of crude oil and refined oil products, are denominated in U.S. Dollars or are correlated with U.S. Dollar denominated prices for crude oil and refined oil products.

As at 31 December 2012, KZT 1,760.3 billion of the Company's indebtedness was denominated in U.S. Dollar (representing 85.3% of the Company's total indebtedness of KZT 2,063.6 billion as at that date). Decreases in the value of the U.S. Dollar relative to the Tenge will reduce the value of the Company's U.S. Dollar denominated liabilities when measured in Tenge, whereas increases in the value of the U.S. Dollar relative to the Tenge will increase the value of the Company's U.S. Dollar denominated liabilities when measured in Tenge. Because the Company's reporting currency is Tenge, the Company suffers foreign currency translation losses when the U.S. Dollar increases in value against the Tenge. See "*—Main Factors Affecting Results of Operations and Liquidity—Impact of Changes in Exchange Rates on Export Sales and Operating Margins*".

The Company does not use foreign exchange or forward contracts to manage its exposure to changes in foreign exchange rates. The Company's management regularly monitors the Company's currency risk and keeps track of changes in foreign currency exchange rates and its effect on operations of the Company.

Interest Rate Risk

The Company is exposed to interest rate risk on its indebtedness that bears interest at floating rates and, to a lesser extent, on its indebtedness that bears interest at fixed rates. The Company's policy is to manage its interest rate cost using a mix of fixed and variable rate borrowings. As at 31 December 2012, the Company had loans and borrowings outstanding in an aggregate principal amount of KZT 2,063.6 billion, of which KZT 1,560.5 billion bears interest at fixed rates (at a weighted average rate of 8.01%) and KZT 503.1 billion bears interest at floating rates (at a weighted average rate of 4.89%), largely determined by reference to LIBOR for U.S. Dollar deposits. See "—*Debt Obligations*".

The Company incurs debt for general corporate purposes including financing capital expenditures, financing acquisitions and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the Company's debt obligations. A homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category (*e.g.*, U.S. Dollars, Tenge). However, the Company's sensitivity to decreases in interest rates and corresponding increases in the fair value of the Company's debt portfolio would negatively affect results and cash flows only to the extent that the Company elected to repurchase or otherwise retire all or a portion of the Company's fixed rate debt portfolio at prices above carrying value.

Credit Risk

The Company trades only with recognised, creditworthy parties, and it has a credit verification policy in place with respect to customers who wish to trade on credit terms. The Company's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of accounts receivable. While the Company may be subject to losses up to the contract value of the instruments in the event of non-performance by its counterparties, it does not expect such losses to occur. Although collection of these receivables could be influenced by economic factors affecting these entities, the Company believes there is not a significant risk of loss beyond allowances already recorded.

With the exception of Gazprom, which accounted for 74.0%, 75.0% and 86.0% of the gas transportation fees of ICA for 2012, 2011 and 2010, respectively, concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers included in the Company's customer base and the uses of letters of credit for most sales. Insurance for deposits of legal entities is not offered by financial institutions operating in Kazakhstan. The Company's management periodically reviews the creditworthiness of the financial institutions with which it deposits cash.

In addition, the Company is also exposed to credit and liquidity risk from its investing activities, principally as regards its placing of deposits with Kazakhstan banks. The Company expects the portion of its deposits with Kazakhstan banks to increase in order to comply with a directive from Samruk-Kazyna that its group companies, including the Company, maintain 90% of their deposits with Kazakhstan banks.

Liquidity Risk

Liquidity risk arises when the maturities of assets and liabilities do not match causing the Company to 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. The Company's management monitors liquidity requirements on a regular basis and believes that the Company has sufficient funds available to meet its commitments as they arise.

Hedging Policy

Historically, the Company has not utilised forward exchange contracts, currency swaps, put options or other hedging arrangements. In 2012, the Company engaged a consultant with a view to evaluating its options in respect of hedging, including its exposure to fluctuations in prices of crude oil. As a result of this evaluation, the Company may enter into put option hedges in the future and has adopted a proprietary model to analyse hedging opportunities. The Company has not, to date, acquired any such put options and does not intend to use forward exchange contracts or currency swaps.

Off Balance Sheet Arrangements

As at 31 December 2012, the Company had no material off balance sheet items. The Company reports all recognised contingent liabilities and commitments as provisions, or otherwise discloses them in its consolidated financial statements. Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Company's management does not believe that off balance sheet instruments are material to its consolidated operations or financial position.

BUSINESS

General

The Company's legal name is Joint Stock Company "National Company KazMunayGas" and its commercial name is JSC NC KazMunayGas. The Company was organised as a closed joint stock company under the laws of Kazakhstan on 27 February 2002. Pursuant to Decree № 811 of the President dated 20 February 2002, and a number of subsequent decisions of authorised state bodies and certain transfer agreements, the Company is the successor of CJSC "National Oil and Gas Company Kazakhoil" ("**Kazakhoil**") and CJSC "National Company Oil and Gas Transport" (both companies were liquidated upon transfer of all their assets, including shares in joint ventures, to the Company). The Company was re-registered as a joint stock company pursuant to the Law on Joint Stock Companies of the Republic of Kazakhstan (№ 415-II, dated 13 May 2003), as amended from time to time (the "**JSC Law**") under re-registration certificate № 11425 1901 AO issued by the Justice Department of the City of Astana on 16 March 2004.

The business address of the Company is 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan, and its telephone number is +7 (7172) 976 000.

Overview

The Company is the national oil and gas company of Kazakhstan with vertically-integrated upstream, midstream and downstream operations located principally in Kazakhstan. The Company's management believes, based on NSA statistics and the Company's internal information, that, as at 31 December 2012, on a consolidated basis (including the proportionate interest of jointly-controlled entities and associates), the Company was the largest crude oil producer in Kazakhstan in terms of production volume. According to NSA statistics and the Company's internal information, the Company also operates the largest crude oil and gas pipeline networks in Kazakhstan in terms of length and throughput capacity. In addition, the Company holds a significant or controlling interest in each of the three principal refineries in Kazakhstan, as well as a major refinery in Romania.

In the year ended 31 December 2012, the Company's production was 21.3 million tonnes (8.3 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil and 5.2 bcm (1.6 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas. In the year ended 31 December 2011, the Company's production was 21.1 million tonnes (7.9 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil and 4.5 bcm (0.8 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas. In the year ended 31 December 2010, the Company's production was 21.0 million tonnes (8.8 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil and 4.6 bcm (0.9 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas. Based on the Company's internal information and information obtained from the NSA, the Company's production of crude oil (including the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) represented 26.9%, 26.3% and 26.4% of the total crude oil production in Kazakhstan in 2012, 2011 and 2010, respectively, while the Company's production of gas (including the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) represented 12.9%, 11.5% and 12.3% of the total gas production in Kazakhstan in 2012, 2011 and 2010, respectively.

As at 31 December 2012, the total length of the crude oil pipeline networks that the Company owns and operates was 5,495 km and the total length of the gas pipeline networks that the Company owns and operates was 11,272 km. In addition, as at 31 December 2012, the Company had an interest in a further 2,657 km of crude oil pipeline network and 1,305 km of gas pipeline network as part of its joint-venture network.

The Company produced a total of 13.0 million tonnes (10.7 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of refined oil products in 2012, 12.6 million tonnes (10.4 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of refined oil products in 2011 and 14.3 million tonnes (12.0 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of refined oil products in 2010.

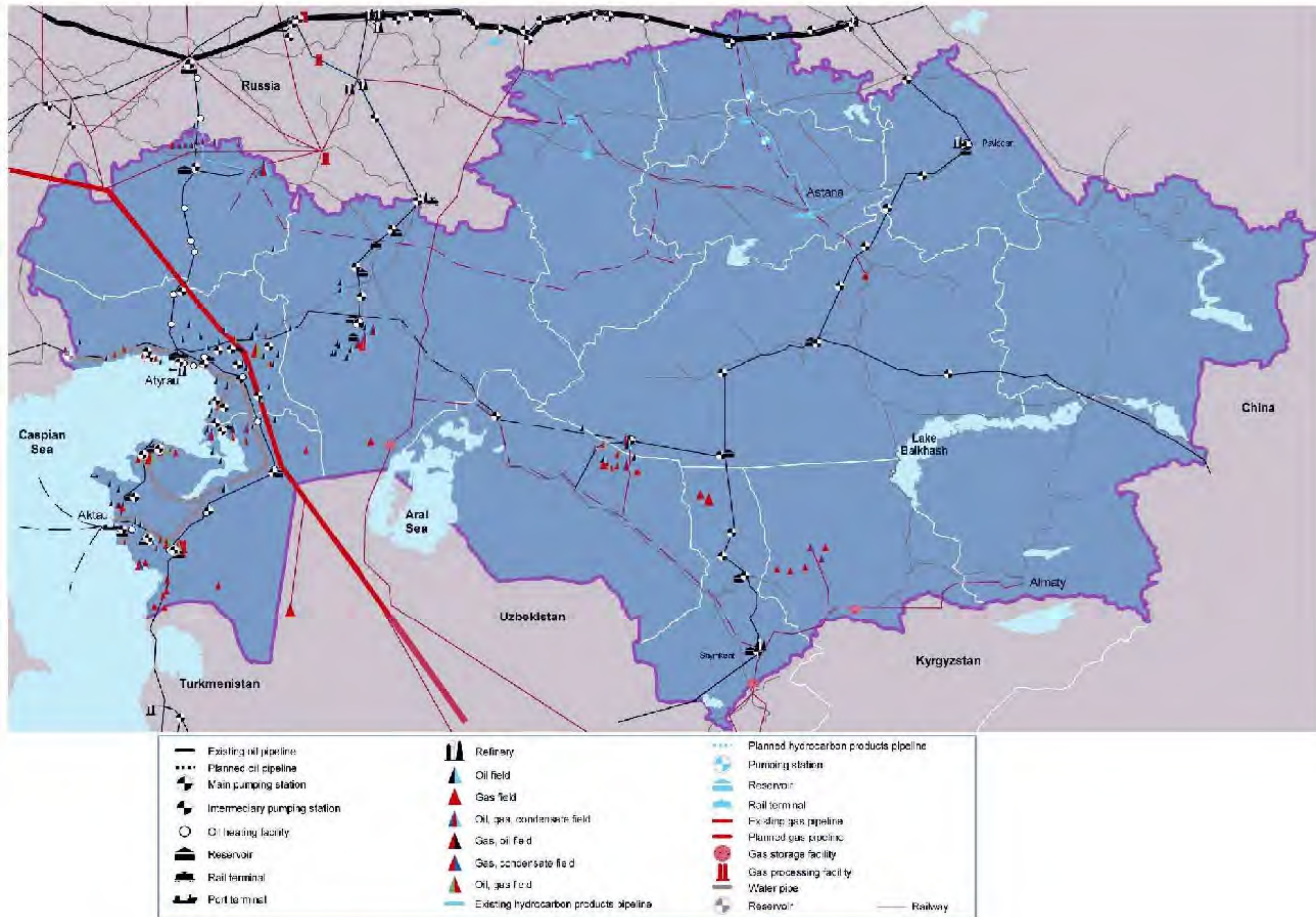
The Company calculates its reserves using the Kazakhstan methodology, which differs significantly from the internationally accepted classifications and methodologies established by PRMS and SEC Standards. In particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

According to Kazakhstan methodology, as at 31 December 2012, the Company's A+B+C1 reserves of crude oil were 787.1 million tonnes (374.4 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) and the Company's A+B+C1 reserves of gas were 463.8 bcm (274.3 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates). The Company's A+B+C1 reserves life for crude oil was 37.0 years (45.0 years, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) and the Company's A+B+C1 reserves life for natural gas was 89.1 years (168.3 years, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) as at 31 December 2012. In 2012, the Company's A+B+C1 reserves replacement ratio for crude oil (calculated by comparing net new proved crude oil reserves additions in tonnes to yearly crude oil production in tonnes) was 40% (24.8%, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) compared to 70.1% (33.5% excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) in 2011. This decrease in the Company's A+B+C1 reserves replacement ratio from 2011 to 2012 primarily reflected that the Company did not make any significant acquisitions of upstream assets in 2012. See "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*" and "*Presentation of Financial, Reserves and Certain Other Information—Certain Reserves Information*".

The Company's total revenue increased by 12.8% to KZT 2,960.4 billion for the year ended 31 December 2012 from KZT 2,625.3 billion for the year ended 31 December 2011. The Company's net profit decreased by 13.6% to KZT 413.4 billion for the year ended 31 December 2012 from KZT 478.7 billion for the year ended 31 December 2011. The Company's total revenue increased by 25.1% to KZT 2,625.3 billion for the year ended 31 December 2011 from KZT 2,098.9 billion for the year ended 31 December 2010. The Company's net profit also increased by 20.6% to KZT 478.7 billion for the year ended 31 December 2011 from KZT 397.0 billion for the year ended 31 December 2010.

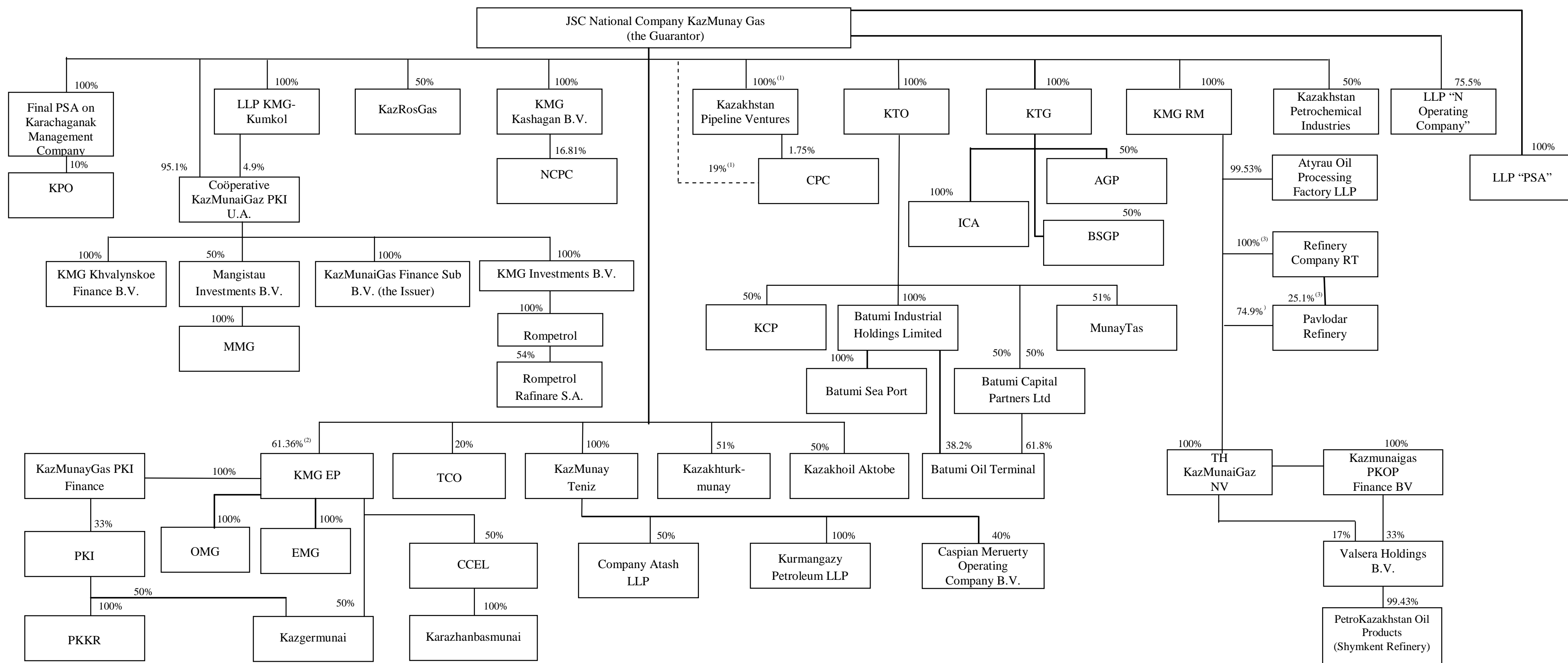
As at 31 December 2012, the Company had total assets of KZT 6,833.7 billion compared to total assets of KZT 6,178.0 billion as at 31 December 2011 and total assets of KZT 5,752.4 billion as at 31 December 2010.

The following map sets forth the principal Kazakhstan onshore exploration and production, transportation and refining and trading assets as at 31 December 2012:



Corporate Structure

The organisational structure of the principal members of the Company's group as at the date of this Base Prospectus is as follows:



Notes:

(1) The Company owns a 100.00% interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 25.1% interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 74.9% interest in Pavlodar Refinery JSC being held directly by KMG RM). Refinery Company RT leases 100% of the assets comprising Pavlodar Refinery to Pavlodar Refinery JSC, which then operates the Pavlodar Refinery.

(2) As at 1 January 2013, as a percentage of ordinary voting shares of KMG EP.

Key Strengths

The Company believes that it benefits from the following key strengths:

The Company Enjoys Strong Support from the Government.

As a company that is 100% owned by Samruk-Kazyna, which is in turn 100% owned by the Government, the Company benefits from the strong support of the Government and Samruk-Kazyna. Among other things, the Government historically has assisted the Company by providing significant equity and debt financing and strategic support and has played an important role in assisting the Company in the expansion of its operations, reserves, production levels and transportation and refining networks. The Company is also a significant contributor to the Government's budget, having contributed KZT 592.3 billion in taxes in 2012.

The Company is the Beneficiary of the Government's Pre-Emptive Rights.

Under Kazakhstan law, the Government has a pre-emptive right of acquisition with respect to any transfer of subsoil use rights and any transfer of interests in a legal entity directly or indirectly controlling another legal entity with subsoil use rights, if the core business of the controlling entity is related to subsoil use in Kazakhstan. Although the New Subsoil Law does not require the Government to do so, the Government, in practice, has been designating the Company to be the beneficiary of such pre-emptive right. The Company used this pre-emptive right to acquire interests in MMG, PKI, Kazgermunai and CCEL. The Company's management believes that these pre-emptive rights will enable the Company to further expand its interests in the Kazakhstan oil and gas production and exploration industry over time. In addition, under the Gas Law, KTG has been appointed as the "national operator" for the transportation of gas, which gives KTG a priority right (on behalf of the State) to purchase all associated gas produced in Kazakhstan, which it resells at a premium.

The Company is a Vertically-Integrated Oil and Gas Company.

The Company is vertically-integrated across the energy value chain and conducts prospecting, exploration and development, preparation, refining, transportation and retail activities, principally in Kazakhstan. Its exploration and development and transportation activities are conducted onshore and offshore (in the Caspian Sea). In addition to its domestic retail activities, it also conducts retail activities in Romania, Spain and France, among other countries. It conducts petrochemical activities both domestically and through Rompetrol. With its established track record of oil and gas production, the Company is well placed to strengthen its position in the region.

The Company is the Largest Producer of Crude Oil in Kazakhstan.

The Company is the largest producer of oil in Kazakhstan (based on data from the NSA and the Company's own statistics), with production of 21.3 million tonnes (8.3 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil in the year ended 31 December 2012. In recent years, the Company and its subsidiaries have increased the scale of their operations through acquisitions of interests in MMG, as well as in other smaller exploration and production companies. In addition, KMG EP has acquired interests in PKI, Kazgermunai and CCEL, which also are significant producers of crude oil and in 2011, the Company acquired a 10% interest in KPO, which operates the Karachaganak field, which the Company expects will significantly contribute to an increase in the Group's oil and gas production. The Company also has increased production over time with respect to KMG EP's mature oil and gas fields through the use of stimulation and secondary enhancement techniques. The Company continues to increase its crude oil production through its joint venture TCO, and construction of the next phases of the Tengiz Field expansion projects are expected to commence in 2013. Production is expected to be further increased upon commencement of commercial production in the Kashagan field, which is currently expected to occur in the second quarter of 2013.

The Company is the Operator of Kazakhstan's Extensive Oil and Gas Pipeline Networks.

Due to its strategic location and hydrocarbon reserves, Kazakhstan is a key focal point in the transportation of oil and gas from Central Asia to Europe and China. The Company's subsidiaries, KTO and KTG, directly or indirectly, are the operators of the primary hydrocarbon transport networks in Kazakhstan and thus the principal pipelines for the transport of oil and gas produced in Kazakhstan within and to the borders of Kazakhstan and through Kazakhstan from other countries. The Company also expects to benefit from announced plans to expand key pipelines, including the CPC Pipeline, the Asia Gas Pipeline and the Beineu-Bozoi-Shymkent Gas Pipeline, which will increase the Company's export capacity. The Company believes that its midstream operations, which are subject to less volatility compared to oil and gas production, provide the Company with stable cash flows and support the overall profitability of the Group. In addition, under the Gas Law, KTG has been appointed as the "national operator" for the transportation of gas, which gives KTG a priority right (on behalf of the State) to purchase all gas produced in Kazakhstan, which it resells at a premium. The

Company expects KTG's status as national operator to further enhance the Company's revenue from gas sales to end-users and lessen its dependence on gas transportation tariffs.

The Company Owns Significant Interests in all Three Major Refineries in Kazakhstan, as well as a Major Refinery in Romania.

The Company has a controlling or significant interest in all three major refineries in Kazakhstan. More specifically, the Company controls the Atyrau Refinery in Western Kazakhstan and the Pavlodar Refinery in North-eastern Kazakhstan, and it holds a 49.72% interest in the Shymkent Refinery in Southern Kazakhstan. In addition, the Company has a 54.6% interest in Rompetrol Rafinare, which owns and operates, among others, the Petromidia Refinery in Romania, as well as the Vega Refinery in Romania. Ownership of the Petromidia Refinery, as well as the Vega Refinery, has enhanced the Company's ability to process its crude oil and sell refined oil products in the Romanian and other European markets. The Company believes that its refining operations comprise an important part of its operations and the Company is continuing its efforts to modernise its refineries with the aim of improving the efficiency and profitability of its downstream business.

Strategy

The Company's goal is to maintain its position as the leading vertically-integrated oil and gas company in Kazakhstan with vertically-integrated upstream, midstream and downstream operations, by focusing on the following priorities:

Increasing the Company's Production and Replacing Maturing Reserves.

Based on NSA statistics and the Company's internal information, the Company is the largest producer of oil in Kazakhstan. The Company plans to retain this position, in particular, by utilising the Company's position as the national oil and gas company, which has, in practice, been designated by the Government to exercise the Government's pre-emptive rights under Articles 12 and 36 of the New Subsoil Law. In addition, the Company will continue to seek to expand through both organic growth (mainly through offshore Caspian projects) and strategic acquisitions of existing onshore and offshore exploration and production companies in Kazakhstan or elsewhere. For example, in November 2009, the Company acquired MMG, Kazakhstan's fifth-largest oil producer, which operates oil and gas fields in Kalamkas and Zhetybai, as well as other upstream and exploration assets, including licences to explore and develop over 15 other oil and gas fields in Kazakhstan and the Caspian region. The Company will also seek to enter into joint ventures with major international oil and gas companies, as it did with TCO, NCPC and KPO, or increase its participation in existing joint ventures, to enable the development of more complex oil and gas fields. Further, KMG EP will, through the use of stimulation and secondary enhancement techniques, work to stabilise the production of its mature oil and gas fields.

Improving the Efficiency of Operations.

The Company has conducted a benchmark analysis of 22 major international vertically-integrated oil and gas companies and, as a result, has developed a strategy to improve the efficiency of its operations. As part of this strategy, in February 2012, the Board of the Directors of the Company approved a reorganisation of the Company's corporate structure into six core business units in order to enhance its operational efficiency, streamline management processes and encourage more direct reporting. Simultaneously, the Company is conducting an ongoing reorganisation of the Group structure by divesting assets that are not core to its business and consolidating its core businesses into units based on its six business segments, including: (i) production and technical development; (ii) geology and prospective projects; (iii) transport infrastructure; (iv) refinery and petrochemistry; (v) innovation development and service projects; and (vi) economy and finance. To generate further efficiencies in its core businesses, the Company also intends to centralise certain support functions, such as IT, internal audit functions and human resources, in order to provide all such services to each business unit from a single source. Each business unit will be led by a Deputy Chairman of the Management Board who will be required to develop a strategic business plan for the unit and to report directly to the Chairman of the Management Board on the operational developments of the unit. The Company is also reviewing the corporate structure of its subsidiaries and affiliates and is in the process of disposing of certain non-core assets, in particular those relating to its social obligations, which is expected to contribute positively to the Company's net income once completed.

Enhancing its Transportation Systems by Developing New Transportation Routes and Increasing the Capacity of Existing Networks.

The Company plans to maintain its strategic position as a key regional transportation company by, among other things, (i) operating the KC Pipeline, which stretches from Atyrau in Western Kazakhstan to China and was completed in October 2009 with the completion of the Kenkiyak-Kumkol Pipeline; (ii) further developing the Asia Gas Pipeline, which transmits gas from other Central Asian states to major population centres in Southern Kazakhstan and to China, the third phase of which is expected to be completed by January 2016; (iii) expanding the CPC Pipeline, which is expected to be completed by 2015; and (iv) developing the Beineu-Bozoi-Shymkent Gas Pipeline, which will transmit gas from Beineu

in Western Kazakhstan to Shymkent in Southern Kazakhstan and is currently under construction, with the first stage of the pipeline, with a planned throughput capacity of up to 6 bcm per year, expected to be completed by May 2015. The capacity of the Beineu-Bozoi-Shymkent Gas Pipeline is expected to then be further expanded to 10 bcm by the end of 2016. The Company is also considering additional expansion projects to maintain its strategic position. These projects will also provide the Company with additional export capacity for its crude oil and natural gas production. In addition, the Company is planning to improve the existing network by addressing the physical depreciation of certain parts of the system and replacing technologically vulnerable sections in order to maintain existing capacity.

Increasing Profitability by Expanding its Downstream Activities.

The Company is expanding its downstream activities, including with respect to its international and domestic marketing and retail network, in order to increase profitability. The Company's acquisition of Rompetrol was in line with this strategy and allows the Company to access European markets for oil products refined at the Petromidia Refinery and the Vega Refinery. As part of this strategic initiative, the Company supplies the majority of Rompetrol's feedstock using the Company's own crude oil production. In addition, the Company has a significant or controlling interest in all three of Kazakhstan's principal oil refineries and is investing significant amounts in order to improve efficiency and profitability, as well as the quality of the refined products produced at the three refineries, generally and to comply with new ecological standards (Euro 4 and Euro 5 standards) imposed by the Customs Union. The Company is also considering options to increase the number of its retail units organically, as well as through potential acquisitions of further retail outlets and retail chains domestically and abroad.

Increasing the Scope of the Company's International Activities.

The Company is increasing its operations outside of Kazakhstan, in particular its downstream activities, in order to take advantage of higher international prices for its products and to secure lines of supply. For example, the Company is continuing to assess opportunities to expand its retail stations business in existing and new markets. The Company is also beginning preliminary exploration activities in two onshore blocks in Romania.

Reserves

According to Kazakhstan methodology, as at 31 December 2012, the Company's A+B+C1 reserves of crude oil were 787.1 million tonnes (374.4 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates). Reserves are measured only on an annual basis, and, accordingly, no reserve information is available as at any date subsequent to 31 December 2012.

The following table sets forth the Company's A+B+C1 reserves that are attributable to the Company as at 31 December 2012:

	For the year ended 31 December 2012				
Company and Field	**% ownership interest**	**Oil**	**% of total**	**Gas**	**% of total**
		(tonnes in millions)		*(mcm)*	
Consolidated Subsidiaries, Jointly-Controlled Assets and KPO:					
Total for KMG EP	61.36%[2]	**217.4**	**27.6**	**60,330.0**	**13.0**
Uzen Field		141.3	18.0	15,940.0	3.4
EMG Fields		76.1	9.7	30,137.0	6.5
Other Fields		—	0.0	14,253.0	3.1
Total for NCPC	16.81%	**142.1**	**18.1**	**98,338.0**	**21.2**
Kashagan Field		138.6	17.6	90,427.0	19.5
Other Fields		3.5	0.4	7,911.0	1.7
Total for KPO, Karachaganak Field[1]	10.00%	**13.5**	**1.7**	**75,338.0**	**16.2**
Total for Urikhtau Operating	100.00%	**1.4**	**0.2**	**40,298.0**	**8.7**
Urikhtau Field		1.4	0.2	40,298.0	8.7
Total for Subsidiaries and Jointly-Controlled Assets:		**374.4**	**47.6**	**274,304.0**	**59.1**
Non-consolidated Jointly-Controlled Entities and Associates:					
of the Company:					
Total for TCO[3]	20.00%	241.0	30.6	123,296.0	26.6
Tengiz Field		**225.5**	**28.6**	**114,283.0**	**24.6**
Other fields		15.5	2.0	9,013.0	1.9
Total for Kazakhoil Aktobe	50.00%	**27.1**	**3.4**	**9,408.5**	**2.0**
Alibekmola Field		17.1	2.2	4,462.8	1.0
Other fields		10.0	1.3	4,945.7	1.1
Total for MMG	50.00%	**79.6**	**10.1**	**44,967.0**	**9.7**
Kalamkas Field		37.8	4.8	13,679.0	2.9
Zhetybai Field		29.5	3.7	13,084.0	2.8
Other fields		12.2	1.6	18,204.0	3.9
Other joint ventures		**3.4**	**0.4**	**2,146.8**	**0.5**
of KMG EP:	61.36%[2]				
Total for Kazgermunai	50.00%	**15.6**	**2.0**	**3,796.0**	**0.8**
Akshabulak Field		12.8	1.6	1,812.5	0.4
Other Fields		2.8	0.4	1,983.5	0.4
Total for PKI	33.00%	**20.5**	**2.6**	**5,653.6**	**1.2**
PKKR		9.9	1.3	3,535.0	0.8
Other Fields		10.6	1.3	2,118.6	0.5
Total for CCEL	50.00%	**25.7**	**3.3**	**212.0**	**0.0**
Karazhanbas Field		25.7	3.3	212.0	0.0
Total for Jointly-Controlled Entities and Associates		**412.7**	**52.4**	**189,479.9**	**40.9**
Total		**787.1**	**100.0**	**463,783.9**	**100.0**

Notes:

(1) Recognising that KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method.

(2) As at 1 January 2013, as a percentage of ordinary voting shares of KMG EP.

(3) The gas at the Tengiz Field and other fields operated by TCO is all associated gas, which cannot be classified as category A, B or C1 under Kazakhstan methodology, and therefore, is not included in the reserves estimates presented in this Base Prospectus.

See "*Risk Factors—Risks Relating to the Company's Business—The reported quantities or classifications of the Company's crude oil and gas reserves may be lower than estimated because of inherent uncertainties in the calculation of reserves and because of the use of Kazakhstan methodology*", "*The Oil and Gas Industry in Kazakhstan—Reserve*

Classifications" and "*Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates*".

Exploration and Production

Overview

Based on NSA statistics and the Company's internal information, the Company's management believes that the Company was the largest crude oil producer in Kazakhstan in terms of production volume as at 31 December 2012. In the year ended 31 December 2012, the Company's production of crude oil was 21.3 million tonnes (8.3 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) compared to 21.1 million tonnes (7.9 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) in the year ended 31 December 2011 and 21.9 million tonnes (8.8 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) in the year ended 31 December 2010. The Company's production of crude oil (including the production of joint ventures and associates) represented 26.9%, 26.3% and 26.4% of the total crude oil production in Kazakhstan in 2012, 2011 and 2010, respectively, based on the Company's internal information and information obtained from the NSA. KMG EP (including KMG EP's proportionate interest in Kazgermunai) represented 43.8%, 44.7% and 47.1% of the Company's production of crude oil in 2012, 2011 and 2010, respectively. TCO represented 22.7%, 24.5% and 23.6% of the Company's total production of crude oil in 2012, 2011 and 2010, respectively.

In the year ended 31 December 2012, the Company's production of gas was 5.2 bcm (1.6 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas, as compared to 4.5 bcm (0.8 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas in the year ended 31 December 2011 and 4.6 bcm (0.9 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas in the year ended 31 December 2010. The Company's production of gas (including the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) represented 12.9%, 11.5% and 12.3% of the total gas production in Kazakhstan in 2012, 2011 and 2010, respectively, based on the Company's internal information and information obtained from the NSA. The Company's major gas producing subsidiaries and interests are KMG EP (including KMG EP's proportionate interest in Kazgermunai), TCO and KPO. KMG EP produced 19.8% (or 1.0 bcm), 24.4% (or 1.1 bcm) and 25.2% (or 1.1 bcm) of the Company's production of gas in 2012, 2011 and 2010, respectively. TCO produced 48.8% (or 2.5 bcm), 59.8% (or 2.7 bcm) and 59.6% (or 2.7 bcm) of the Company's production of gas in 2012, 2011 and 2010. KPO, in which the Company holds a 10.0% interest, produced 0.9 bcm of gas in 2012, representing 16.5% of the Company's production of gas.

The Company classifies its upstream operations into two categories: "production and development assets" and "exploration projects". Production and development assets consist of subsidiaries and joint ventures with fields that are either currently producing or are at the development stage as approved by the MOG. Exploration projects consist of subsidiaries and joint ventures that are not currently approved by the MOG as producing fields and are still at the exploration stage. Generally, on completion of an initial exploration programme and if the MOG approves the project, a project will enter the development phase and join the production and development assets category.

See "*The Oil and Gas Industry in Kazakhstan—Regulatory Bodies—Ministry of Oil and Gas*" and "*Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates*".

Production and Development Assets

The following tables set forth the production attributable to the Company from its consolidated subsidiaries and non-consolidated jointly-controlled entities and associates for the periods indicated:

Company and Field	% Ownership Interest[(1)]	For the year ended 31 December					
		2012		2011		2010	
		Oil	Gas	Oil	Gas	Oil	Gas
		(thousand tonnes)	*(mcm)*	*(thousand tonnes)*	*(mcm)*	*(thousand tonnes)*	*(mcm)*
Consolidated Subsidiaries and KPO:							
Total for KMG EP	61.36%[(2)]	**7,776.4**	**770.3**	**7,911.1**	**843.1**	**8,779.7**	**889.7**
Uzen Field		4,950.2	201.9	5,081.7	207.1	5,965.8	243.9
EMG Fields		2,815.8	180.2	2,816.0	167.5	2,800.0	157.8
Other Fields		10.4	388.2	13.4	468.5	13.9	487.9
Total for KPO[(3)]	10.00%	**550.0**	**860.0**	—	—	—	—
Total for Subsidiaries		**8,326.4**	**1,630.3**	**7,911.1**	**843.1**	**8,779.7**	**889.7**
Non-consolidated Jointly-Controlled Entities and Associates:							
of the Company:							
Total for TCO	20.00%	**4,840.0**	**2,540.0**	**5,160.0**	**2,700.0**	**5,182.5**	**2,724.0**
Tengiz Field		4,310.0	2,260.0	4,510.0	2,350.0	4,522.8	2,385.6
Other Fields		530.0	280.0	650.0	350.0	659.7	338.4
Total for Kazakhoil Aktobe	50.00%	**626.2**	**182.5**	**570.4**	**149.8**	**488.1**	**141.2**
Alibekmola Field		292.8	93.0	305.5	85.2	289.6	91.1
Other Fields		333.4	89.5	264.9	64.6	198.5	50.2
Total for MMG		**2,960.4**	**270.7**	**2,875.0**	**256.0**	**2,860.2**	**226.5**
Kalamkas Field		2,122.9	190.1	2,100.8	181.5	2,108.4	154.3
Other Fields		837.5	80.6	774.2	74.5	751.8	72.2
Other Jointly-Controlled Entities		**118.8**	**39.3**	**117.5**	**14.5**	**116.0**	**9.6**
of KMG EP:	61.36%[(2)]						
Total for Kazgermunai	50.00%	**1,562.2**	**257.6**	**1,499.9**	**259.3**	**1,551.1**	**258.4**
Akshabulak Field		1,288.5	182.6	1,210.0	172.3	1,288.5	180.6
Other Fields		273.7	75.0	289.9	87.0	262.6	77.7
Total for PKI	33.00%	**1,844.5**	**274.3**	**1,951.2**	**287.6**	**1,998.7**	**310.9**
PKKR		976.1	152.8	1,044.7	162.4	1,001.9	179.2
Other Fields		868.4	121.5	906.5	125.2	996.8	131.7
Total for CCEL		**1,018.7**	**10.0**	**990.4**	**8.2**	**970.3**	**8.1**
Karazhanbas Field		1,018.7	10.0	990.4	8.2	970.3	8.1
Total for Jointly-Controlled Entities and Associates		**12,970.8**	**3,574.4**	**13,164.4**	**3,675.4**	**13,166.9**	**3,678.5**
Total		**21,297.2**	**5,204.7**	**21,075.5**	**4,518.5**	**21,946.6**	**4,568.2**

Notes:

(1) As at 1 January 2013.

(2) As at 1 January 2013, as a percentage of ordinary voting shares of KMG EP.

(3) Recognising that KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method.

The following table sets forth certain information relating to the production and development activities of the Company and its subsidiaries, joint ventures and associates at their respective significant fields as at the dates and for the periods indicated:

Company and Field	% of Ownership Interest[1]	Date Commenced	Expiration of Agreement	Production wells[1]	Injection wells[1]
Consolidated Subsidiaries, Jointly-Controlled Assets and KPO:					
KMG EP:	61.36% [2]				
Uzen Field.................		1965	2020	3,698	1,212
EMG Fields...............		between 1911-1999	between 2020-2030	2,283	458
Other Fields...............		between 1973-1982	between 2020-2030	38	0
NCPC:					
Kashagan Field..........		2001	2041	16	4
KPO:[3]	10.00%				
Karachaganak Field....				96	16
Total for Subsidiaries.		—	—	**6,131**	**1,690**
Non-consolidated Jointly-Controlled Entities and Associates:					
of the Company:					
TCO:	20.00%				
Tengiz Field		1991	2033	102	8
Kazakhoil Aktobe:	50.00%				
Alibekmola Field		2001	2023	65	24
MMG:					
Kalamkas Field		1979	2031	2,039	633
Zhetybai Field...........		1967	2031	1,160	441
Other fields		between 1990-2003	between 2020-2030	43	5
of KMG EP:	61.36%[2]				
Kazgermunai:	50.00%				
Akshabulak Field		1997	2024	84	19
PKI:	33.00%				
PKKR........................		between 1984-2000	between 2019-2024	518	148
CCEL:					
Karazhanbas Field......				2460	620
Total for Jointly-Controlled Entities and Associates		—	—	**6,471**	**1,898**
Total............................		—	—	**12,602**	**3,588**

Notes:

(1) As at 1 January 2013.

(2) As at 1 January 2013, as a percentage of ordinary voting shares of KMG EP.

(3) Recognising that KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method.

The following table sets forth certain information relating to new wells drilled by the Company and its subsidiaries, joint ventures and associates at their respective significant fields as at the dates and for the periods indicated:

	New wells drilled					
	Production wells	Other wells	Production wells	Other wells	Production wells	Other wells
	For the year ended 31 December					
Company and Field	**2012**	**2012**	**2011**	**2011**	**2010**	**2010**
Consolidated Subsidiaries, Jointly-Controlled Assets and KPO:						
KMG EP:						
Uzen Field............	104	77	122	50	78	80
EMG Fields..........	59	6	63	2	55	2
NCPC:						
Kashagan Field......	0	0	0	1	—	—
KPO:[(1)]						
Karachaganak Field.....................	4	0	—	—	—	—
Total for Subsidiaries...........	**167**	**83**	**185**	**53**	**133**	**82**
Non-consolidated Jointly-Controlled Entities and Associates:						
of the Company:						
TCO:						
Tengiz Field	2	0	0	0	—	—
Kazakhoil Aktobe:						
Alibekmola Field ..	3	0	9	0	6	0
MMG:						
Kalamkas Field	33	12	25	7	18	2
Zhetybai Field.......	50	15	22	11	15	10
Other fields	1	0	1	0	3	0
of KMG EP:						
Kazgermunai:						
Akshabulak Field ..	6	0	9	1	9	0
PKI:						
PKKR...................	49	2	64	0	42	1
CCEL:						
Karazhanbas Field.	161	1	155	11		
Total for Jointly-Controlled Entities and Associates	**305**	**30**	**285**	**30**	**93**	**13**
Total.......................	**472**	**113**	**470**	**83**	**226**	**95**

Note:
(1) Recognising that KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method.

Significant Production Fields of KMG EP

KMG EP is the Company's largest consolidated subsidiary in terms of A+B+C1 reserves of crude oil and gas, representing 27.6% of the Company's A+B+C1 reserves of crude oil and 13.0% of the Company's A+B+C1 reserves of gas (in each case, excluding Kazgermunai, PKI and CCEL). KMG EP is also the Company's largest subsidiary in terms of production volume, representing 36.5% of the Company's production of crude oil in 2012 and 14.8% of the Company's production of gas in 2012 (in each case, excluding Kazgermunai, PKI and CCEL).

Many of KMG EP's significant fields are mature; therefore, production levels are achieved by various field stimulation and rehabilitation projects, including drilling and completing new wells, completing well workovers and introducing

various secondary enhancement and well stimulation and recovery techniques. See "*—Oil Field Development and Rehabilitation*".

The Company owns 61.36% of the share capital of KMG EP, with the remaining issued share capital (represented by common shares listed on the KASE and GDRs listed on the London Stock Exchange) being publicly held. On 30 September 2009, China Investment Corporation announced that it had acquired an 11% stake in KMG EP through the purchase of GDRs on the open market for a total consideration of U.S.$939 million. Although this stake is significant, KMG EP has not granted China Investment Corporation any special shareholder rights as a result of this transaction, nor has China Investment Corporation requested a seat of KMG EP's Board of Directors.

Uzen Field

The Uzen Field is the largest oil field of KMG EP in terms of crude oil reserves and production volume. As at 31 December 2012, the Uzen Field had estimated A+B+C1 reserves of crude oil of 141.3 million tonnes and A+B+C1 reserves of gas of 15,940 mcm, representing 18.0% and 3.4% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Uzen Field, located in the Mangistau oblast, was discovered in 1961 and started producing in 1965. Oil production at the Uzen Field is from 13 horizons in the Jurassic formation, located at depths shallower than 1,800 m. The Ural and Brent grades of crude oil produced at the Uzen Field usually have maximum API gravity of 34 degrees, sulphur content ranging from 0.16% to 0.24%, significant paraffinic content and an average watercut of 81.5%

The Uzen Field's wellstock consisted of 3,698 production wells and 1,212 injection wells as at 31 December 2012, including 181 new wells drilled in 2012. The Uzen Field produced 5.0 million tonnes of crude oil in 2012, 5.1 million tonnes of crude oil in 2011 and 6.0 million tonnes of crude oil in 2010, representing 23.2%, 24.1%, and 27.2%, respectively, of the Company's production of crude oil for the respective years. In 2012, production wells at the Uzen Field produced an average of 13,562 tonnes of crude oil per well per day.

The Uzen Field produced 201.9 mcm of gas in 2012, representing 3.9%, of the Company's production of gas, 61.3 mcm of which was used for the internal needs of the Uzen Field. Gas utilised for internal needs is used to heat the oil contained in KMG EP's pipelines, which otherwise solidifies at temperatures below -35 C° due to its paraffinic nature. The remaining gas is sent to KMG EP's gas processing plant in Uzen for processing and subsequent sale. The Uzen field produced 207.1 mcm of gas in 2011 and 243.9 mcm of gas in 2010, representing 4.6% and 5.3%, respectively, of the Company's production of gas for those years.

In the year ended 31 December 2012, production of crude oil at the Uzen Field decreased by 2.6% or 131.5 thousand tonnes, as compared to the year ended 31 December 2011, primarily due to the impact of the strike at the Ozenmunaigaz production unit in May to August 2011 on the Company's production in 2012, as well as an increase in the number of idle wells, low turnaround times and non-execution of geological and technical measures, which created a backlog from the crude oil production plan. Late deliveries and delays in repair works also contributed to the decrease in production. For the year ended 31 December 2011, production of crude oil at the Uzen Field decreased by 14.8% or 884.1 tonnes compared to the year ended 31 December 2010, primarily due to loss in the production of crude oil caused by the strike at the Ozenmunaigaz production unit, which commenced in May 2011 and ended in August 2011, as well as a number of power-cuts. See "*—Employees*" and "*Risk Factors—Risks Related to the Company's Business—Labour unrest may materially adversely affect the Company's business*".

The 2011 strike at the Ozenmunaigaz production unit led to a drop in well pressure and capital expenditure programmes, as well as delays to maintenance. Consequently, production from the Ozenmunaigaz production unit declined in 2012 compared to previous years. KMG EP is expending considerable efforts and financial resources to take remedial efforts to restore production at the Ozenmunaigaz production unit. Such efforts include the introduction of a modernisation programme at OMG to: (i) increase production at the Uzen field to 120,000 barrels of crude oil per day; (ii) increase the overhaul period by approximately 35%; (iii) reduce the number of repair works required; (iv) reduce the period of time in which wells are idle; (v) reduce the vulnerability of production to negative external factors; (vi) improve safety and working conditions; and (vii) improve employee relations. KMG EP expects to implement this programme by 2014 at a budgeted cost of U.S.$700 million, of which approximately U.S.$104 million was spent in 2012.

EMG Fields

The EMG fields comprise a total of 39 oil fields located around the northern and eastern shores of the Caspian Sea in the Atyrau oblast. Of the producing EMG fields, the following eight fields are the largest in terms of reserves as well as production volume: (i) Kenbai (East Moldabek/North Kotyrtas) Field; (ii) Nurzhanov Field; (iii) Kamyshitovoye Southwest Field; (iv) Botakhan Field; (v) Makat East Field; (vi) Zaburunye Field; (vii) Zhanatalap Field; and

(viii) Kamyshitovoye Southeast Field. As at 31 December 2012, the EMG fields had estimated A+B+C1 reserves of crude oil of 76.1 million tonnes and A+B+C1 reserves of gas of 30,137 mcm, representing 9.7% and 6.5% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The following table sets forth certain information relating to the most significant EMG fields:

Field	Date production commenced	Producing geologic formation
Kenbai (East Moldabek/North Kotyrtas) Field	1996	Production is from 15 horizons in the Cretaceous, Jurassic and Triassic formations, located at depths shallower than 1,900 m
Nurzhanov Field	1967	Production is from nine horizons in the Cretaceous, Jurassic and Triassic formations, located at depths shallower than 3,320 m
Kamyshitovoye Southwest Field	1972	Production is from seven horizons in the Cretaceous, Jurassic and Permotriassic formations, located at depths shallower than 850 m
Botakhan Field	1981	Production is from two horizons in the Jurassic formation, located at depths shallower than 1,400 m
Makat East Field	1993	Production is from six horizons in the Cretaceous, Jurassic and Permotriassic formations, located at depths shallower than 1,350 m
Zaburunye Field	1989	Production is from three horizons in the Cretaceous formation, located at depths shallower than 920 m
Zhanatalap Field	1974	Production is from seven horizons in the Jurassic and Permotriassic formations, located at depths shallower than 1,200 m
Kamyshitovoye Southeast Field	1987	Production is from four horizons in the Cretaceous and Jurassic formations, located at depths shallower than 650 m

The EMG fields' wellstock consisted of 2,283 production wells and 458 injection wells as at 31 December 2012, including 65 new wells drilled in 2012. The EMG fields produced 2.8 million tonnes of crude oil in each of 2012, 2011 and 2010, representing 13.2%, 13.4% and 12.8%, respectively, of the Company's production of crude oil for those years. In the year ended 31 December 2012, production wells at the EMG fields produced an average of 7,715 tonnes of crude oil per well per day.

The EMG fields also produced 180.2 mcm of gas in 2012, 167.5 mcm of gas in 2011 and 157.8 mcm of gas in 2010, representing 3.5%, 3.7%, and 3.5%, respectively, of the Company's production of gas for those years. Gas produced at the EMG fields is used exclusively to satisfy KMG EP's internal needs. Gas utilised for internal needs is used to heat the oil contained in KMG EP's pipelines which otherwise solidifies at temperatures below-35°C due to its paraffinic nature.

Significant Production Fields of KMG EP's Joint Ventures and Associates

Kazgermunai

Kazgermunai is a joint venture, in the form of a jointly-controlled entity, between KMG EP and PKI, with each having a 50% interest. The Company acquired a 50% interest in Kazgermunai in July 2006 and sold its entire interest in Kazgermunai to KMG EP on 24 April 2007. Through its 33% interest in PKI, KMG EP also realises economic benefits from PKI's 50% interest in Kazgermunai, which are passed on to the Company through its interest in KMG EP.

Kazgermunai operates the Akshabulak Field, the largest of its fields, pursuant to a Subsoil Use Agreement that expires in 2024. As at 31 December 2012, the Akshabulak Field had estimated A+B+C1 reserves of crude oil of 12.8 million tonnes and A+B+C1 reserves of gas of 1,812.51.6 mcm attributable to the Company through KMG EP, representing 1.6% and 0.4% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Akshabulak Field, located in the Kyzylorda oblast, was discovered in 1984 and started producing in July 1989. Oil production at the Akshabulak Field is from three horizons in the Jurassic and Cretaceous formations, located at depths shallower than 1,800 m. The Ural grade of crude oil produced at the Akshabulak Field usually has maximum density of 900 kg per cubic metre, sulphur content ranging from 0.1% to 0.3% and an average watercut of 2.0%.

The Akshabulak Field's wellstock consisted of 84 production wells and 19 injection wells as at 31 December 2012, including 6 new wells drilled in 2012. The Akshabulak Field produced 1.3 million tonnes of crude oil in 2012, 1.2 million

tonnes of crude oil in 2011 and 1.3 million tonnes of crude oil in 2010, in each case attributable to the Company through KMG EP, representing 6.1%, 5.7% and 5.9%, respectively, of the Company's production of crude oil for those years. In 2012, production wells at the Akshabulak Field produced an average of 3,530 tonnes of crude oil per day attributable to the Company through KMG EP.

The Akshabulak Field produced 182.6 mcm of gas in 2012, 172.3 mcm of gas in 2011 and 180.6 mcm of gas in 2010, which was attributable to the Company through KMG EP, representing 3.5%, 3.8% and 4.0%, respectively, of the Company's production of gas for those years.

CCEL

CCEL is a joint venture, in the form of a jointly-controlled entity, between KMG EP and CITIC, with each having a 50% interest. KMG EP acquired its 50% interest in CCEL on 12 December 2007.

CCEL has a 94.63% interest in the entity developing the Karazhanbas Field in Western Kazakhstan. As at 31 December 2012, the Karazhanbas Field had estimated A+B+C1 reserves of crude oil of 10.6 million tonnes and A+B+C1 reserves of gas of 2,118.6 mcm attributable to the Company through KMG EP, representing 1.3% and 0.5% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Karazhanbas Field, located in the Mangistau oblast, was discovered in 1974 and started producing in 1980. Oil production at the Karazhanbas Field is from five horizons in the Jurassic and Cretaceous formations, located at depths shallower than 400 m. The Ural grade of crude oil produced at the Karazhanbas Field usually has maximum density of 900 kg per cubic metre, sulphur content ranging from 0.1% to 0.2% and an average watercut of 80%.

The Karazhanbas Field's wellstock consisted of 2,460 production wells and 620 injection wells as at 31 December 2012, including 162 new wells drilled in 2012. The Karazhanbas Field produced 1.0 million tonnes of crude oil in each of 2012, 2011 and 2010, representing 4.8%, 4.7% and 4.4%, respectively, of the Company's production of crude oil for those years. In 2012, production wells at the Karazhanbas Field produced an average of 2,791 tonnes of crude oil per day.

The Karazhanbas Field produced 10.0 mcm of associated gas in 2012, 8.2 mcm of associated gas in 2011 and 8.1 mcm of associated gas in 2010, representing 0.2% of the Company's production of gas in each year.

PKI

On 5 July 2006, the Company acquired a 33% interest in PKI from CNPC for KZT 169.4 billion. In December 2009, the Company sold its interest in PKI to KMG EP. Accordingly, PKI is an associate of KMG EP, and, as such, the Company does not have a direct interest in PKI's reserves or production.

The exploration and development activity of PKI is performed by Kazgermunai (in which PKI has a 50% interest) and PKKR, PKI's wholly-owned subsidiary. For details of Kazgermunai's operations, see "—*Kazgermunai*". PKKR has obtained two exploration and five exploration and production contracts from the MEMR in exchange for seven fields in the 80,000 km^2 South Turgai Basin in Southern Kazakhstan.

The following table sets forth certain information regarding PKKR's five production fields:

Field	**Date production commenced**	**Producing geologic formation**
Kumkol South and blocks adjacent thereto..	1984	Located in the Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth ranging from 900 to 1,370 m
Aryskum Field................................	1985	Located in the Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth of 1,200 m
South-east Kumkol Field................	1997	Located in the Kyzylorda and Dzheskazgan oblasts in the lower Cretaceous and Jurassic formations with the depth shallower than 1,585 m
Maibulak Field	1988	Located in the Karaganda and Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth shallower than 1,160 m
Kyzylkiya Field	2000	Located in the Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth shallower than 1,550 m

As at 31 December 2012, PKKR's fields had estimated A+B+C1 reserves of crude oil of 25.7 million tonnes, and A+B+C1 reserves of gas of 212.0 mcm attributable to the Company through PKI and KMG EP, representing 3.3% and an immaterial percentage of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Ural grade of crude oil produced at the PKKR's fields usually has maximum density of 800 kg per cubic metre, sulphur content of 0.1% and an average watercut of 65%.

The PKKR fields' wellstock consisted of 518 production wells and 148 injection wells as at 31 December 2012, including 51 new wells drilled in the year ended 31 December 2012. The PKKR fields produced 1.0 million of crude oil attributable to the Company through PKI and KMG EP in each of 2012, 2011 and 2010, representing 4.6%, 5.0%, and 4.6%, respectively, of the Company's production of crude oil. In 2012, production wells at the PKKR fields produced an average of 2,674 tonnes of crude oil per well per day attributable to the Company through PKI and KMG EP.

The PKKR fields produced 152.8 mcm of gas in 2012, 162.4 mcm of gas in 2011 and 179.2 mcm of gas in 2010, which was attributable to the Company through PKI and KMG EP, representing 2.9%, 3.6%, and 3.9%, respectively, of the Company's production of gas for those years.

Significant Production Fields of Other Jointly-Controlled Entities and Associates

TCO

TCO owns the single largest production field in Kazakhstan and is the Company's most significant joint venture in terms of production of oil and has been a key driver of the Company's growth in total production in the years ended 31 December 2012, 2011 and 2010. TCO is a joint venture between the Company (20%), Chevron (50%), ExxonMobil Kazakhstan Ventures Inc. (25%) and LukArco (5%). See "*Share Capital, Sole Shareholder and Related Party Transactions—Relationships Between the Company and TCO*" for a discussion of the agreements relating to the operation and internal governance of TCO.

TCO operates the Tengiz Field in Western Kazakhstan, which is among the largest fields under development in the world based on estimated A+B+C1 reserves. TCO also operates the nearby Korolev Field. The Government has granted TCO exclusive rights to develop a 4,000 km^2 area adjacent to the Caspian Sea under a Subsoil Use Agreement that can be extended by TCO to 2033.

Tengiz Field

As at 31 December 2012, the Tengiz Field had estimated A+B+C1 reserves of crude oil of 225.5 million tonnes and A+B+C1 reserves of gas of 114,283 mcm attributable to the Company, representing 28.6% and 24.6% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Tengiz Field, located in the Atyrau oblast on the south side of the 500,000 km^2 Pre-Caspian Basin on the north-eastern edge of the Caspian Sea, was discovered in 1979 and started producing in 1991. The Tengiz reservoir is over 110 km^2 in area at its top and 400 km^2 at its base with a maximum thickness from the top of the reservoir to the bottom of the reservoir of about 1.5 km. The top of the reservoir is 3,850 m below sea level. The lowest known oil is 5,429 m below sea level. The Tengiz reservoir is part of a large ring like complex 50 km in diameter, which includes the Korolev, Karaton, Tazhigali and Pustyn carbonate structures. The Tengiz reservoir was formed during the Devonian and Carboniferous eras by recurrent deposition of skeletal fragments and lime mud.

Since the oil from Tengiz Field has a high sulphur content, TCO estimates that, as at 31 December 2012, 2.7 million tonnes (4.1 million tonnes as at 31 December 2011 and 5.8 million tonnes as at 31 December 2010) of sulphur by-product were stored in the form of large sulphur blocks. TCO sold 3.5 million tonnes of sulphur in 2012, 3.8 million tonnes in 2011 and 3.6 million tonnes in 2010. TCO produced 2.1 million tonnes of sulphur in 2012, 2.3 million tonnes in 2011 and 2.4 million tonnes in 2010. See "*Risk Factors—Risks Related to the Company's Business—Oil at several of the Company's fields has a high sulphur content and produces a high level of sulphur by product that must be managed in an environmentally sensitive manner*".

The Tengiz Field's wellstock consisted of 102 production wells and 8 injection wells as at 31 December 2012, including 2 new wells drilled in 2012. The Tengiz Field produced 4.3 million tonnes of crude oil attributable to the Company in 2012, 4.5 million tonnes of crude oil in 2011 and 4.5 million tonnes of crude oil in 2010, representing 20.2%, 21.4% and 20.6%, respectively, of the Company's production of crude oil for those years. In 2012, production wells at the Tengiz Field produced an average of 11,808 tonnes of crude oil per day attributable to the Company.

The Tengiz Field produced 2,260.0 mcm of gas attributable to the Company in 2012, 2,350.0 mcm of gas in 2011 and 2,385.6 mcm of gas in 2010, representing 43.4%, 52.0% and 52.2%, respectively, of the Company's production of gas for those years.

Tengiz Expansion Projects

TCO has completed the first phase of the future generation expansion project (FGP), which is comprised of three phases. The FGP involves the construction of injection and extracting lines and adjacent infrastructure, a large processing train for treating crude oil and the associated sour gas due to the crude oil's high sulphur content, as well as the implementation of a well drilling programme lasting until 2020. TCO expects the completion of the second and third phases of the FGP to further increase its oilfield production and plant processing capacity, allowing TCO to increase its crude oil production capacity by 12 million tonnes per year through to 2025.

As an integral part of the FGP, TCO is also implementing the wellhead pressure management project (WPMP). The WPMP is expected to lower the flowing wellhead pressure at TCO's plants from approximately 90 bar to 30 bar through the installation of a pressure boost facility and the debottlenecking of the gathering system.

The FGP and WPMP projects are being executed as an integrated project, in order to realise synergies in design and execution. The two projects have a shared scope in respect of utilities, power generation and distribution, infrastructure and the gathering system. The total cost of the FGP and the WPMP is expected to be up to U.S.$19.3 billion, which TCO expects to pay through external financing and, to the extent necessary, out of its cash flows.

The Front-End-Engineering and Design ("**FEED**") phases of the FGP and WPMP projects commenced in January 2012, a project review has been completed and the first stage programme for the projects is currently awaiting funding approval, which is currently expected to be granted by the end of 2013. This programme will execute the early infrastructure and long lead purchase orders that are essential to the modularisation strategy and to achieving the target for first oil from the projects by the end of 2017.

TCO expects that implementation of the WPMP and the next phases of the FGP will begin in 2013, upon receipt of the necessary funding and other corporate and regulatory approvals. Work on the projects is expected to be completed by 2018.

Kazakhoil Aktobe

Kazakhoil Aktobe is a 50/50 joint venture between the Company and Caspian Investments Resources Ltd. Caspian Investments Resources Ltd. is, in turn, a 50/50 jointly-controlled entity between LUKOIL Overseas and Mittal Investments. Kazakhoil Aktobe operates the Alibekmola Field, the largest of its fields, pursuant to a Subsoil Use Agreement that expires in 2023. As at 31 December 2012, the Alibekmola Field had estimated A+B+C1 reserves of crude oil of 17.1 million tonnes and A+B+C1 reserves of gas of 4,462.8 mcm attributable to the Company, representing 2.2% and 1.0% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Alibekmola Field, located in the Aktobe oblast, was discovered in 1987 and started producing in 2001. Oil production at the Alibekmola Field is from two horizons in the Cretaceous formation, located at depths shallower than 3,500 m. The Ural grade of crude oil produced at the Alibekmola Field usually has maximum density of 722 kg per cubic metre, sulphur content ranging from 1.2% to 1.4% and an average watercut of 6.7%.

The Alibekmola Field's wellstock consisted of 65 production wells and 24 injection wells as at 31 December 2012, including 3 new wells drilled in 2012. The Alibekmola Field produced 0.3 million tonnes of crude oil attributable to the Company in each of 2012, 2011 and 2010, representing 1.4%, 1.4% and 1.3%, respectively, of the Company's production of crude oil for those years. In 2012, production wells at the Alibekmola Field produced an average of 802 tonnes of crude oil per day attributable to the Company.

The Alibekmola Field produced 93.0 mcm of gas attributable to the Company in 2012, 85.2 mcm of gas in 2011 and 91.1 mcm of gas in 2010, representing 1.8%, 1.9% and 2.0%, respectively, of the Company's production of gas for those years.

MMG

MMG is an upstream oil and gas company owned by MIBV, a 50/50 jointly-controlled entity between KMG and CNPC E&D. KMG acquired its interest in MMG on 25 November 2009. MMG is one of the largest oil producers in Kazakhstan and operates the Kalamkas Field, one of the largest fields in Kazakhstan, pursuant to a Subsoil Use Agreement that expires in 2027. As at 31 December 2012, the Kalamkas Field had estimated A+B+C1 reserves of crude oil of 37.8

million tonnes and A+B+C1 reserves of gas of 13,679 mcm attributable to the Company, representing 4.8% and 2.9% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Kalamkas Field, which is located in the northern part of the Buzachi Peninsula in the Tupkaragansky region of the Mangistau oblast, within the limits of the Caspian Depression adjacent to the Caspian Sea, was discovered in 1976 and started producing in 1979. Oil production at the Kalamkas field is from 11 horizons in the Lower Cretaceous and Jurassic formations, located at depths shallower than 900 m. The Ural grade of crude oil produced at the Kalamkas Field usually has a maximum density of 904 kg per cubic metre, sulphur content ranging from 1.21% to 1.45% and an average watercut of 85%.

The Kalamkas Field's wellstock consisted of 2,039 production wells and 633 injection wells as at 31 December 2012, including 45 new wells drilled in 2012. The Kalamkas Field produced 2.1 million tonnes of crude oil in each of 2012, 2011 and 2010, representing 10.0%, 10.0%, and 9.6%, respectively, of the Company's production of crude oil for those years. In 2012, production wells at the Kalamkas Field produced an average of 5,816 tonnes of crude oil per day.

The Kalamkas Field produced 190.1 mcm of associated gas in 2012, 181.5 mcm of gas in 2011 and 154.3 mcm of gas in 2010, representing 3.7%, 4.0% and 3.4%, respectively, of the Company's production of gas for those years.

The Zhetybai Field is MMG's second most significant field. The Zhetybai Field, which is located in the Karakiyansky region of the Mangistau Oblast, adjacent to the Caspian Sea, was discovered in 1961 and started producing oil in 1967. As at 31 December 2012, the Zhetybai Field had estimated A+B+C1 reserves of crude oil of 29.5 million tonnes and A+B+C1 reserves of gas of 13,084 mcm attributable to the Company, representing 3.7% and 2.8% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

Oil production at the Zhetybai Field is from 11 horizons in the Middle Jurassic formations, located at depths shallower than 2,450 m. The Ural grade of crude oil produced at the Zhetybai Field usually has a maximum density of 870 kg per cubic metre, sulphur content of 0.1% and an average watercut of 58%.

The Zhetybai Field's wellstock consisted of 1,160 production wells and 441 injection wells as at 31 December 2012, including 65 new wells drilled in 2012. The Zhetybai Field produced 0.8 million tonnes of crude oil in each of 2012, 2011 and 2010, representing 3.9%, 3.7% and 3.4%, respectively, of the Company's production of crude oil for those years. In 2012, production wells at the Zhetybai Field produced an average of 2,295 tonnes of crude oil per day.

The Zhetybai Field produced 80.6 mcm of gas attributable to the Company in 2012, 74.5 mcm of gas in 2011 and 72.2 mcm of gas in 2010, representing 1.5%, 1.6%, and 1.6%, respectively, of the Company's production of gas for those years.

In addition to the Kalamkas Field and the Zhetybai Field, MMG also has licences to explore and develop 13 other oil and gas fields in Kazakhstan and the Caspian region. In each of 2010, 2011 and 2012, 3D seismic operations were performed in accordance with these licences.

In June 2011, the Company acquired a 100% interest in ANS for U.S.$334 million. ANS, which has five subsidiaries, is primarily involved in the provision of services, including drilling, repairs, transportation and other services, to oil producers in Western Kazakhstan. ANS's principal client is MMG.

Other Significant Production Fields

KPO

KPO is a consortium operating under a joint operating agreement among the BG Group (29.25%), Agip (29.25%), Chevron (18.0%), Lukoil (13.5%) and the Company (10%). KPO operates the Karachaganak Field, which is one of the world's largest gas and condensate fields and the largest gas producing field in Kazakhstan. As at 31 December 2012, the Karachaganak Field had estimated A+B+C1 reserves of crude oil of 135 million tonnes and A+B+C1 reserves of gas of 753,380 mcm, of which 10% or 13.5 million tonnes of crude oil and 10% or 75,338 mcm of gas were attributable to the Company.

In November 1997, members of the then international consortium developing the Karachaganak Field (BG Group, Agip, Chevron and Lukoil) entered into a 40-year PSA with the Government that provided for investments of U.S.$16 billion to be made to develop the field. It is anticipated that the Government will be paid 80% of the shared income from the Karachaganak Field over the life of the PSA. Under the terms of the PSA, British Gas and Agip are the operators of the project.

In 2011, the Government and the international consortium agreed to transfer a 10.0% interest in the project to the Company. Pursuant to this agreement, the Company paid approximately U.S.$1 billion for 5.0% of KPO and the remaining 5.0% was contributed to the Company by Samruk-Kazyna, following Samruk-Kazyna's acquisition of the interest by way of settlement of the State's arbitration proceedings against the consortium participants, effective in June 2012. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*".

The Karachaganak Field is a large gas-oil-condensate field located in North-western Kazakhstan, with an area of approximately 280 km^2. The field was discovered in 1979. The Ural grade of crude oil produced at the Karachaganak Field usually has maximum density of 888 kg per cubic metre, sulphur content ranging from 0-2.0% and an average watercut of up to 1.0%.

The Karachaganak Field's wellstock consisted of 96 production wells and 16 injection wells as at 31 December 2012, including 4 new wells drilled in 2012. The Company's share of production from the Karachaganak Field was 0.6 million tonnes of crude oil in 2012, representing 2.6% of the Company's production of crude oil. In 2012, production wells at the Karachaganak Field produced an average of 1,507 tonnes of crude oil per day. In addition, the Karachaganak Field produced 860.0 mcm of gas attributable to the Company in 2012, representing 16.5% of the Company's gas production.

The consortium (including the Company) is supporting the third phase of development of the Karachaganak Field, which comprises installation of a fourth (and potentially fifth) liquids stabilisation and sweetening train, additional gas injection and, if further supplies are to be provided to the Orenburg gas processing plant, a gas dehydration and hydrocarbon dewpointing train. This third phase of development also includes the drilling of 90 wells, 25 of which will be horizontal. The third phase of development is expected to be completed by 2020 to increase gas production at the Karachaganak Field by up to three times.

Exploration Projects

The Company must actively pursue exploration opportunities in order to maintain its current reserves base and to support its long-term production growth strategy. The Company believes it will generate sufficient exploration prospects by exercising its rights as beneficiary of the Government's pre-emptive right to acquire interests in Subsoil Use Agreements and entities that are party to Subsoil Use Agreements offered for sale. See "*Regulation in Kazakhstan—State Pre-Emptive Rights and Regulation of Subsoil Use Rights*".

Due to the mature nature of many of its fields, KMG EP has identified exploration as a key aspect of its long-term strategy to keep production stable. Exploratory drilling is limited at the Dossor and Uzen fields and nearly all new geological and geophysical works are carried out at other fields where KMG EP has Subsoil Use Agreements in place. Since the late 1990s, KMG EP and its predecessors (OMG and EMG, which were merged with KMG EP in March 2004) have been exploring for additional oil reserves around the pre-Caspian Basin in areas that are now being developed by KMG EP. KMG EP and its legal predecessors have been exploring the Mangistau Basin since 2002. For 2013, KMG EP's budget for exploration is KZT 27.6 billion.

The principal exploration assets of the Company and its subsidiaries and its and their joint ventures in Kazakhstan are located in the west of Kazakhstan, including the shelf of the North Caspian Sea, which includes the Kashagan Field, and the Central Caspian Sea.

The following table sets forth the significant exploration activities of the Company and its subsidiaries and its and their joint ventures as at 31 December 2012:

	As at 31 December 2012					
					% interest in licence or contract	
Exploration area	Owning entity[1]	Aggregate project area (in km^2)	Expiration[2]	Number of exploratory wells	Sole operations	Joint operations
Offshore						
North Caspian Project	NCPC	5,600	2041	6	—	16.81%
of which Kashagan Field	*NCPC*	*1,420*	*2041*	*2*	—	*16.81%*
Kurmangazy Block[3]	KazMunayTeniz	3,512	2050	2	—	50.00%
Atash Block	KazMunayTeniz	9,744	2010	1	—	50.00%
Tyub-Karagan Block	KazMunayTeniz	1,372	2043	1	—	50.00%
Zhemchuzhiny Block	KazMunayTeniz	895	2040	4	—	25.00%
Zhambay Block	KazMunayTeniz	2,500	2026	—	—	50.00%
N Block	KMG	8,209	2058	2	—	51.00%
Zhambyl	KMG	1,935	2014	—	—	73.00%
Satpayev	KMG	1,481	2045	—	100%	—
Urikhtau	KMG	29	2038	4	100%	—
On-shore						
R-9 Block	KMG EP	5,894	2011	4	61.36% [4]	—
Liman Field	KMG EP	6,030	2009	—	61.36% [4]	—

Notes:
(1) Includes direct and indirect ownership.
(2) There is one licence/contract for each exploration area.
(3) Exploration activities at the Kurmangazy Block were stopped in 2011.
(4) As at 1 January 2013, as a percentage of ordinary voting shares of KMG EP.

NCPC

In December 1993, the Kazakhstan sector of the Caspian Sea was opened for international oil exploration. Seven international oil companies (AGIP S.p.A., British Gas Exploration and Production Limited, Mobil Oil Kazakhstan Inc., Shell Exploration B.V., Total EP Kazakhstan and BP Exploration Operating Company Limited and Statoil (in alliance)) and the state-owned company KazakhstanCaspyShelf were selected by the Government to form NCPC, the purpose of which is to develop the major offshore oil and gas fields, including the Kashagan Field, in the north part of the Kazakhstan sector of the Caspian Sea.

NCPC is subject to a PSA dated 18 November 1997 with a term of 40 years from commercial discovery among Agip Caspian BV, BG Exploration and Production Limited, BP Kazakhstan Limited, Den Norsk Stats Oljesejokap a.s., Mobil Oil Kazakhstan Inc, Shell Kazakhstan Development BV, Total Exploration and Production Kazakhstan, USC Kazakhstan CaspiShelf, the Republic of Kazakhstan and JSC NOC KazakOil and a joint operating agreement dated 29 March 2005 (together, the "**NC PSA**") among a consortium consisting of AGIP Caspian Sea B.V, ExxonMobil Kazakhstan, INPEX North Caspian Sea Ltd, Phillips Petroleum Kazakhstan Ltd, Shell Kazakhstan Development B.V. and Total EP Kazakhstan (the "**North Caspian Project**"). The Company became a participant of the North Caspian Project in May 2005, having acquired an 8.33% share from the existing participants, which was subsequently transferred to its wholly-owned subsidiary KMG Kashagan B.V.

In October 2008, an agreement was signed implementing a new contractual and governance framework for NCPC and the transfer of an additional 8.48% interest in NCPC to the Company from the other participants in NCPC, each of whom in turn decreased its interest in NCPC on a *pro rata* basis, for consideration of U.S.$1.78 billion, which is payable in three equal annual instalments after the commencement of production operations at Kashagan. Under the agreement, the Company will not be responsible for contributing to further costs relating to the project at the Kashagan Field if there is a material redesign of the project or if production fails to start by October 2013.

In January 2009, the operation of NCPC was transferred from Eni S.p.A. to NCOC, a joint venture entered into by the participants. NCOC has assumed responsibilities as the sole operator of NCPC and supervises all activities, manages planning, coordination, reservoir modelling, conceptual studies and early development plans and interfaces with the Government. The managing director of NCOC is nominated on a rotating basis among the participants, beginning with a representative from Total EP Kazakhstan. The deputy managing director will at all times be a representative of KMG Kashagan B.V.

In November 2012, ConocoPhillips announced its intention to sell its 8.4% interest in NCPC to ONGC Videsh Limited. This sale is subject to the State's pre-emption right, which expires in May 2013.

Kashagan Field

In 2001, a commercial discovery was made in the Kashagan Field in the North Caspian Sea, 80 km southeast of Atyrau. The Kashagan Field extends over a surface of 820 km^2. As at 31 December 2012, the Kashagan Field had A+B+C1 reserves of crude oil of 138.6 million tonnes and A+B+C1 reserves of gas of 90,427 mcm attributable to the Company on a consolidated basis, based on the Company's 16.81% interest in NCPC, representing 17.6% and 19.5% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

Developing the Kashagan Field combines technical complexity and environmental challenges. The climate in this part of Kazakhstan is extreme with cold winters, hot summers and drastic variations of temperature. Winters are harsh and temperatures can drop to -40°C, while summer temperatures can reach +40°C. See "*Risk Factors—Risks Relating to the Company—The Company's production and other activities could be reduced by adverse weather events.*" The sea water over the Kashagan Field is only 3-4 m deep and is frozen for four to five months per year, from November to March, with an average ice thickness of 0.6-0.7 m. The combination of ice, shallow waters and sea level fluctuations represents a significant logistical challenge. The complicated natural and geological conditions at the Kashagan Field, as well as additional design enhancements to the offshore element of the project have added to the complexity of the project. Although it had been publicly announced that the first commercial production was expected to occur by the fourth quarter of 2012, the NCOC applied to the MOG to delay the commencement of such production and, pursuant to an amendment to the development plan and budget for the project, commercial production is now expected to commence in the second quarter of 2013. Planned works to implement the project for pilot commercial development of the Kashagan Field were conducted in 2010, and full field development is currently expected to be completed by 2020.

Due to the delays of the start of commercial production from 2008 to 2013, capital expenditures have increased by almost three times. Pursuant to an amendment to the development plan and budget made in May 2012, the capital expenditure for the first phase of the project was increased by a further U.S. $6.9 billion to a total of U.S.$45.6 billion. These delays and the relevant cost increases over the original budget were driven by the escalation in the cost of goods and services required to execute the project, the original underestimation of the costs and complexity to operate in the North Caspian Sea, due to the lack of benchmarks, design changes to enhance the operability and safety standards of the offshore facilities and cost increases due to the depreciation of the U.S. Dollar (in which the budget for the field is set) against the Euro and other currencies (in which certain costs are denominated).

The phased development plan of the Kashagan Field provides for the drilling of 240 wells and the construction of production plants located on artificial islands in the Caspian Sea, which will collect production from other satellite artificial islands. Natural gas produced in the Kashagan Field is expected to be used primarily for re-injection into the reservoir to maintain pressure levels.

As at 31 December 2012, total investments in the Kashagan Field by the parties to the NC PSA amounted to U.S.$48.1 billion. The experimental phase of the project has been completed, with the construction of five artificial islands in the Caspian Sea and 40 wells, including 30 production wells and ten injection wells. The parties to the NC PSA estimate that the Kashagan Field has up to 9 billion bbl of recoverable crude oil. The results of the well tests and the findings of subsurface studies support estimates for a full field production of up to 1.5 million bbl per day. A second phase is currently being considered by the parties to the NC PSA.

Eni S.p.A. will retain responsibility for the execution of the first phase of the Kashagan project, while Shell Kazakhstan Development B.V. and the Company will jointly manage the production operations. In the second phase, Shell will manage the offshore development, while Eni S.p.A. will manage the onshore plant and ExxonMobil Kazakhstan Inc. will manage the drilling. Eni S.p.A., Shell Kazakhstan Development B.V. and ExxonMobil Kazakhstan Inc. will have authority on matters such as staffing, procurement, operating procedures and management in order to carry out their responsibilities.

Significant Exploration Projects of KazMunayTeniz

Zhemchuzhiny Block

Caspian Meruerty Operating Company B.V. is a jointly-controlled entity among KazMunayTeniz (25%), which is a wholly-owned subsidiary of the Company, Shell EP Offshore Ventures Limited (55%) and Oman Pearls Company Limited (20%) interest. Caspian Meruerty Operating Company is currently exploring the Zhemchuzhiny Block.

The Zhemchuzhiny Block is located in the northern part of Kazakhstan's sector of the Caspian Sea. The contract area covers 895 km^2. The structures are mainly Jurassic. Water depth ranges from 4-10 m. In 2007, the joint venture partners conducted site surveys and drilled a first exploration well, reaching a total depth of 2,118 m below sea level. In 2008, the joint venture partners drilled a second exploration well, reaching a total depth of 2,465 m below sea level at a cost of U.S.$65.5 million. In 2009, the joint venture partners drilled a second exploration well, Khazar-2, at a total depth of 2,032 m below sea level at a cost of U.S.$60.4 million. All exploration wells were successful.

During 2008-2009, 3D seismic operations were performed within a scope of 900 km^2 covering the whole Zhemchuzhiny Block. In 2010, the joint venture partners drilled a third exploration well, Khazar-3, at a total depth 2,049 m below sea level, which was successful in obtaining oil flow. Geophysical work and soil surveying have since been carried out and analytical work on the drilled materials of all wells has also been conducted, as a result of which anticipated reserves at the Zhemchuzhiny Block have been estimated at approximately 25 million tonnes. In 2011 and 2012, the joint venture partners carried out preparatory works for the drilling of a fourth well with a target depth of 2,440 m. KazMunayTeniz's share in the exploration expenses at Zhemchuzhiny Block was KZT 4,429 million in 2012 and is expected to be KZT 11,233 million in 2013.

Significant Exploration Projects of the Company

<u>N Block Project</u>

N Operating Company LLP is a jointly-controlled entity of the Company (75.5%) and Mubadala (24.5%). N Operating Company LLP is the operator of the N Block Project, a project for exploration and development in the N Block, which is an area covering 8,209 km^2 and located 30 km off the Caspian seaport of Aktau, pursuant to a Subsoil Use Agreement. N Block is estimated to hold 270 million tonnes of oil in recoverable reserves. Commercial production at the N Block is expected to begin in 2016. All the necessary preparation activities for drilling the first exploratory well were completed in 2009 and drilling on the first exploratory well at N Block began in September 2010. Field shooting in the amount of 5,700 km and drilling of the first exploration well on the Rakushechnoye More structure to a depth of 2,600 m was completed in 2010. Based on the results of the production log tests, potentially oil-bearing reservoir beds were identified. In 2011, eight potential production prospects were allotted as a result of exploration works and 3D seismic operations, analysis and integration of field data were conducted on the Rakushechnoye More structure. Based on the results of the production log tests, potentially oil-bearing reservoir beds have been identified. A second stage of soil surveying on the N-1 well construction site was also conducted in 2012, the results of which are currently being analysed.

Pursuant to the initial joint operation agreement, until commercial discovery, the N Block Project was to be financed solely by ConocoPhillips and Mubadala, although the Company was going to recognise its share in the accrued exploration expenses of N Operating Company LLP in line with its ownership interest as a debt to its co-venturers. This debt was to be offset against income attributable to the Company once commercial production at N Block began. Since the Company's acquisition of a 24.5% interest in the N Block Project from ConocoPhillips in January 2013, the Company has also incurred an obligation to finance the exploration expenses that were attributable to ConocoPhillips, as set out in the joint operation agreement. The Company's share in the accrued exploration expenses at N Block was KZT 8,831 million in 2012 and is expected to be KZT 7,589 million in 2013. Mubadala will also pay the Company a discovery bonus based on the estimated reserves of the project if drilling is successful.

<u>Project Zhambyl</u>

Zhambyl Petroleum LLP ("**Zhambyl Petroleum**") is a wholly-owned subsidiary of KazMunayTeniz, which is, in turn, a wholly-owned subsidiary of the Company. Zhambyl Petroleum engages in exploration activities at the Zhambyl Field under a joint operating agreement in which the Company has a 73% interest and KC Kazakh B.V., a consortium comprised of Korea National Oil Corporation and seven other Korean companies, has a 27% interest.

The Zhambyl Field is situated on the northern slope of the Caspian Sea, 170 km away from Bautino and 160 km away from Atyrau. The Zhambyl Field covers an area of 1,935 km^2, includes five separate prospective oilfields and lies in water depths of four to five metres. Currently, activities at the Zhambyl Field are limited, but 2D exploration seismology indicates that the Zhambyl Field could hold as much as 651.9 million tonnes of oil in recoverable reserves. In 2011, based on the interpretation of seismic gravity surveys, approval to drill an exploration well was granted. In 2012, field soil surveys of a further construction site and well were conducted. The Company's share in the exploration expenses at Zhambyl Field was KZT 1,199 million in 2012 and is expected to be KZT 14,041 million in 2013.

<u>Project Satpayev</u>

Satpayev Operating LLP ("**Satpayev Operating**") is a wholly-owned subsidiary of the Company. Satpayev Operating engages in exploration activities at the Satpayev Block in the Caspian Sea (the "**Satpayev Block**") under a joint operating

agreement dated 16 April 2011 in which the Company has a 75% interest and ONGC Videsh Limited ("**OVL**") has a 25% interest.

The Satpayev Block is an area situated in the pre-Caspian Basin of Kazakhstan, with an area of 1,582 m^2 in shallow waters. In June 2010, the Company and the MOG signed an agreement for the exploration and development of the Satpayev Block. Until commercial discovery, the Satpayev Project will be financed solely by OVL. In 2011 and 2012, field geochemical works, laboratory testing and 2D seismic works were conducted. The Company's share in the exploration expenses at Satpayev Field was KZT 2,895 million in 2012 and is expected to be KZT 17,919 million in 2013.

Project Urikhtau

Urikhtau Operating LLP ("**Urikhtau Operating**") is a wholly-owned subsidiary of the Company. Urikhtau Operating engages in exploration activities at the Urikhtau Field ("**Project Urikhtau**") under an operating agreement between the Company and the MOG dated 5 December 2008.

The Urikhtau oil and gas field was discovered in 1983. Initial reserves estimates for free gas, condensate, oil and dissolved gas were 39,815 mcm, 11,623 thousand tonnes, 6,493 thousand tonnes, and 2,389 mcm, respectively. In 2010, the construction of an exploration well to a depth of 4,000 m in the southern part of the Urikhtau deposit began for the purpose of supplementary exploration of the KT-1 horizon and exploration of the KT-2 horizon. In 2011, drilling of the U-1 well, to a target depth of 4,000m, was completed, as well as a number of target tests on the U-1 well. Oil and gas was produced from three of the targets and oil-and-gas occurrences were also discovered in the KT-2 horizon. Completion of testing works of the fourth target of the U-1 well, is planned. In addition, in 2012, drilling of the U-2 well, to a depth 4,070 m commenced and drilling of the U-3 well, with a target depth of 4,300 m, was completed, resulting in the identification of oil-bearing reservoirs in the KT-1 horizon. Further surveys were conducted in respect of the U-1 and U-2 wells.

The Company and CNPC are currently negotiating a joint venture agreement for exploration and development in the Urikhtau Field.

Significant Exploration Projects of KMG EP

KMG EP has rights to explore a 6,030 km^2 area constituting R9 Block and the Liman Field. Exploration expenses for these two assets in the aggregate were KZT 2,401.4 million in 2012 and are expected to be KZT 1,518 million in 2013 (including minimal expenses for the R9 Block relating to closing works).

R9 Block

In 2009, organisational arrangements at the R9 Block were performed including the mobilisation of seismic crews and topographic and 2D seismic works. The areas of field works were at Shokat, Akshi and Imankara. The preliminary project for further exploration of R-9 block was completed and approved by Zapkaznedra. In accordance with the exploration programme, subsalt exploration wells and above-salt wells construction are at the finishing stages. In 2010, two wells at Koykara and Kulsary were completed to a total depth of 1,850 m and 1,600 m, respectively, before being abandoned due to geological problems. In 2011 and 2012, analysis of 3D seismic data covering 224 km^2 of the Shokat structure was completed and 100 wells in Esbolai, 100 wells in Masabai, 102 wells in Kyzykala, 100 wells in North Kamyskol and 100 wells in South Kamyskol, all drilled to a depth of 9,236m, were abandoned for geological reasons. As a result of negative drilling results in 2011, all exploration efforts were cancelled in 2012. A detailed feasibility study is currently being undertaken in order to determine whether further exploratory work will be conducted in the R9 Block.

Liman Field

At the Liman Field, between May 2004 and October 2005, KMG EP completed 1,180 km of 2D seismic surveys that are being processed and analysed. KMG EP drilled a 1,688 m exploration well in the second half of 2005 that failed to flow; and, in 2006, KMG EP drilled four additional exploration wells in the R9 Block, each of which also failed to flow. In 2008, KMG EP conducted additional 2D and 3D seismic surveys of 550 km^2. KMG EP also conducted seismic surveys in 2008 in the prospective structures at horizons with a depth ranging from 5,000 to 7,000 m. KMG EP has since completed additional 3D seismic work covering 165 km^2 of the Novobogat South Eastern structure. In 2011, drilling of the G-3 well was stopped at a depth of 1,250m (rather than the projected 1,400m) and is currently being object tested. Such testing has indicated that 36 tonnes of oil per day could be produced from the G-3 well. The G-4 was drilled to a depth of 1,650 m, but has since been abandoned due to the absence of productive reservoirs. In 2012, two further exploratory wells were drilled at the Liman Field to depths of 1,600m and 1,400m, respectively, and, following 3D seismic results, two subsalt wells were also drilled to a depth of 2,500 m.

Other activities

Following the consolidation of NBK LLP in 2012, EMG acquired the licence for the exploration and production of the West Novobogatinksoye oil field located in the Atyrau oblast of Kazakhstan. This licence has been granted until 2027. On the West Novobogatinksoye oil field, the Company drilled a well to a depth of 2,511m in 2012, which is currently in the testing stage. In 2012, the Company also commenced drilling of an exploratory well with a projected depth of 2,600 m.

In April 2011, KMG EP acquired 50% of the common shares of UGL. Exploration Venture Limited owns the remaining 50% UGL holds a 100% equity interest in UOG, which in turn, holds the exploration licence for the Fedorovskyi hydrocarbon field. At the Fedorovskyi block, three subsalt wells were drilled in 2012 with a total depth of 13,500 m and were transferred to temporary conservation for future testing. This test period has been extended due to gas flaring. Two further wells are expected to be drilled with projected depths of 4,500m and 5,200m, respectively. In addition, further processing of 3D seismic data covering 747 km^2 is currently planned, together with the completion of construction in the Rozhkovskoe Field for pilot production.

In August 2011, KMG EP acquired contracts for exploration activities in each of the Temir, Teresken, Karaton and Sarkamys blocks, as well as the territory adjacent to the Uzen and Karamandys fields. The Temir and Teresken blocks are located in the Aktobe region, close to the assets of Kazakhoil Aktobe and Kazakhturkmunay. The Company estimates that the four blocks have geological resources of 1.5 billion barrels of oil equivalent. In the Temir Block, 2D seismic surveys and a gravity survey were conducted in 2011 and 2012, respectively. In the Teresken Block, 2D seismic surveys have been completed, as a result of which further exploration work is being contemplated. In the Karaton-Sarkamys Block, a well was drilled to a depth of 3,000 m on the Kernel Structure and a well was drilled to a depth of 3,500 m in the eastern wing of Dosmukhambetovskoe Field, both in 2012. Magnetotelluric depth sounding work and 3D and 2D seismic work has also been conducted on the block. In the Uzen-Karamandybas Block, an exploratory well was drilled on the Bodrai structure in 2012 to a total depth of 2,200 m and tests were carried out on four objects. The well has since been abandoned for geological reasons. See "*Risk Factors—Risk Factors Related to the Company's Business—A number of the Company's production fields are mature.*"

In December 2011, KMG EP acquired 100% of the shares of Karpovskiy Severnyi from GazMunaiOnim LLP for a total consideration of U.S.$57.0 million. In July 2012, KMG EP entered into an agreement with MOL Hungarian Oil and Gas Plc to sell 49% of its shares in Karpovskiy Severnyi. This sale was completed in November 2012. Karpovskiy Severnyi holds the subsoil use right for exploration in the Karpovskiy Severnyi block in western Kazakhstan. The block covers an area of 1,669.2 km^2 and the Company estimates that the block has prospective recoverable reserves of 240 million barrels of oil equivalent (98 million gas and 142 million oil and oil condensate).

See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*".

Subsoil Use Agreements

Onshore Licences and Contracts of the Company

Since 1999, the Company has been required to obtain production and exploration rights by entering into exploration, production or exploration and production contracts to extract hydrocarbons for fixed periods of time. As at 31 December 2012, the Company (excluding associates) held a total of 56 licences and contracts, including: (i) five exploration contracts; (ii) 44 production contracts; and (iii) seven combined exploration and production contracts.

Exploration contracts give the contracting party the exclusive right to explore resources from fields in a defined area and are valid for up to six years from issuance. Production contracts give the contracting party the exclusive right to extract resources from fields in a defined area and are in effect for up to 25 years from issuance for small and medium sized deposits and up to 45 years from issuance for large and "unique" deposits. The usual duration of a combined exploration and production contract is up to 31 years for small- and medium-sized deposits or up to 51 years for large and "unique" deposits. Most of the production and combined exploration and production contracts of the Company expire in 2030. Most of the exploration licences of the Company expire between 2028 and 2031.

See "*The Oil and Gas Industry in Kazakhstan—Subsoil Use Agreements*".

Offshore Production Sharing Agreements

As at 31 December 2012, the Company, its subsidiaries and its jointly-controlled entities were participants in a total of six PSAs.

The following table sets forth summary information concerning PSAs covering the Company's largest offshore exploration fields as at 31 December 2012:

Production sharing agreement	Parties	Date	Term	Production/Exploration field
NC PSA..........................	AGIP, Total, ExxonMobil and Shell, each holding 16.81%, ConocoPhillips holding 8.40%, Inpex holding 7.56% and the Company with 16.81%	18 November 1997	40 years from the moment of commercial discovery	Kashagan, Kalamkas Sea, Kashagan Southwest, Aktoty, Kairan
Zhemchuzhiny PSA.........	KazMunayTeniz holding 25%, Shell EP Offshore Ventures Limited holding 55%, and Oman Pearls Company Limited holding 20%	14 December 2005	35 years	Zhemchuzhiny Field
Kurmangazy PSA(1).........	RN-Kazakhstan LLP and KazMunayTeniz, each holding 50%	6 July 2005	45 years	Kurmangazy Block
Zhambay PSA	KazMunayTeniz holding 50%, Repsol Investments Zhambay and Caspian Exploration each holding 25%	26 December 2001	25 years	Zhambay South–South Zaburunie Block
Karachaganak PSA..........	BG Group and AGIP, each holding 29.25%, Chevron holding 18%, Lukoil holding 13.5% and the Company holding 10.0%.	18 November 1997	40 years	Karachaganak Field

Note:
(1) Exploration activities at the Kurmangazy Block were stopped in 2011.

Taxes, Fees and Royalty under Licences and Contracts

The subsidiaries, joint ventures and associates of the Company are subject to a variety of taxes, fees and duties under their contracts and licences, including the payment of excess profit taxes. On 1 January 2009, the Government cancelled the royalty regime for all producers (except TCO, which continues to pay royalties to the Government). Under the 2009 Tax Code, however, the royalty regime was effectively replaced by the mineral extraction tax. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Taxation—Mineral Extraction Tax/Royalty Regime*".

Oil Field Development and Rehabilitation

The overall level of crude oil production from the fields described herein has been and will continue to be affected by several key factors, including the relative age of the fields and, to a lesser degree, the characteristics of the oil and the complex geological formations of the reservoirs. For example, the Uzen Field and several of the EMG fields with the largest reserves and production volumes contain highly paraffinic oil within shallow, low permeability formations. Additionally, oil from the EMG fields also tends to have a high water content, or watercut. Taken together, these factors make oil from the EMG fields difficult to extract and in some cases transport. However, the Company's long production history has provided it with a comprehensive understanding of the geology of its fields. The relatively shallow depth and onshore location of its reservoirs have generally enabled the Company to produce oil in a more cost efficient manner than if the reservoirs were deeper or were offshore.

The Company, its subsidiaries and its joint ventures apply a wide variety of field development and rehabilitation techniques, such as drilling new wells, drilling injection wells and utilising secondary, enhanced recovery and well stimulation techniques, including hydro fracturing and various chemical and thermal methods. The Company does this to meet its strategic objective of sustaining its current production levels.

The following table sets forth the principal activities that were undertaken by the Company's subsidiaries, jointly-controlled entities and associates to develop and rehabilitate their fields in the periods indicated.

				New wells drilled						Total incremental increase in production
				Production wells			Injection wells			
		Wells where hydro-facturing applied	Well workovers	For the year ended 31 December						
	Ownership			2012	2011	2010	2012	2011	2010	
Uzen Field...	KMG EP	261	1,444	104	122	78	77	50	80	1,317.7
EMG fields..	KMG EP	20	579	59	63	55	6	2	1	360.6
Akshabulak Field...........	Kazgermunai	6	78	14	21	11	0	1	0	401.3
Alibekmola Field...........	Kazakhoil Aktobe	7	84	17	20	10	0	0	0	349.7

Transportation

Overview

The Company owns or operates the largest crude oil and gas pipeline networks in Kazakhstan in terms of length and throughput capacity. As at each of 31 December 2012, 2011 and 2010, the total length of the Company's natural gas pipeline system was 12,577 km. As at 31 December 2012, the total length of the Company's oil pipeline system was 8,152 km compared to 7,895 km as at 31 December 2011 and 7,297 km as at 31 December 2010.

The following table sets forth certain information with respect to the pipeline segments owned and operated by the Company as at 31 December 2012:

	As at 31 December 2012				
		Diameter of pipelines			
Pipeline	Kilometres of pipelines	Under 0.5 m	0.5 m to 1.4 m	Throughput capacity[(1)]	Primary source of gas or crude oil
Transportation of Gas					
Western Pipeline Network:					
Central Asian System	5,042	—	5,042	60	Russia and Kazakhstan (from TCO and Karachaganak Fields)
Uralsk System	1,116	—	1,116	45	
Aktobe System	2,659	9	2,650	20	Turkmenistan
Southern Pipeline Network	2,333	—	2,333	14	Uzbekistan
Kyzylorda Pipeline Network[(2)]	122	122	—	1	Akshabulak Field
Kazakhstan-China Pipeline	1,305	—	1,305	30	Turkmenistan
Total	**12,577**	**131**	**12,446**	**170**	
Transportation of Crude Oil					
KTO System:					
Western Branch:					
UAS pipeline	1,237.0	—	1,237.0	17.5	Western Kazakhstan
Other Western Branch pipelines	1,495.8	229.0	1,195.1	9.8	Western Kazakhstan
Eastern Branch:					
Omsk-Pavlodar-Shymkent pipeline	1,861.0	—	1,861.0	24.0	Siberia
Other Eastern Branch pipelines	901.0	—	715.9	13.0	Kazakhstan (Kumkol and Turgai fields) Kazakhstan
Kazakhstan-China System:					
Atyrau-Kenkiyak pipeline	448.8	—	448.8	6.0	Western Kazakhstan
Atasu-Alashankou pipeline	962.0	—	962.0	10.0	Western Kazakhstan, Kumkol and Turgai fields
Kenkiyak-Kumkol pipeline	794.0		794.0	10.0	Western Kazakhstan
CPC System:					
CPC Pipeline[(3)]	452.0	—	452.0	28.0	Western Kazakhstan, Tengiz Field
Total	**8,151.6**	**229.0**	**7,665.8**	**122.3**	

Notes:

(1) bcm per year for gas and millions of tonnes per year for crude oil (annualised).

(2) Comprises the Akshabulak-Kyzyolrda gas pipeline running from Akshabulak field to one of ICA's gas compressor units in Kyzylorda, which is used for transportation of Akshabulak field gas.

(3) The Company holds a 20.75% interest and does not operate the CPC Pipeline.

Transportation and Storage of Gas

Overview

Under the Gas Law, KTG has been appointed as the "national operator" for the transportation of gas. Accordingly, KTG has been given a priority right to purchase (on behalf of the State) all associated gas produced in Kazakhstan at a set price, which it will then sell on the domestic market at a premium, using a significant portion of the premium to modernise and extend the domestic pipeline network. The Company expects that its status as national operator will further enhance its revenue from gas sales to end-users and lessen its dependence on gas transportation tariffs. KTG has also been identified as a potential target for inclusion in the "People's IPO" programme. It is expected that up to 10% of the shares of KTG may be sold to Kazakhstan investors as part of this programme, although no definitive plans have yet been announced. There can be no assurance that the programme will be completed.

ICA, a wholly-owned subsidiary of KTG, operates Kazakhstan's main natural gas pipelines consisting of two separate networks: (i) a network in Western Kazakhstan that services Central Asia's producing natural gas fields (the "**Western Pipeline Network**") and (ii) a network in Southern Kazakhstan that delivers imported natural gas from the Uzbekistan/Kazakhstan border to the southern region of Kazakhstan, including Almaty (the "**Southern Pipeline Network**"). See "—*Overview*". ICA operates the pipelines pursuant to the Concession Agreement, which had an initial term that expired in 2012, but has since been extended until 2017. ICA is currently negotiating with the Government to

terminate the Concession Agreement and transfer ownership of the pipelines to ICA and expects that this transfer will occur by the end of 2013. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Commitments—Commitments under Oilfield Licences and Contracts—Investment and other obligations of ICA under the Agreement with the Government*."

The Company uses ICA's main natural gas pipelines for: (i) the transit of third parties' natural gas principally from Turkmenistan and Uzbekistan to Russia; (ii) the export of Kazakhstan's natural gas, specifically from the Tengiz and Karachaganak condensate and natural gas fields, to Russia; (iii) the transportation of natural gas from one part of Russia to another through Kazakhstan territory; and (iv) the distribution of natural gas produced by the Company and others, including joint ventures and associates of the Company.

As at 31 December 2012, ICA operated 12,577 km of natural gas pipelines, utilised 22 compressor stations equipped with 284 gas compressor units, having a total capacity of 1,982 mW, operated 122 natural gas distribution stations and had a total active natural gas storage capacity of 4.65 bcm. The majority of the natural gas transportation system operated by ICA is above-ground with diameters of 1,000 mm, 1,200 mm or 1,400 mm.

The pipeline system operated by ICA was constructed during the 1960s and 1970s and has a certificated lifetime of 20-50 years, which has been extended as ICA has undertaken its capital expenditure programme to upgrade and modernise its pipeline system. ICA performed major renovation work on its pipeline system in 2007, allocating KZT 73,660 million to maintain and upgrade its natural gas transportation system. In October 2008, ICA implemented two major projects: (i) the construction of a new compressor at Opornaya station; and (ii) the construction of a new by-pass pipeline. Due to these projects, the throughput capacity of the Central Asian pipeline system (the "**Central Asian System**") segment of the Western Pipeline Network has increased from 54-60 bcm per year. The total cost of these two projects was KZT 82,113 million.

ICA is currently implementing a further project to construct a pipeline compressor at CS "Makat", the aim of which is to modernise the existing facilities and reduce costs. The total cost of this project is KZT 33,240 million and will be financed by ICA's own proceeds. This project is expected to be completed by the end of 2013.

See "—Key Strengths—The Company is the Operator of Kazakhstan's Extensive Oil and Gas Pipeline Networks" and *"Risk Factors—Risk Factors Relating to the Company's Business—The Government has appointed KTG as the "national operator' for the transportation of gas."*

The Western Pipeline Network

ICA's Western Pipeline network consists of three separate systems aggregating 8,817 km of pipeline systems that include: (i) the Central Asian System; (ii) the Uralsk pipeline system (the "**Uralsk System**"); and (iii) the Aktobe pipeline system (the "**Aktobe System**").

Central Asian System

The Central Asian System runs from the Kazakhstan border with Uzbekistan and Turkmenistan in the south to the Kazakhstan border with Russia in the north. It consists of three separate pipeline subsystems, the principal one being the Central Asian Centre pipeline subsystem (the "**CAC Pipeline**"). The CAC Pipeline is used primarily to transport Uzbek and Turkmen natural gas through Kazakhstan to Gazprom's pipeline networks in Russia, through which natural gas is delivered to Ukraine and Europe. In addition, TCO uses the CAC Pipeline for transportation of natural gas from the Tengiz Field to Russia.

The Uralsk System

The Uralsk System comprises the segment of the Western Pipeline Network that runs through north-western Kazakhstan. It links two segments of a Russian pipeline and is used to transport Russian natural gas from Eastern to Western Russia.

The Aktobe System

The Aktobe System runs from the Kazakhstan border with Uzbekistan in the south to the Russian border in the north. It consists of three separate pipeline subsystems that connect to natural gas production facilities at natural gas fields in Zhanazhol and distribute natural gas to domestic customers. The Aktobe System may also be used to supplement the CAC pipeline's capacity to transport Turkmen natural gas to Russia and the European Union.

The Southern Pipeline Network

The Southern Pipeline Network consists of 2,333 km of pipelines and has a throughput capacity of 14.0 bcm per year and includes the Bukhara-Tashkent-Bishkek-Almaty pipeline system and the Gazly-Shymkent pipeline segment. This system supplies natural gas to end-users in the most populous regions of Kazakhstan, including Almaty.

Gas Pipeline Projects

Asia Gas Pipeline

In August 2007, an agreement was reached between the Government and China on cooperation for the construction and operation of the first two phases of the Asia Gas Pipeline, which extends from Turkmenistan through Uzbekistan to Khorgos in China, passing through Kazakhstan. The purpose of the Asia Gas Pipeline is to expand transit capacity to China and serve the market in southern Kazakhstan, which is otherwise dependent on imported gas from Uzbekistan. The total cost of the first two phases of this project was U.S.$6.8 billion. The development of the Asia Gas Pipeline is being funded by Asia Gas Pipeline LLP ("**AGP LLP**"), a jointly controlled entity owned by the Company and CNPC. In October 2008, AGP LLP entered into a U.S.$7.5 billion syndicated loan facility with a Chinese development bank for the purpose of financing the construction of the first two phases of the Asia Gas Pipeline. On 12 December 2009, the first phase of this project, comprising a pipeline with a throughput capacity of 10 bcm per year, was completed. The second phase, comprising a pipeline with a throughput capacity of 30 bcm per year, was completed in December 2012.

Further development of the capacity of the Asia Gas Pipeline to 55 bcm per year is planned through a third phase of construction. In July 2011, an agreement was reached between the Government and China on cooperation for the construction of this third phase, which will have a throughput capacity of 25 bcm per year. In October 2011, the Company entered into an agreement with CNPC on the design, finance, construction and operation of the third phase of the Asia Gas Pipeline. The total cost for this phase of the project is expected to be U.S.$5.2 billion and in December 2012, AGP LLP entered into a loan facility of U.S.$4.7 billion with a Chinese development bank for the purpose of financing the construction of the third phase. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*". Construction of the third phase of the Asia Gas Pipeline began in November 2012 and is expected to be completed by January 2016.

The Company does not expect to receive dividends from AGP LLP until 2022.

Beineu-Bozoi-Shymkent Gas Pipeline

In 2008, the Company and CNPC entered into a framework agreement (the "**Beineu-Shymkent Agreement**") under which both parties agreed to construct the Beineu-Bozoi-Shymkent Gas Pipeline. The construction of the Beineu-Bozoi-Shymkent Gas Pipeline is expected to increase the Company's flexibility in the transportation of gas and connect the Company's existing major gas pipelines in the western and southern regions of Kazakhstan. The construction of the Beineu-Bozoi-Shymkent Gas Pipeline is funded by BSGP, the joint venture entered into between KTG and CNPC in January 2011. Following the completion of a feasibility study, the total cost for the project is estimated at U.S.$3.8 billion. Construction began in September 2011 and the first stage of the Beineu-Bozoi-Shymkent Gas Pipeline, which will comprise the Bozoi-Shymkent part, is expected to be completed by May 2015. Following completion of the first phase, the Beineu-Bozoi-Shymkent Gas Pipeline will have a throughput capacity of up to 6 bcm per year. The capacity of the Beineu-Bozoi-Shymkent Gas Pipeline is expected to be further expanded to 10 bcm by the end of 2016, when the portion of the pipeline between Beineu and Bozoi becomes operational.

In January 2011, the Company entered into a loan agreement with Samruk-Kazyna for a principal amount of KZT 23.3 billion to fund the construction of the Beineu-Bozoi-Shymkent Gas Pipeline. The Company partially repaid this loan in 2012. See "*Share Capital, Sole Shareholder and Related Party Transactions—Relationships with Certain Related Parties*" and "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*".

In December 2012, BSGP LLP entered into a U.S.$1.8 billion syndicated loan facility with, *inter alia*, China Development Bank Corporation for the purpose of financing the development, construction and operation of the portion of the Beineu-Bozoi-Shymkent Gas Pipeline between Bozoi and Shymkent. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*".

Gas Transportation Volumes

For each of the years ended 31 December 2012, 2011 and 2010, international transit volumes of natural gas represented the substantial majority of ICA's total transportation volume.

The following tables set forth certain information regarding the natural gas transported through the natural gas transportation system operated by ICA for the periods indicated:

Pipeline	Transit	For the year ended 31 December 2012	2011	2010	% change between the years ended 31 December 2011 and 2012	% change between the years ended 31 December 2010 and 2011
			(bcm)		*(%)*	
ICA Pipeline System:						
International transit through Kazakhstan territory:						
Soyuz/Orenburg-Novopskov Pipeline of the Uralsk System..........................	Russian gas	35.7	42.1	55.0	(15.3)	(23.5)
Bukhara-Ural Pipeline of the Aktobe System	Russian gas	17.9	19.9	0.0	(10.0)	—
CAC Pipeline of the Central Asian System	Uzbek gas	8.7	7.9	11.7	9.9	(31.9)
CAC Pipeline of the Central Asian System	Kyrgyz gas	0.0	0.3	0. 1	(90.2)	164.0
CAC Pipeline of the Central Asian System	Turkmen gas	10.9	11.2	10.7	(2.4)	4.3
Total...		**73.3**	**81.4**	**77.5**	**(10.0)**	**5.0**
Kazakhstan Gas Export						
CAC Pipeline of the Central Asian System	TCO gas	2.8	4.0	4.9	(30.4)	(18.7)
CAC Pipeline of the Central Asian System	TolkynNefte gas	0.0	0.0	0.0	—	—
Soyuz/Orenburg-Noyopskov Pipeline of the Uralsk System.............................	Karachaganak gas	6.3	6.1	7.3	3.5	(16.8)
Soyuz/Orenburg-Noyopskov Pipeline of the Uralsk System.............................	Chinarevskoe gas	0.9	—	—	—	—
Bukhara-Ural Pipeline of the Aktobe System	Zhanazhol gas	1.9	1.8	1.3	5.4	43.5
Total...		**11.9**	**11.9**	**13.5**	**(2.7)**	**(11.9)**
Domestic Gas Transportation............		**10.0**	**9.6**	**8.5**	**3.8**	**13.2**
Total gas transportation through the ICA pipeline system		**95.2**	**102.9**	**99.4**	**(7.9)**	**3.4**
Joint Ventures:						
International transit through Kazakhstan territory:						
Kazakhstan-China Gas Pipeline (AGP)	Turkmen gas	22.8	15.0	4.5	52.2	233.3
Total...		**22.8**	**15.0**	**4.5**	**52.2**	**233.3**

ICA's principal customer is Gazprom, which accounted for 74.0%, 75.0% and 86.0% of the gas transportation fees of ICA for 2012, 2011 and 2010, respectively. ICA provides gas transportation services to Gazprom pursuant to two principal contracts: a Turkmen/Uzbek gas transit contract (the "**Turkmen/Uzbek Gas Transit Contract**"), which specifies the agreed ship-or-pay volumes for the transport of Turkmen and Uzbek gas to Russia, and a Russian gas transit contract, which specifies the agreed volumes for the transport of gas to and from gas fields in Western Kazakhstan and the Orenburg gas refinery plant in South-western Russia. The Turkmen/Uzbek Gas Transit Contract was entered into on a ship-or-pay basis, requiring Gazprom to pay for at least 80% of the agreed ship-or-pay volumes regardless of the volumes it actually requires ICA to transport for it. These contracts were entered into in January 2011 for a period of five years and replace the previous contracts that had been in force between the parties since 2005. Under the contracts, the agreed volumes for the transport of gas are 28.0 bcm per year compared to 55.2 bcm per year under the previous contracts, primarily reflecting lower levels of European demand for gas. In each of 2012, 2011 and 2010, Gazprom did not require ICA to transport the required minimum 80% of the respective volumes agreed with Gazprom, although it has paid for such volumes in accordance with the terms of the contract. In particular, in each of 2012, 2011 and 2010, no natural gas was transported from Turkmenistan through the Aktobe System under the Turkmen/Uzbek Gas Transit Contract. The absence

of shipments of natural gas from Turkmenistan through the Aktobe system in 2012, 2011 and 2010 primarily reflects an overall decrease in shipments of natural gas from Turkmenistan to Russia.

The volume of natural gas from Kazakhstan exported through the natural gas transportation system operated by ICA was 11.9 bcm in 2012 and 2011. The volume of natural gas from Kazakhstan exported through the natural gas transportation system operated by ICA decreased to 11.9 bcm in 2011 from 13.5 bcm in 2010 mainly due to lower export volumes of gas from Karachaganak and TCO, which was, in turn, due to lower production levels at TCO due to planned stoppages and maintenance works and, to a lesser extent, lower production volumes at KPO.

Compressor Stations, Gas Distribution Stations and Storage Reservoirs

Natural gas is highly pressurised as it travels through pipelines, and compressor stations are required periodically along the pipe to ensure that the natural gas flows. As at the date of this Base Prospectus, ICA has 22 compressor stations, each of which is between 200 km and 250 km apart. In some pipelines, the gas flow direction in a pipeline can be reversed by switching the input and output at the compressor stations.

As at the date of this Base Prospectus, ICA operates 122 natural gas distribution stations, which are used to reduce pressure, deliver natural gas to consumer pipelines, purify gas, inject odorant and metre natural gas. The majority of these stations were constructed 30 to 35 years ago. ICA has installed additional natural gas metres manufactured in accordance with international specifications in order to improve its collection of revenue, in addition to performing continuous maintenance and general repairs on the stations.

ICA also manages three underground natural gas storage reservoirs in southern and south eastern Kazakhstan with a total active storage capacity of 4.7 bcm.

Gas Transportation Tariffs

Under the Law on Natural Monopolies and Regulated Markets (№ 272-I, dated 9 July 1998) and the Concession Agreement, ICA's tariffs for domestic natural gas transportation are subject to regulation by the Natural Monopolies Agency. Under the Concession Agreement, Kazakhstan has agreed that ICA is entitled to freely negotiate, determine and agree on international transportation tariffs with its international transit contractor counterparties, without regulation by the Natural Monopolies Agency.

<u>International Tariffs</u>

In 2012, 2011 and 2010, international tariffs represented 75%, 79% and 88%, respectively, of ICA's total revenue.

The methodology followed by ICA to set tariffs for international transit is based on a widely-used model, which provides that tariffs are generally a function of costs plus the average rate of return on fixed assets and expressed as a rate based on the volume of transported gas and the distance the gas is transported. When considering a return on fixed assets and investments, ICA takes into account its ongoing maintenance expenditures in order to ensure that it will be able to maintain the stable transit of all contracted international volumes of natural gas.

ICA generates gas transportation revenue from tariffs it charges to its international customers under long-term contracts for the transportation of natural gas through the pipeline systems it operates. In 2012, 2011 and 2010, the international transit tariff was U.S.$1.70 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for the export of Russian, Turkmen, Uzbek and Kazakhstan natural gas.

<u>Domestic Tariffs</u>

Tariffs for domestic transportation are subject to regulation and approval by the Natural Monopolies Agency. Once approved, the tariffs remain in effect subject to ICA's right to apply to the Natural Monopolies Agency once a year with a request to review and modify such tariffs. The Natural Monopolies Agency also has the right to initiate a review of the domestic transportation tariffs. ICA's domestic transportation tariffs are significantly impacted by social and political considerations and have historically been kept at artificially low levels. Nevertheless, in the last three years, the Natural Monopolies Agency has routinely reviewed domestic gas tariffs at the request of ICA and, in 2011, significant increases in ICA's tariffs have been achieved.

In each of 2012 and 2011, ICA's tariffs for domestic transportation of gas were KZT 222 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for utility companies supplying gas to residential clients and companies engaged in the generation of thermal energy, as compared to KZT 171 per 1,000 cubic meters in 2010. In each of 2012 and 2011,

ICA's tariffs for domestic transportation of gas were KZT 898.5 per 1,000 cubic meters of natural gas transported over 100 km of pipeline for all other persons, as compared to KZT 420 per 1,000 cubic metres in 2010.

Transportation of Crude Oil

Overview

Through its subsidiary KTO, the Company partially owns and solely operates the largest crude oil pipeline network in Kazakhstan in terms of length and throughput capacity. As at 31 December 2012, the total length of the Company's oil pipeline network was 8,151.6 km, of which KTO owns 5,495 km. The Company transported 81.7 million tonnes of crude oil through its pipeline network in 2012, 82.7 million tonnes in 2011 and 80.5 million tonnes in 2010. In December 2012, Samruk-Kazyna sold almost 9.99% of KTO to retail investors in Kazakhstan, as part of the Government's programme of "People's IPOs", in order to stimulate the domestic equities market and give the public an opportunity to have a direct stake in Kazakhstan's oil and gas wealth. Trading of the shares of KTO on the KASE began on 25 December 2012. This was the first initial public offering in the "People's IPO" programme.

KTO Pipeline System

KTO fully owns and solely operates two oil pipeline systems, one in Western Kazakhstan (the "**Western Branch**") and another that runs from Northeast to Southwest Kazakhstan (the "**Eastern Branch**"). In addition, KTO has completed and operates the KC Pipeline, which is comprised of three sections: (i) the Atasu-Alashankou pipeline; (ii) the Kenkiyak-Atyrau pipeline; and (iii) the Kenkiyak-Kumkol pipeline. KTO also owns and operates the pipeline system, which connects the Kenkiyak-Kumkol pipeline to the Atasu-Alashankou pipeline and forms part of KTO's Western Branch.

The following tables set forth certain information with respect to volumes of oil transported for the periods indicated:

	For the year ended 31 December		
Transportation asset	**2012**	**2011**	**2010**
		(tonnes in millions)	
KTO Pipelines			
Western Branch:	15.4	15.4	
UAS pipeline			15.3
Other Western Branch pipelines transport to:			
Atyrau Refinery	4.3	4.2	3.8
Aktau seaport	6.5	7.4	8.3
CPC Pipeline	3.9	3.8	4.1
Total Western Branch	**30.1**	**30.8**	**31.5**
Eastern Branch pipelines transport to:			
Atasu-Alashankou pipeline	10.4	10.8	10.1
Shymkent Refinery	4.5	4.3	4.2
Pavlodar Refinery	5.1	4.5	4.8
Total Eastern Branch	**20.0**	**19.6**	**19.0**
Other	8.0	8.0	6.1
Joint Ventures			
KC Pipeline:			
Kenkiyak-Kumkol pipeline(1)	4.5	4.1	3.4
Atasu-Alashankou pipeline(1)	10.4	10.8	10.1
MunayTas:			
Kenkiyak-Atyrau pipeline(2)	3.4	3.7	4.2
Batumi Marine Export Terminal(3):	5.3	5.3	6.1
Total	**23.6**	**23.9**	**23.9**
Total crude oil transported	**81.7**	**82.3**	**80.5**

Notes:
(1) Representing total supply of the pipeline, which is 50% owned by KTO.
(2) Representing total supply of the pipeline, which is 51% owned by KTO.
(3) As defined below.

KTO invested KZT 29.2 billion to upgrade its pipeline system in 2012, KZT 34.9 billion in 2011 and KZT 25.9 billion in 2010. In 2013, KTO plans to invest an additional KZT 33.2 billion to further upgrade its pipeline system to increase the

throughput capacity and operational safety of the Western Branch and the Eastern Branch in order to meet additional transportation demand resulting from the increased production volumes from, among others, the Tengiz and Kumkol Fields. In addition, KTO invested KZT 2.5 billion for joint venture pipeline improvements and capacity increases in 2012, as compared to KZT 6.3 billion in 2011 and KZT 8.6 billion in 2010.

Western Branch

As at 31 December 2012, the Western Branch was the Company's largest operational transportation network in terms of nominal throughput capacity, totalling 27.3 million tonnes of crude oil per year, although actual capacity may be higher in certain circumstances. As at 31 December 2012, the Western Branch comprised 2,661 km of main oil pipelines, 2,148 km of main water pipelines, 24 oil pumping stations, seven preheating stations, 57 furnaces and tank farms with a total storage capacity of 909,300 cubic metres, including water storage capacity of 154,900 cubic metres.

According to the Company's own data, in 2012, 30.1 million tonnes of crude oil and condensate, or 38% of the total crude oil and condensate produced in Kazakhstan, was transported through the Western Branch. The income generated from the tariff for the transportation of this crude oil and condensate totalled KZT 67.1 billion and represented 46.9% of KTO's total revenue for 2012.

The most significant pipeline subsystem in the Western Branch is the Kazakhstan segment of the UAS pipeline. This subsystem runs 1,237 km from Uzen in South-western Kazakhstan north through Atyrau, before crossing into Russia and linking either with Russia's Transneft system at Samara for crude oil export to ports on the Black Sea or through the Druzhba pipeline to ports on the Baltic Sea and Central Europe.

As at 31 December 2012, the Kazakhstan segment of the UAS pipeline had an annual throughput capacity of 17.5 million tonnes of crude oil per year. The UAS pipeline serves as the Company's principal export pipeline and transports oil produced by, among others, KMG EP, MMG, CCEL and KPO.

Other pipeline subsystems in the Western Branch are the Kalamkas-Karazhanbas-Aktau pipeline, the Uzen-Zhetybai-Aktau pipeline and the Zhanazhol-Kenkiyak pipeline.

Eastern Branch

As at 31 December 2012, the Eastern Branch had a maximum throughput capacity of 37.0 million tonnes of crude oil per year and comprised 2,762 km of main oil pipelines, 15 oil pumping stations, three accepting delivering stations, seven oil heaters and tank farms of total storage capacity of 506,000 cubic metres.

According to the Company's own data, in 2012, 20.0 million tonnes of crude oil and condensate, or 25.3% of the total crude oil and condensate produced in Kazakhstan, was transported through the Eastern Branch. The income generated from the tariff for the transportation of this crude oil and condensate totalled KZT 42.5 billion and represented 29.7% of KTO's total revenue for 2012.

The Eastern Branch is used by the Company to transport crude oil, primarily produced at the Kumkol and Turgai fields, to the Shymkent Refinery and for export to China.

The trunk oil pipeline system of the Eastern Branch includes the Omsk-Pavlodar pipeline, the Pavlodar-Shymkent pipeline, the Kumkol-Karakoin pipeline and the Tuymazy-Omsk-Novosibirsk-2 pipeline.

KC Pipeline

The KC Pipeline network comprises three systems: (i) the Kenkiyak-Atyrau pipeline, from Kenkiyak in Western Kazakhstan to Atyrau on the Caspian Sea; (ii) the Atasu-Alashankou pipeline, from Atasu in Western Kazakhstan to Alashankou in Western China; and (iii) the Kenkiyak-Kumkol pipeline, from Kenkiyak to Kumkol in South Kazakhstan. All three systems are currently operational.

Kenkiyak-Atyrau pipeline

On 3 December 2001, KTO and CNPC E&D established MunayTas, in which KTO holds a 51% interest and CNPC E&D holds a 49% interest. MunayTas owns the Kenkiyak-Atyrau pipeline. KTO operates the Kenkiyak-Atyrau pipeline.

In March 2003, the Kenkiyak-Atyrau pipeline became operational. As at 31 December 2012, the Kenkiyak-Atyrau pipeline had a length of 448.9 km of pipe with diameters between 0.5 m and 1.8 m and a throughput capacity of 6.0 million tonnes of crude oil per year. In 2012, the Kenkiyak-Atyrau pipeline transported 3.4 million tonnes of crude oil.

Currently, the pipeline flows towards Atyrau from Kenkiyak, providing oil producers from the Aktobe region with access to the CPC, the UAS or other Atyrau pipeline connections. In connection with the completion of the second phase of the Kenkiyak-Atyrau pipeline, which is expected by the end of 2015, it is intended that the flow of the Kenkiyak-Atyrau pipeline will be reversed and that the capacity of the pipeline will be increased to 12 million tonnes of crude oil per year in order to deliver crude oil from the Atyrau and Aktobe regions of Kazakhstan to China.

Atasu-Alashankou pipeline

In 2004, KTO and CNODC created KCP, in which each hold a 50% interest. KCP owns and KTO operates the Atasu-Alashankou pipeline.

In July 2006, the Atasu-Alashankou pipeline became operational. As at 31 December 2012, the Atasu-Alashankou pipeline had a throughput capacity of 10.0 million tonnes of crude oil per year. In 2012, the Atasu-Alashankou pipeline transported 10.4 million tonnes of crude oil. As at 31 December 2012, the length of the pipeline was 794.1 km. The capacity of the Atasu-Alashankou pipeline was increased to 12 million tonnes of crude oil per year in 2011, through the construction and commissioning of an oil pumping station, and is expected to be further increased to 20 million tonnes of crude oil per year by the end of 2013.

Kenkiyak-Kumkol pipeline

KCP owns the Kenkiyak-Kumkol pipeline, which is operated by KTO. In October 2009, the Kenkiyak-Kumkol pipeline became operational. As at 31 December 2012, the length of the pipeline was 794 km. In 2012, the Kenkiyak-Kumkol pipeline had a throughput capacity of 10.0 million tonnes of crude oil per year. In 2012, 4.5 million tonnes of crude oil were transported through the Kenkiyak-Kumkol pipeline. The capacity of the Kenkiyak-Kumkol pipeline is expected to be increased to 20 million tonnes of crude oil per year by the end of 2015, which will enable the Company to accommodate the expected increased production at the Tengiz Field, as well as the commencement of commercial production at the Kashagan Field.

CPC Pipeline

CPC is a joint venture that owns, operates and maintains the CPC Pipeline. As at 31 December 2012, the CPC Pipeline was 1,510 km long (including storage and loading facilities), with the segment in Kazakhstan totalling 492 km. The CPC Pipeline is the primary transportation route for TCO and is expected to be a major transportation route for NCPC once commercial production commences at the Kashagan Field. In 2012, 27.9 million tonnes of oil and condensate produced in Kazakhstan were transported through the CPC Pipeline, representing 35.2% of the total oil and condensate produced in Kazakhstan.

The Company acts on behalf of the Government in respect of its 19% holding in CPC. In April 2009, the Company acquired a 49.9% interest in KPV from BP for U.S.$250 million, as a result of which the Company increased its effective beneficial interest in CPC from 19% to 20.75%. Only CPC shareholders have rights to capacity in the CPC Pipeline, which consist of preferential capacity rights to specified amounts of capacity and excess capacity rights to use pipeline capacity not being used by other shareholders. The preferential capacity rights and excess capacity rights in respect of the CPC Pipeline are allocated by the agreement of the CPC shareholders and not necessarily by reference to the proportional ownership interests in the joint venture. The Company's preferential capacity rights entitle it to the transportation of 5.76 million tonnes of oil per year.

In 2008, the Company and KMG EP entered into a Services Agreement (the "**Services Agreement**"). As part of the Services Agreement, KMG EP acquired the right to all of the capacity in the CPC Pipeline available to the Company and the Government to ensure that KMG EP is able to deliver at least 5 million tonnes of crude oil per year for so long as the Company owns at least 30% of KMG EP. See "*Share Capital, Sole Shareholder and Related Party Transactions—Relationships between the Company and its Significant Subsidiaries—Services Agreement*".

The expected increase in production from fields being developed by NCPC will require increased capacity of the transportation infrastructure in Kazakhstan, including the CPC Pipeline. On 17 December 2008, the MEMR, the Russian Ministry of Energy and all other CPC shareholders (except LukArco B.V.) agreed to proceed with the expansion of the CPC Pipeline process and signed a memorandum on expansion, which was approved by the other shareholders in the first half of 2009. On 16 December 2009, the final agreement on expansion was approved. Under the terms of the CPC shareholders' agreement, the design of the CPC Pipeline will be increased from 33 million tonnes per year to 67 million tonnes per year, of which up to 52.5 million tonnes per year of oil and condensate will come from Kazakhstan. The expansion project will also comprise the construction of ten oil transfer stations (two in Kazakhstan and eight in the Russian Federation), six tank farms next to Novorossiysk, a third berth unit at the CPC oil terminal and the replacement of 88 km of pipeline in Kazakhstan. Transneft will manage the expansion project in the Russian Federation, Chevron will

manage the expansion at Novorossiysk port and the Company will manage the expansion in Kazakhstan. As a result of the CPC Pipeline expansion, the Company's preferential capacity rights will increase to 14.3 million tonnes from 5.76 million tonnes. The estimated capital expenditures for expanding the CPC pipeline capacity will be U.S.$5.4 billion, which will be financed out of CPC's own cash flows from the proceeds of oil transportation services provided to the CPC shareholders pursuant to their preferential capacity rights and excess capacity rights on a ship-or-pay basis and, to the extent necessary, through external financings. Construction works on the expansion project began in July 2011. The expansion is expected to be completed in three phases with completion of the third phase by the end of 2015. In October 2011, CPC announced that all construction contracts in relation to the CPC Pipeline expansion had been awarded, construction works were progressing within budget and that CPC would not be seeking external financing for the expansion. In December 2012, CPC further announced the completion of the first CPC Pipeline facility in the Iki-Burulskiy district of Kazakhstan.

CPC charges shippers a transportation tariff based on the quantity of CPC blend delivered to the shipper. In October 2007, the tariff for transportation of and delivery to the CPC marine terminal on the Black Sea, inclusive of all charges for terminal facilities, was increased to U.S.$38 per tonne and has remained unchanged to the date of this Base Prospectus.

Other Export Routes for Crude Oil

Alternative transportation routes for the export of oil from Kazakhstan that are available to the Company in the event of any capacity constraints on the KTO or CPC Pipeline systems include: (i) by barge from the Aktau seaport to Baku and then through the BTC pipeline; (ii) by railway from Kazakhstan to Black Sea export terminals of Odessa and Feodosiya; and (iii) by oil tankers from the Aktau seaport to Baku and then by rail to Batumi or by oil tankers to Makhachkala and then by rail to Europe.

Batumi Oil Terminal

In 2007, KTO acquired a 50% ownership interest in Batumi Capital Partners Limited and in February 2008, KTO completed the acquisition of a 100% ownership interest in Batumi Industrial Holdings Limited. Batumi Industrial Holdings Limited and Batumi Capital Partners Limited jointly own Batumi Oil Terminal LLC, which operates a marine export terminal facility in Batumi, Georgia (the "**Batumi Marine Export Terminal**") and, following an internal reorganisation by KTO of a number of its subsidiaries in Georgia, holds exclusive control rights over a 100% share in Batumi Sea Port LLC, which operates a seaport in Batumi, Georgia (the "**Batumi Port**", and together with the Batumi Marine Export Terminal, the "**Batumi Port and Oil Terminal Facilities**"). The Company uses the Batumi Port and Oil Terminal Facilities to store and reload crude oil and petroleum products from Kazakhstan, including oil produced by the Company, Turkmenistan and Azerbaijan, for further export. The Company transports crude oil and petroleum products to the Batumi Port and Oil Terminal Facility by rail.

The Batumi Port comprises 12 operating terminals, including crude oil terminals, with a loading capacity of 25 million tonnes of oil per year. The terminals at the Batumi Marine Export Terminal are comprised of three terminals and one single point buoy mooring, with a total projected loading capacity of 15 million tonnes of oil and petroleum products per year.

Aktau Seaport Terminal

The Aktau seaport was constructed in 1963 and currently is the only seaport in Kazakhstan, which has a capacity for storage and reloading of crude oil and hydrocarbon products. The Aktau seaport comprises 12 operating terminals, including four crude oil terminals. Crude oil terminals are equipped with oil spillage prevention facilities.

The Company uses these terminals to store and reload crude oil and petroleum products from Kazakhstan, including oil produced by the Company, for further export.

Crude Oil Transportation Tariffs and Minimum Volumes

KTO, which is classified as a natural monopoly in Kazakhstan, charges the Company and other shippers a flat tariff for shipments through the UAS Pipeline and the Omsk Pavlodar Shymkent Pipeline. The amount of the tariff is set by the Natural Monopolies Agency based primarily on KTO's costs for maintaining and operating the pipelines. KTO can apply to the Natural Monopolies Agency once a year for an increase in the tariff. There is no quality bank adjustment mechanism for shipments through the UAS Pipeline and Omsk Pavlodar Shymkent pipeline or the Russian Transneft pipeline system. The MOG sets the transportation capacity allocation through the UAS and Omsk-Pavlodar-Shymkent Pipelines.

A contract executed between KTO and its customers governs general access and terms of payment. According to this contract, customers, including the subsidiaries, joint ventures and associates of the Company and third party crude oil shippers, are obligated to transport at least the minimum volume approved by the MOG.

Transportation and Sale of Crude Oil—KMG EP

KMG EP's oil production is transported by: (i) the UAS pipeline to the Atyrau Refinery; (ii) the UAS pipeline to the Russian Transneft transportation system for further transport to ports on the Black Sea or to the Druzhba pipeline for further transport to ports on the Baltic Sea and Eastern and Central Europe; and (iii) the CPC Pipeline to the export marine terminal at Yuzhnaya Ozereevka on the Black Sea near the Russian port of Novorossiysk.

KMG EP exported 76.7%, 73.7%, and 78.1% of its crude oil production in 2012, 2011 and 2010, respectively.

The following table sets forth KMG EP's crude oil sales by export transportation route for the periods indicated:

	For the year ended 31 December		
	2012	2011	2010
		(thousand tonnes)	
CPC Pipeline			
Novorossiysk	2,349	2,302	2,546
UAS Pipeline	3,616	3,530	4,314
Total export	**5,965**	**5,832**	**6,860**

Transportation and Sale of Crude Oil - TCO

TCO's oil production is transported (i) by the CPC Pipeline to the export marine terminal at Yuzhnaya Ozereevka on the Black Sea near the Russian port of Novorossiysk; (ii) by rail to Ukrainian export terminals located at Odessa and Feodosiya; and (iii) by rail through Aktau seaport to the BTC Pipeline and the Batumi Marine Export Terminal located at the Batumi Port.

TCO shipped 15.3 million tonnes through the CPC Pipeline in 2012, as compared to 16.3 million tonnes in 2011 and 17.4 million tonnes in 2010. This decrease was due to lower levels of capacity available for transportation by TCO through the CPC Pipeline above its 8.45 million tonnes of contractually guaranteed capacity in 2012 and 2011 compared to 2010. It is expected that the CPC Pipeline will continue to be the primary export route for TCO crude oil. At the end of 2009, an agreement was reached to expand the CPC Pipeline from its current 33 million tonnes per year to 67 million tonnes per year, which will include up to 52.5 million tonnes per year of oil and condensate produced in Kazakhstan. Construction works on the expansion of the CPC Pipeline began in July 2011 and are expected to be completed by 2015.

TCO also ships oil by expanded rail car loading and rail export facilities, which became operational during 2007 and are designed to transport the additional Tengiz production prior to the CPC expansion. Other alternatives are also being considered to increase export capacity.

TCO exports 100% of its crude oil production, which is transported primarily through the CPC Pipeline. The following table summarises TCO's crude oil exports by export transportation route for the periods indicated:

	For the year ended 31 December		
	2012	2011	2010
		(thousand tonnes)	
CPC Pipeline:	15,275	16,251	17,396
BTC Pipeline	—	—	96
UAS Pipeline	—	—	—
Rail transportation to Odessa, Feodosiya and Batumi	8,702	9,879	8,421
Total export	**23,977**	**26,130**	**25,913**

In addition, TCO transports: (i) LPG by rail to customers within the CIS and to LPG export facilities on the Black Sea and in certain European countries for export outside the CIS; (ii) dry gas through ICA's pipelines in Kazakhstan for domestic use and for export through TCO's Tengiz Kulsary dry gas pipeline; and (iii) sulphur by rail through or within Kazakhstan and to Russia, China, Ukraine and various Baltic export terminals for distant exports.

Transportation and Sale of Crude Oil - PKI

PKI's oil production is transported by: (i) two lateral pipelines to Karakoin, where the pipelines connect with the Eastern Branch operated by KTO, which transport oil to the Shymkent Refinery; (ii) the Kumkol-Dzhusaly Pipeline to a rail loading terminal at Dzhusaly; (iii) rail from Dzhusaly to Aktau seaport and then across the Caspian Sea to Baku, through Azerbaijan and on to the Batumi Port; (iv) rail from Dzhusaly to the Atyrau Samara segment of the UAS pipeline and then by pipeline on to Odessa or Western Europe; (v) rail from Atasu and Tekesu to China; (vi) rail from Tekesu to Uzbekistan and Iran; (vii) the AtasuAlashankou Pipeline to China; and (viii) rail from Tekesu through Turkmenistan, across the Caspian Sea to Baku, through Azerbaijan and on to the Batumi Port.

PKI exported 62.3%, 64.0%, and 78.4% of its crude oil production in 2012, 2011 and 2010, respectively. This decrease was primarily due to lower production volumes, as well as the reallocation of crude oil volumes to the domestic market in 2012 and 2011 compared to 2010. The following table summarises PKI's crude oil exports by region for the periods indicated:

	For the year ended 31 December		
	2012	**2011**	**2010**
		(thousand tonnes)	
Atasu-Alashankou pipeline	3,305	3,965	4,130
Rail transportation from Dzhusaly to Aktau	256	390	514
Rail transportation from Atasu to			
CPC Pipeline	0	0	0
Uzbekistan	182	225	252
Total export	**3,743**	**4,580**	**4,896**

Refining, Marketing and Trading

Natural Gas Sales and Distribution

The Company sells and markets its natural gas through JSC KazTransGas Almaty ("**KTGA**"), a wholly-owned subsidiary of KTG, and KazRosGas, one of the Company's joint ventures.

KTGA

KTGA was established on 15 April 2002 to assume all responsibilities for managing the domestic distribution of natural gas within the Company. KTGA is engaged principally in the transportation of gas through domestic distribution pipeline networks, operation of gas distribution units and pipelines and marketing, purchase and wholesale trading of natural gas in the domestic market. KTGA utilises its own pipeline network.

KazRosGas

KazRosGas was established on the basis of the treaty between the respective governments of Kazakhstan and Russia "On Cooperation in Gas Sector" dated 28 November 2001. KazRosGas is 50/50 owned by the Company (representing Kazakhstan) and Gazprom (representing Russia).

KazRosGas is engaged in the purchase and marketing of gas from the Karachaganak Field in Western Kazakhstan and the Tengiz Field in the Atyrau oblast. Gas from these fields is transported mainly to the Russian border and further through Gazprom's transportation system to the CIS and other foreign markets.

The following table sets forth the sources of KazRosGas's gas supply as at the dates indicated:

	As at 31 December		
	2012	**2011**	**2010**
		(mcm)	
Karachaganak (dry gas)	6,907.2	6,840.3	6,775.4
TCO (dry gas)	0	0	773.0
Other	1,891.7	0	0
Total	**8,798.9**	**6,840.3**	**7,548.4**

The following table sets forth the gas distribution destinations of KazRosGas as at the dates indicated:

	As at 31 December		
	2012	2011	2010
		(mcm)	
Export	8,194.2	6,077.1	6,160.5
of which swap operations	3,429.9	3,695.5	3,291.0
Domestic market	604.7	763.1	1,387.8
Total	**8,798.9**	**6,840.2**	**7,548.3**

KMG RM

KMG RM is the Company's principal refining, marketing and trading company. Crude oil from the Company's production operations, in particular from KMG EP, which is not exported, is transported for refining at the Atyrau, Pavlodar and Shymkent Refineries. In 2011, the reorganisation of KMG RM through the merger of KMG RM and JSC KMG Onimderi (its wholly-owned subsidiary) and the transfer of the Rompetrol Group to the Company was completed.

From 2006 until 2009, KMG RM had been appointed by the Government to collect in-kind royalty payments from TCO, JSC Turgai Petroleum, Kazgermunai, PKKR and other third parties and received a commission for selling the crude oil on behalf of the Government. On 1 January 2009, the Government cancelled the royalty regime for all producers (except TCO, which continues to pay royalties to the Government) and, accordingly, KMG RM no longer collects in-kind royalties payments.

KMG RM currently has two principal goals: (i) delivering products to the domestic market and expanding its retail market share in Kazakhstan to over 50% through the expansion of its retail network organically and through acquisitions and franchising agreements; and (ii) modernising its refining assets, including ensuring that all refineries meet the Euro 4 standard by 2015 as required by the Customs Union. The Customs Union has imposed deadlines for compliance by refining assets with Euro 4 and Euro 5 standard ecological requirements by 2015 and 2016, respectively.

Sales of Crude Oil

Between January 2004 and April 2012, the Company exported substantially all of the crude oil produced by KMG EP under the terms of the Agency Agreement. The Agency Agreement was entered into annually and was subject to a tender carried out in accordance with the S-K Rules. The relationship established by the Agency Agreement was terminated on 30 April 2012. Since 1 May 2012, KMG EP has exported the crude oil it produces directly. See "*Share Capital, Sole Shareholder and Related Party Transactions—Relationships Between the Subsidiaries, Joint Ventures and Associates of the Company—KMG RM Agency Agreement*". The Company has an indirect majority-owned subsidiary in Netherlands, named Trade House KazMunaiGaz N.V., to which oil shipped through Odessa and Novorossiysk is sold.

The Company has restructured its export sales companies in line with the transfer pricing law which came into force on 1 January 2009 (law № 67-IV, dated 5 July 2008) and restricts the use of trading partners in certain offshore jurisdictions. As at the date of this Base Prospectus, the Company has not experienced any material impact on its operations or financial condition as a result of this restructuring.

Refining Facilities

As at 31 December 2012, KMG RM held a 99.53% ownership interest in the Atyrau Refinery; a 100.0% interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 25.1% interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 74.9% interest in Pavlodar Refinery JSC being held directly by KMG RM); and a 49.72% ownership interest in the Shymkent Refinery. The Company has a significant or controlling interest in each of the three principal oil refineries in Kazakhstan, the Atyrau Refinery, the Pavlodar Refinery and the Shymkent Refinery. As at 31 December 2012, the total actual refining capacity of these refineries was 15.3 million tonnes of crude oil per year.

Pavlodar Refinery

The Pavlodar Refinery, which was constructed in 1978, is located in the city of Pavlodar in north-east Kazakhstan, Pavlodar Oblast, 100 km from the border with Russia and is linked to the Omsk-Pavlodar-Shymkent Pipeline. The Pavlodar Refinery is the only refinery in Kazakhstan with a catalyst cracker and sulphur granulation unit. All oil supplied to the refinery originates in the Western Siberian oil fields and is transported into the refinery through the Transneft and

KTO pipeline systems and associated tank farms located immediately adjacent to the refinery. In addition to Western Siberian crude, recent modernisation has allowed for processing of up to 0.5% of the Pavlodar Refinery's total capacity of crude oil from other origins. The share of non-Siberian oil is limited by its high sulphur content, which may deteriorate the quality of the refined products.

The Pavlodar Refinery is the largest and most technically advanced of the three principal oil refineries in Kazakhstan and has a designed refining capacity of 7.5 million tonnes of crude oil per year and an actual capacity of 5.1 million tonnes of crude oil per year. It refined 35.8% of the total oil refined in Kazakhstan in 2012. In addition, the Pavlodar Refinery produced 46.2% of the gasoline, 37.2% of the diesel and 24.9% of the fuel oil produced in Kazakhstan in 2012. In 2012, the Pavlodar Refinery produced a total of 4.3 million tonnes of refined oil products compared to 4.0 million tonnes in 2011 and 4.5 million tonnes in 2010.

The Pavlodar Refinery tolls oil for a processing fee established by Kazakhstan's Agency for Protection of Competition ("**Agency for Protection of Competition**"). In May 2012, the Agency for Protection of Competition permitted the Pavlodar Refinery to increase processing fees to KZT 6,174.16 from KZT 4,992.7 per tonne, which has had, and continues to have, a positive impact on refining revenue. There have been no further increases in processing fees since May 2012. Pursuant to an agreement dated 4 August 2009 among Mr. Sarsenov R.T., the Company, TH KazMunaiGaz N.V., Central Asia Petroleum Ltd, Pavlodar Refinery, Refinery Company RT and Helios LLP, all liquefied petroleum gas to be produced by the Pavlodar Refinery would be sold to Helios LLP. In July 2011, the agreement was reviewed and declared as anti-competitive by the Agency for Protection of Competition and a fine of KZT 438.6 million was imposed on the Company. The Company is challenging this fine.

In 2008, the Pavlodar Refinery completed the reconstruction and commissioning of a hydrogen production unit, which decreases sulphur content in the refinery's finished products. In 2007, reconstruction of some cooling towers was completed in order to reduce water consumption associated with the plant water recirculating system.

In August 2009, KMG RM acquired a 100.0% interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 25.1% interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 74.9% interest in Pavlodar Refinery JSC being held directly by KMG RM). Refinery Company RT leases the assets comprising the Pavlodar Refinery to Pavlodar Refinery JSC, which then operates the Pavlodar Refinery.

In November 2009, the Company entered into a memorandum of understanding with Eni S.p.A. to conduct a feasibility study in relation to a reconstruction and modernisation programme for the Pavlodar Refinery. On 31 October 2011, the Government approved this feasibility study. On 28 May 2012, Pavlodar Refinery entered into a contract on FEED services for the project with Technip Italy S.p.A. and "IK Kazgiproneftetrans" LP, a Kazakh partner of the Italian company. FEED services will be provided by Technip Italy S.p.A. and "IK Kazgiproneftetrans" LP within 12 months, while "IK Kazgiproneftetrans" LP will be responsible for managing the Government approval process. Final documentation for the project is expected to be completed by August 2013.

The principal aim of the project is to increase the actual refining capacity of the Pavlodar Refinery to 7.5 million tonnes of crude oil per year through the construction of new units, as well as the refurbishment of existing units, to produce transport fuels that meet Euro 5 standards. The project will allow the Pavlodar Refinery to increase its supply of high-quality oil products to the market and to compete with oil companies in CIS and other countries. The project is expected to be developed in two phases: (i) an engineering and procurement phase for the design, engineering and procurement of the required equipment; and (ii) an engineering, procurement and construction phase, which will encompass all work associated with the development, construction, completion, testing, installation and commission of the equipment. The total cost of the first phase is expected to be up to U.S.$700 million and the total cost of the second phase and is expected to be up to U.S.$1.0 billion, although the Company is currently considering measures to reduce the overall cost of the project to U.S.$1.0 billion. The first phase is expected to be completed by August 2013, after which the second phase will commence and is expected to be completed by 2016.

In 2010, the Pavlodar Refinery performed its most extensive general maintenance since the start of the post-Soviet period, which included the replacement of its worn-out heat exchange and other equipment, as well as repairs of utilities, infrastructure and peripheral buildings, roads and other non-production infrastructure. The total cost of these works exceeded KZT 4.5 billion. The completed works allowed the refinery to perform a full transition to production of Euro 2 standard diesel fuel. In 2010, the Pavlodar Refinery also put into service a solid waste storage facility with a book value of KZT 83.0 million and commissioned an octane enhancement unit with a book value of KZT 350.0 million.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Pavlodar Refinery for the periods indicated:

	For the year ended 31 December		
	2012	2011	2010
		(thousand tonnes)	
Gasoline	1,331.9	1,200.5	1,314.4
Diesel fuel	1,513.8	1,424.9	1,477.6
Jet fuel	99.6	123.9	189.6
Fuel oil	810.2	710.3	887.0
Other products	577.3	548.8	598.5
Total	**4,332.8**	**4,008.4**	**4,467.1**

Atyrau Refinery

The Atyrau Refinery is located in the centre of the major hydrocarbon producing region of Western Kazakhstan and is linked to the Uzen-Atyrau-Samara Pipeline. Constructed in 1945, the Atyrau Refinery is the oldest refinery of the three operating refineries in Kazakhstan. Following a modernisation programme, the Atyrau Refinery has a designed refining capacity and an actual refining capacity of 5.0 million tonnes of crude oil per year.

The Atyrau Refinery refined 30.9% of the total oil refined in Kazakhstan in 2012. In addition, the Atyrau Refinery produced 17.5% of the gasoline, 29.9% of the diesel and 47.4% of the fuel oil produced in Kazakhstan in 2012. In 2012, the Atyrau Refinery produced a total of 4.2 million tonnes of refined oil products compared to 4.2 million tonnes in 2011 and 4.1 million tonnes in 2010.The Atyrau Refinery mainly tolls oil that it receives from KMG EP, for which processing fees are established by the Agency for Protection of Competition. In May 2012, the Agency for Protection of Competition permitted the Atyrau Refinery to increase its processing fees to KZT 8,937.0 per tonne, which has had, and continues to have, a positive impact on refining revenue.

The market demand for refined oil products in Western Kazakhstan is estimated at 3.0 million tonnes per year. In 2012, the Atyrau Refinery operated above the break-even point primarily due to the increase in processing fees from KZT 7,462.10 per tonne to KZT 8,937.0 per tonne in May 2012. In 2012, the Atyrau Refinery refined 4.4 million tonnes of crude oil.

The current investment programme of the Atyrau Refinery includes the construction of an aromatic hydrocarbons production complex, which is expected to be completed in 2013, and the construction of a deeper oil refining complex, which is expected to be completed in 2016. On 29 October 2009, KMG RM entered into a contract with Sinopec Engineering for the construction of the aromatics production complex and deeper oil refining at the Atyrau Refinery at a cost of U.S.$1.1 billion, which the Company intends to fund through external financing by drawing on a credit line signed with JSC Development Bank of Kazakhstan on 30 July 2010 for a total amount of U.S.$1,063.7 million, maturing in 2023. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*".

The construction of the aromatic hydrocarbons production complex, which is expected to cost a total of U.S.$1.1 billion, will include the construction of a catalytic reforming unit, benzene and paraxylene production units and off-site facilities. The implementation of this project will allow production of up to 132,000 tonnes of benzene per year and up to 497,000 tonnes of paraxylene per year, as well as production of Euro 4 standard petrol and diesel fuel. The construction of the aromatics production complex is expected to be completed in 2013. In addition and as part of the same project, in December 2011, Atyrau Refinery entered into an agreement with a consortium, which comprised Sinopec, Marubeni Corporation and JSC KazStroyService, for the turnkey construction of the deeper oil refining complex. The deeper oil refining complex will have a capacity of up to 2.4 million tonnes and will allow a more rational use of the residual heavy oil resource base. The construction of the deeper oil refining complex is also expected to increase production of motor fuels, increase production of gasoline to 1.7 million tonnes, increase the total production of diesel to 1.6 million tonnes, increase the production of jet fuel to 0.2 million tonnes and reduce the production of fuel oil to 0.2 million tonnes. Furthermore, the construction of the deeper oil refining complex is expected to increase oil refining depth to 82-86%, in order to permit the production of gasoline and diesel fuel that complies with Euro 5 standards. The introduction of modern machinery and automated processes is also expected to reduce emissions and human error. Sinopec has responsibility for the implementation of this project, Marubeni Corporation is arranging finance for the project and JSC KazStroyService is charged with construction and procurement matters. The project is scheduled for completion in 2016.

To finance the construction of the deeper oil refining complex and the cost of related goods and services, in August 2012, Atyrau Refinery LLP entered into a U.S.$252.0 million loan agreement with JSC Development Bank of Kazakhstan and a U.S.$1.1 billion loan agreement with the Export-Import Bank of China in June 2012 and a U.S.$297.5 million loan

facility with Japan Bank for International Cooperation and Bank of Tokyo Mitsubishi UFJ, Ltd. Such loans are secured by corporate guarantees from the Company. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*".

In 2012, 2011 and 2010, KMG RM capital expenditures to upgrade the Atyrau Refinery were KZT 96,709 million, KZT 79,550 million and KZT 15,786 million, respectively, and were primarily for projects related to the construction of the aromatic hydrocarbons production complex and the deeper oil refining complex. The Company increased the oil refining capacity to 5.0 million tonnes of crude oil per year by the end of 2012 and improved the quality of the refined oil products at Atyrau Refinery through these projects. In 2013, KMG RM's anticipated total capital expenditures at the Atyrau Refinery are KZT 115,636 million. The post-modernisation production capacity of the Atyrau Refinery is expected to increase to 5.5 million tonnes of crude oil per year by 2014. The Company is required to make considerable further investment to improve the utilisation rate and profitability of the Atyrau Refinery and improve the quality of the refined oil products produced at the Atyrau Refinery.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Atyrau Refinery for the periods indicated:

	For the year ended 31 December		
	2012	2011	2010
		(thousand tonnes)	
Gasoline	506.0	567.9	601.1
Diesel fuel	1,217.8	1,330.1	1,259.0
Jet fuel	56.4	46.4	65.6
Fuel oil	1,542.9	1,785.3	1,953.3
Other products	839.1	480.7	253.7
Total	**4,162.2**	**4,210.4**	**4,132.7**

Shymkent Refinery

The Shymkent Refinery is located in Southern Kazakhstan and was commissioned in 1985 with the completion of an atmospheric distillation unit for the initial separation of crude oil, catalytic hydro treaters for the removal of impurities from naphtha, jet and diesel fuel and a catalytic cracker unit for the enhancement of octane levels in gasoline. Most product and crude deliveries to the Shymkent Refinery are made by rail in railcars provided by the state-owned railway or third parties. Crude oil production from Kumkol producing fields and from Western Siberia are the primary source of crude oil for the Shymkent Refinery.

In July 2007, KMG RM acquired an indirect 49.72% interest in PetroKazakhstan Oil Products LLP, which in turn owns the Shymkent Refinery. The remaining interest in PetroKazakhstan Oil Products LLP is held by CNPC. As at 31 December 2012, the Shymkent Refinery had a designed refining capacity of 6.0 million tonnes of crude oil per year and an actual refining capacity of 5.2 million tonnes of crude oil per year.

The Shymkent Refinery refined 33.3% of the total oil refined in Kazakhstan in 2012. In addition, the Shymkent Refinery produced 36.3% of the gasoline, 32.8% of the diesel and 27.7% of the fuel oil produced in Kazakhstan in 2012. In 2012, the Shymkent Refinery produced a total of 4.5 million tonnes of refined oil products compared to 4.3 million tonnes in 2011 and 4.4 million tonnes in 2010.

The Shymkent Refinery works on tolling oil for others for a processing fee established by the Agency for Protection of Competition. In 2010, the Agency for Protection of Competition permitted the Shymkent Refinery to increase its processing fees to KZT 3,947 from KZT 3,100 per tonne. In August 2012, the Agency for Protection of Competition permitted the Shymkent Refinery to increase its processing fees further to KZT 4,975 per tonne; this tariff remains in effect as at the date of this Base Prospectus.

A vacuum distillation unit at Shymkent was completed in late 2003 and became operational in early January 2004. This vacuum distillation unit allows for the production and sale of vacuum gasoil ("**VGO**"). VGO is a high value product and is highly sought after by refineries with catalytic cracking facilities where the VGO can be converted into gasoline and diesel. The production of VGO reduces the production of fuel oil (which is a lower end product and is present in the market in excessive quantities), thereby improving the economic yield of the Shymkent Refinery.

In October 2010, KMG RM entered into a contract with Technip S.p.A. (Italy) to prepare a feasibility study in relation to the reconstruction and modernisation works for the Shymkent Refinery. The feasibility study has since been completed and works have commenced. The main objectives of this project are to increase the actual refining capacity to 6.0 million

tonnes of crude oil per year, to increase processing depth and to meet Euro 4 and Euro 5 standards. The total cost of this project is estimated to be U.S.$1.5 billion and the project is expected to be completed in the first quarter of 2016.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Shymkent Refinery for the periods indicated:

	For the year ended 31 December		
	2012	2011	2010
		(thousand tonnes)	
Gasoline	1,046.0	996.0	978.3
Diesel fuel	1,336.0	1,338.0	1,337.2
Jet fuel	275.0	218.0	234.4
Fuel oil	902.0	908.0	930.7
Other products	944.0	889.0	946.2
Total	**4,503.0**	**4,349.0**	**4,426.8**

Refined oil products Sales and Distribution

KMG RM owns and operates an expanding network of gasoline stations in Kazakhstan. As at 31 December 2012, KMG RM owned 307 (285 as at 31 December 2011 and 246 as at 31 December 2010) gasoline stations located in Kazakhstan in the cities of Astana and Almaty and in West, North and East Kazakhstan, which, according to KMG RM's own estimates, represented 11.8% of retail gasoline sales in the domestic market in 2012 (10.0% in each of 2011 and 2010).

KMG RM sells domestically a full range of petroleum fuel, including high-quality diesel, gasoline and jet fuel. The trading and marketing of refined oil products in the domestic market is performed by KMG RM through direct sales primarily though the Atyrau Refinery, as well as from its four wholly-owned subsidiaries, KMG-Onimderi JSC, KMG Alatau LLP, KMG Astana LLP and KMG Zhayik LLP. Oil products are transported by railway and subject to a tariff that is based on the actual distance travelled.

The following tables set forth the KMG RM product mixture and corresponding domestic market share of the Company for the periods indicated:

Product	For the year ended 31 December 2012		
	Production	KMG RM	Market Share
	(thousand tonnes)		%
Gasoline	2,883.9	2,360.9	81.9
Jet fuel	431.0	293.5	68.1
Diesel	4,067.6	3,399.6	83.6
Fuel	3,255.1	2,804.1	86.1
Total	**10,637.6**	**8,858.1**	**83.3**

Product	For the year ended 31 December 2011		
	Production	KMG RM	Market Share
	(thousand tonnes)		%
Gasoline	2,764.4	2,266.4	82.0
Jet fuel	388.3	279.3	71.9
Diesel	4,093.0	3,424.0	83.7
Fuel	3,403.6	2,949.6	86.7
Total	**10,649.3**	**8,919.3**	**83.8**

Product	For the year ended 31 December 2010		
	Production	KMG RM	Market Share
	(thousand tonnes)		%
Gasoline	2,893.8	1,749.0	60.4
Jet fuel	489.6	189.6	38.7
Diesel	4,073.8	2,157.0	52.9
Fuel	3,771.0	1,388.0	36.8
Total	**11,228.2**	**5,483.6**	**48.8**

Rompetrol

As a result of the reorganisation of KMG RM, the Company became a direct owner of the Rompetrol Group in December 2011. The Rompetrol Group owns and operates, among other entities, the Petromidia Refinery, which is owned by its 54.6%-owned subsidiary Rompetrol Rafinare (the remaining 44.7% and 0.7% are owned by the Romanian Government and public shareholders, respectively) and the Vega Refinery, as well as a network of retail stations.

Rompetrol Convertible Note

In 2003 (and prior to the Company's ownership of the Rompetrol Group), Rompetrol Rafinare issued a convertible debt instrument in the amount of €570.3 million (KZT 101 billion) to the Romanian government (the "**Rompetrol Convertible Note**"). The Rompetrol Convertible Note provided that Rompetrol Rafinare could repay the principal amount in cash or in shares of Rompetrol Rafinare at the maturity of the Rompetrol Convertible Note on 30 September 2010. In August 2010, Rompetrol Rafinare increased its share capital by the issuance of new shares in an amount equivalent to €78 million at the date of subscription, all of which were fully subscribed by the Company, through Rompetrol, and as a result of which the Company further increased its ownership interest in Rompetrol Rafinare. Subsequently, in August 2010, Rompetrol Rafinare applied a portion of the proceeds from the capital increase to repay €54 million in cash to the Romanian government on the maturity of the Rompetrol Convertible Note. At the maturity of the Rompetrol Convertible Note on 30 September 2010, the remaining balance due was converted into shares of Rompetrol Rafinare, as a result of which the Company's ownership interest in Rompetrol Rafinare was reduced to 54.6%, with 44.7% being owned by the Romanian government and 0.7% being owned by public shareholders.

On 15 February 2013, Rompetrol entered into a memorandum of understanding with the Romanian State in relation to the settlement of all matters relating to the Rompetrol Convertible Note. Pursuant to this memorandum of understanding, Rompetrol has agreed to purchase shares representing 26.70% of the share capital of Rompetrol Rafinare from the

Romanian State for U.S.$200 million. The remaining shares, representing 18.0% of the share capital of Rompetrol Rafinare held by the Romanian State, will be subject to a three-year lock-up arrangement, and Rompetrol will have a right of first refusal over the disposal of such shares.

In addition, the parties have agreed to establish a Kazakh-Romanian investment fund, through which Rompetrol will make an equity contribution of U.S.$150 million. Total investment in the fund will be provided over a seven year period with total investments by Rompetrol in energy projects related to its core activities estimated to be U.S.$1 billion. This fund may also seek debt financing in an aggregate amount up to four times its equity. Following its establishment, the fund will be 80% owned by Rompetrol and 20% owned by the Romanian State and is expected to invest in the oil and gas sector in Romania. In the event of a proposed disposal, Rompetrol has a pre-emption right in respect of the Romanian State's interest in this investment fund.

The memorandum of understanding provides that the obligations of Rompetrol and the Romanian State will terminate in the event that either party or one of its affiliates (in the case of the Romanian State, any public authority) initiates legal or administrative proceedings against the other party or one of their affiliates.

It is expected that definitive agreements to implement the arrangements contemplated by the memorandum of understanding will be entered into in 2013, following receipt of relevant approvals, although there can be no assurance that such definitive agreements will be concluded. The memorandum of understanding is expected to become effective by the end of the second quarter of 2013.

Petromidia Refinery

The Petromidia Refinery was constructed between 1974 and 1979. The Petromidia Refinery has a designed refining capacity of 5.0 million tonnes of crude oil per year and an actual refining capacity of 4.0 million tonnes of crude oil per year. In 2012, Rompetrol produced 3.9 million tonnes of refined oil products at the Petromidia Refinery, achieving 80% utilisation of designed refining capacity.

The Petromidia Refinery processes a variety of crude oils with high sulphur content and API. Crude oil processed at the Petromidia Refinery is received at Midia port, which is owned by Rompetrol and can accommodate ships of up to 24,000 tonnes of deadweight, or through the larger Constanta port, which is connected to the Petromidia Refinery by a 40 km pipeline. The Petromidia Refinery has its own marshalling yard, with 40 loading and unloading points and vehicle loading ramps. The Petromidia Refinery produces different types of vehicle fuels (gasoline, diesel and LPG) and Jet A-1 Fuel. The Petromidia Refinery products meet applicable European quality standards and environmental protection regulations for such products.

In Romania, the Petromidia oil products are sold through the Rompetrol downstream distribution network and third party retail and wholesale distribution networks. The Petromidia Refinery exports oil products to Ukraine, Moldova, Bulgaria, Turkey, Georgia, Hungary, Croatia, Bosnia, Serbia and Western Europe.

The cost of processing at the Petromidia Refinery has decreased to U.S.$28.3 per tonne in 2012, from U.S.$29.9 per tonne in 2011 and U.S.$30.7 per tonne in 2010, primarily as a result of the increase in the volumes of refined crude oil processed over the period.

In October 2012, the Company announced the completion of the installation of all of the industrial projects that formed the Company's modernisation plans for the Petromidia Refinery. As a result of the completion of these projects, the volume of oil refined by the Petromidia Refinery is expected to increase from 3.5 million tonnes to 5 million tonnes per year in 2013. These industrial projects included works to upgrade the fluid catalytic cracking unit and claus unit, works to upgrade the amine unit and the refinery's facilities from VGO hydro-treating to diesel hydro-treating, works to increase N2 liquid evaporation capacity and automation and the construction of a new hydrogen production plant, mild hydrocracker unit, flares and sulphur recovery unit.

Between 2010 and 2012, Rompetrol's capital expenditures at the Petromidia Refinery were U.S.$477 million, of which U.S.$169 million was spent in 2010, U.S.$191 million was spent in 2011 and U.S.$117 million was spent in 2012. Investments in 2012 were made primarily to complete the industrial projects described above, as well as to increase capacity at the refinery to 5.0 million tonnes of crude oil per year and implement Euro 5 standards. Rompetrol plans to spend U.S$90.3 million in capital expenditures in 2013, which are mainly aimed at maintaining production levels.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Petromidia Refinery for the periods indicated:

	For the year ended 31 December		
	2012	2011	2010
		(thousand tonnes)	
Gasoline	1,293.1	1,258.1	1,125.8
Diesel fuel	1,602.8	1,497.1	1,324.4
Jet fuel	132.7	103.3	91.7
Fuel oil	113.2	150.1	104.4
Other products	788.3	803.6	495.4
Total	**3,930.1**	**3,812.2**	**3,141.7**

Vega Refinery

The Vega Refinery is located in Ploiesti, a small town near Bucharest, Romania. It was constructed in 1905 and fully modernised between 1970 and 1980 and is owned by Rompetrol. The Vega Refinery has a designed and actual refining capacity of 0.3 million tonnes of crude oil per year. In each of 2012, 2011 and 2010, the Vega Refinery produced a total of 0.3 million tonnes of refined oil products.

The Vega Refinery uses by-products of other refineries in the region as raw material and specialises in processing alternative raw materials (naphtha, refined RC, C5 C6 fraction, other oil fractions and fuel oil) and in producing ecological solvents, asphalt for special uses, ecological fuels for heating and other specialised products. The Vega Refinery has installations for both atmospheric and vacuum distillation of crude oil and for processing alternative raw materials.

The range of products produced by the Vega Refinery includes polymerisation solvent-normal hexane, ecological petroleum solvents, other oil products, such as gasoline, naphtha, white spirit and petroleum products (heating oil), light liquid fuel and bitumen (road and polymer modified, special and ground coat for metallic pipes protection).

In 2012, the cost of processing at the Vega Refinery increased to U.S.$54.15 per tonne from U.S.$43.38 per tonne 2011, primarily due to higher volumes of crude oil refined at the Vega Refinery in 2012 compared to 2011. In 2011, the cost of processing at the Vega Refinery decreased to U.S.$43.38 per tonne from U.S.$48.20 per tonne in 2010, primarily due to lower volumes of crude oil refined at the Vega Refinery in 2011 compared to 2010.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Vega Refinery for the periods indicated:

	For the year ended 31 December		
	2012	2011	2010
		(thousand tonnes)	
Special Gasoline (Solvents) and other gasoline	193.3	186.0	207.1
White spirit and petroleum	18.2	20.3	8.6
Gas oil	6.5	8.7	6.0
Heavy fuel	34.0	40.7	24.6
Fuel oil	—	—	—
Bitumen	45.0	53.3	36.7
Other products	5.9	11.0	19.4
Total	**302.9**	**320.0**	**302.4**

Retail network

Rompetrol's retail network offers a wide range of vehicle fuels, including gas and diesel, which are primarily supplied by the Petromidia Refinery, as well as the Vega Refinery. Rompetrol also sells vehicle fuel through 26 wholesale fuel depots, which supply over 25% of the Romanian market, 3.5% of the French market and 1.5% of the Spanish market.

Rompetrol sells a full range of petroleum products, including gasoline, diesel fuel, LPG and heating oil both domestically in Romania and in Eastern Europe, France and Spain. The trading and marketing of refined oil products in the domestic

market is performed by various Rompetrol controlled entities, including Rompetrol Downstream, Rom Oil SA (wholesale and retail sale of gasoline and diesel fuel), Romcalor SA (wholesale and retail sale of heating oil) and Rompetrol Gas SRL (wholesale and retail sale of liquefied gas) in Romania, and by Vector Energy AG in Eastern Europe. Rompetrol Downstream, a subsidiary of Rompetrol, owns and operates over 131 Company Owned Company Operated/Company Owned Dealer Operated gasoline stations and controls 155 Dealer Owned Dealer Operated gasoline stations in Romania and 71 in Bulgaria.

The following tables set forth Rompetrol's product mixture and percentages sold in Romania and internationally for the periods indicated:

	For the year ended 31 December 2012		
		% volume sold	
Product	Volume	Domestically	Internationally
	(tonnes)		
Gasoline	641.1	48	52
Diesel fuel	2,807.1	40	60
Jet fuel	107.8	100	0
LPG	306.6	60	40
Other products(1)	533.8	34	66
Total produced	**4,396.4**	**43**	**57**

	For the year ended 31 December 2011		
		% volume sold	
Product	Volume	Domestically	Internationally
	(tonnes)		
Gasoline	650.6	46	54
Diesel fuel	2,913.5	40	60
Jet fuel	78.4	100	0
LPG	192.6	62	38
Other products(1)	640.6	26	74
Total produced	**4,475.7**	**42**	**58**

	For the year ended 31 December 2010		
		% volume sold	
Product	Volume	Domestically	Internationally
	(tonnes)		
Gasoline	383.3	36	64
Diesel fuel	1,414.7	37	63
Jet fuel	43.1	100	0
LPG	148.0	59	41
Other products(1)	362.6	26	74
Total produced	**2,351.7**	**38**	**62**

Note:

(1) Other products include naphtha gasoline 132.7 kt, fuel oil 65.7 kt, coke 263.2 kt, petroleum sulphur 37.3 kt, fuel gases 96.7 kt, other 49.5 kt.

Petrochemicals

On 26 February 2009, the Company acquired 50% of the share capital of Kazakhstan Petrochemical Industries JSC ("**KPI JSC**") for an aggregate cash consideration of KZT 4.8 billion. The remaining 50% of the share capital of KPI JSC was held by KMG EP. In 2011, the Company increased the share capital of KPI JSC by KZT 10,027 million and, accordingly, increased its interest in KPI JSC to 96.53%, with the remaining 3.47% interest in KPI JSC being held by KMG EP. KPI JSC owns two petrochemical plants in Kazakhstan: the Atyrau plant, which is currently not operational, and the Aktau plant, which produces small amounts. In 2012, the Company's share in KPI JSC increased to 97.11%, with the remaining 2.89% interest in KPI JSC being held by KMG EP.

In 2010, construction works commenced on the site of the proposed road bitumens production plant at the plastics plant in Aktau. The capacity of the road bitumens production plant is expected to be 400.0 thousand tonnes per year, and the plant is expected to be commissioned in the second quarter of 2013. The total cost of the project is estimated to be KZT 42,050 million, which is being funded by Caspi Bitum LLP, a joint venture between KPI JSC and CITIC through the

proceeds of a U.S.$232 million loan agreement entered into by Caspi Bitum LLP with the Bank of China in September 2010.

Competition

Exploration and Production

Kazakhstan's oil and gas sector has been an attractive investment opportunity for leading Western, Asian and Russian oil and gas companies. Since Kazakhstan's independence in 1991, a number of major Western and other oil companies have invested in the oil and gas sector of Kazakhstan. In recent years, China has enhanced its presence in Kazakhstan's oil and gas industry by acquiring a number of oil producing companies, as well as by entering into several significant joint ventures with the Company. These joint ventures include, among others, (i) PKI, an oil producer which is majority owned by CNPC; (ii) CCEL, a joint venture with CITIC; (iii) KCP, a jointly-controlled entity with CNODC formed to construct and operate the KC Pipeline; (iv) AGP, a jointly-controlled entity with CNPC to construct the Turkmenistan-China gas pipeline across Kazakhstan, which transmits gas from the other Central Asian Republics to major population centres in Southern Kazakhstan and to China; (v) BSGP, a joint venture between KTG and CNPC to construct and operate the Beineu-Bozoi-Shymkent Gas Pipeline; (vi) MMG, an oil producer owned by MIBV, a 50-50 joint venture with CNCP E&D; and (vii) MunayTas, which operates the Kenkiyak-Atyrau pipeline and in which CNPC E&D owns a 49.0% interest. The last few years have also seen renewed interest, particularly in Western Kazakhstan, from numerous smaller companies that have been attracted by development opportunities and the region's existing infrastructure. Companies in this group include, among others, Arawak Energy Limited, BMB Munai Inc., CanArgo Energy Corporation, Caspian Holdings PLC and Victoria Oil & Gas PLC.

The Company does not foresee competition for reserves from regional and international oil and gas companies since the Company is the beneficiary of the Government's pre-emptive right to acquire interests in Subsoil Use Agreements.

Transportation

Kazakhstan occupies a favourable geographical position as a transit country between major gas producers in Turkmenistan, Uzbekistan and Russia and large gas consumption centres in eastern and western Europe. ICA is the monopoly operator of the gas transportation system in Kazakhstan and, accordingly, does not face competition for this international transit business or for domestic gas transportation. ICA may, however, face some competition from outside Kazakhstan in the future. Potential future competitors are: (i) the By-Caspian gas pipeline, the gas sources for which have not yet been determined and the future of which remains uncertain; and (ii) the Nabucco gas pipeline, proposed to run between Turkey and Austria, with construction expected to begin in 2013.

In accordance with information published in the *International Energy Outlook 2011* by the EIA, as well as on its website (http://www.eia.doe.gov), the Iranian government had 1,046 tcf in estimated proven natural gas reserves as at 1 January 2011, which are reported to be the world's second largest natural gas reserves, surpassed only by the Russian natural gas reserves. Two-thirds of Iran's natural gas reserves are reportedly located in undeveloped non-associated fields, the most significant of which is south Pars, which has published reserves of 450 tcf and accounts for 47% of Iran's total natural gas reserves; the other significant fields include north Pars, Kangan-Nar and Khangiran. Accordingly, Iran appears to have the potential for significant natural gas production and export in the event that international sanctions are lifted and adequate export routes are developed.

The Company's management believes that the likelihood of ICA becoming subject to significant competition remains remote, at least in the near to medium term.

Refining, Marketing and Trading

Following its purchase in August 2009 of MMG's controlling interest in the Pavlodar Refinery, which is the largest and most technically-advanced refinery in Kazakhstan and services north Kazakhstan and the adjacent regions in Russia, the Company now has a significant or controlling interest in all three of Kazakhstan's principal oil refineries. In addition to its interests in the Pavlodar Refinery, the Company holds 49.72% of the Shymkent Refinery, servicing the Southern Kazakhstan market, and 99.53% of the Atyrau Refinery, servicing the Western Kazakhstan market. Because of the location of these three refineries, the Company is able to supply the local market and export to Europe. In addition, through its ownership of the Rompetrol Group, the Company indirectly owns 54.6% of the Petromidia Refinery in Romania. See "*—Refining, Marketing and Trading—Rompetrol*". The Company's management believes it has improved its competitive position with its acquisitions of the Petromidia Refinery and the Pavlodar Refinery.

As at 31 December 2012, KMG RM was the largest company in Kazakhstan in terms of retail sale of refined oil products having an 11.8% market share. Its main competitor, Helios, was the second largest oil product retailer with an 8.8%

market share as at 31 December 2012. In connection with the Company's purchase of the Pavlodar Refinery, the Company considered purchasing the Helios filling station retail network, although negotiations between the Company and the current shareholders of Helios have now been discontinued.

The following table sets forth certain information relating to the four leading oil product retailers operating in Kazakhstan as at the dates indicated:

	As at 31 December 2012	
	Number of Gasoline Stations	**Market Share**
KMG RM	307	11.8%
Helios	260	8.8%
Sinoil	106	4.7%
Gazpromneft	28	1.3%

Employees

The following table sets forth the approximate number of employees of the Company, by type of business, as at the dates indicated:

	As at 31 December		
	2012	**2011**	**2010**
Operation, Exploration and Production	27,300	26,500	28,333
Other (subsidiaries)	29,079	33,141	35,518
Refining	11,933	11,850	11,488
KMG (as a holding company)	399	419	464
Distribution and sales	7,510	7,392	7,696
Total	**76,221**	**79,302**	**83,499**

On 1 March 2010, workers of KMG EP at the Ozenmunaigaz production unit began a strike that ended on 19 March 2010. Although a court declared the strike illegal, a reconciliation committee was established to review, consider and forward the demands of the workers. As a part of the settlement of the strike, KMG EP agreed to a new compensation plan, introduced on 1 June 2010. The overall loss of production at Ozenmunaigaz as a result of the strike was 27,600 tonnes of crude oil.

On 26 May 2011, workers of KMG EP at the Ozenmunaigaz production unit began a further strike that ended on 26 August 2011. This strike involved approximately 3,500 employees, or 50% of all workers at the production unit. A group of KMG EP specialists was established to implement a production normalisation plan. The total overall direct loss of production at Ozenmunaigaz as a result of this strike compared to the consolidated annual plan was 866,000 tonnes of crude oil, or 10.0% of the consolidated production volume of KMG EP.

In August 2011, KMG EP dismissed approximately 2,000 workers who were involved in the strike and hired replacements in an effort to stabilise production. In response to this action, there was a disturbance in December 2011 in the city of Zhanaozen during which 14 people were killed and 99 were injured, according to a statement by the Prosecutor General of the Republic of Kazakhstan released in December 2011. The administrative building of the Ozenmunaigaz production unit was set on fire and looted during the disturbance, resulting in the destruction of office equipment and documentation. A temporary headquarters for the Ozenmunaigaz production unit has since been established. Following this incident, Mr. Kulibayev resigned as Chairman of the Board of Directors of the Company, Mr. Akchulakov resigned as Chairman of the Management Board of the Company and Mr. Balzhanov resigned as Chairman of the Management Board of KMG EP. Certain internal restructuring measures have also been taken at KMG EP and salaries have been increased at the Ozenmunaigaz production unit. In January 2012, KMG EP incorporated two new service companies in Aktau and Zhanaozen cities to hire the workers that were dismissed following the strike. *"Risk Factors—Risk Factors Relating to the Company's Business—Labour unrest may materially adversely affect the Company's business"*.

In the year ended 31 December 2012, the Company reduced the administrative staff working at its headquarters by approximately 25% in order to reduce its costs and is considering further measures to optimise costs.

The Company's trade union was established in September 2007. As at 31 December 2012, it had 17 members. The following subsidiaries of the Company have employees that are members of a trade union: KMG EP (18,338 members), KazMunayTeniz (46 members), KTG (5,238 members) and ICA (5,296 members). The Company is contemplating creating an Association of Trade Unions of the Company and its principal subsidiaries.

Except for the 19-day strike at the Ozenmunaigaz production unit in March 2010, the three-month strike at the Ozenmunaigaz production unit in May 2011 and the disturbances at the Ozenmunaigaz production unit in December 2011, each as described above, there have not been any material labour disputes or strikes at any of the principal oil production, transportation, refining or distribution owned or operated by the Company or its subsidiaries, joint ventures or associates and no material wage arrears are currently known to exist. Overall, the Company considers employee relations to be good.

Litigation

Except as set out under the headings "*—Flaring Events*", "*—Rompetrol Proceedings*", "*—Imposition of Export Customs Duty on TCO's Crude Exports*" "*—Tax Claims against KMG EP*", "*KMG RM*" "*—Rompetrol Group*" and "*Rompetrol Antimonopoly Proceedings*" below, there are no governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which the Company is aware, during the last 12 months preceding the date of this Base Prospectus, which may have, or have had in the recent past, significant effects on the financial position or profitability of the Company or the Company and its consolidated subsidiaries, joint ventures and associates, taken as a whole.

Flaring Events

Between 2007 and 2012, a number of lawsuits and tax proceedings were commenced against TCO and in relation to its gas flaring activities TCO was assessed amounts totalling U.S.$240.3 million. Notwithstanding that TCO has paid such fines, some of the proceeding remains pending. TCO's management believes, however, that the resolution of these matters will not have a material impact on TCO's financial position or operating results.

Rompetrol Proceedings

Criminal proceedings before a court of law were initiated by the Department of Investigation of Organised Crime and Terrorism on 7 September 2006 against the then chairman of the board and CEO and former minority shareholder of Rompetrol, Mr. Dinu Patriciu, as well as Mr. Alexandru Bucsa and ten others, all of whom are, or were at the relevant time, officials in Romanian state agencies, licenced securities brokers or traders or businessmen. The proceedings before the court involve a number of allegations, including embezzlement, money laundering, insider trading and manipulation of capital markets. A number of other allegations remain subject to formal criminal investigations that are conducted by the Department of Investigation of Organised Crime and Terrorism within the Prosecutors' Office attached to the High Court of Cassation and Justice.

In accordance with a judicial order dated 27 March 2007, the Romanian Ministry of Public Finance was permitted to intervene as a civil party in the trial and, consequently, Rompetrol was introduced in the criminal proceedings as a party with potential civil, but not criminal liability, which means that should the prosecutors be successful in pressing charges against the criminal defendants, Rompetrol may be found jointly and severally liable together with the criminal defendants to compensate the financial loss incurred by the Romanian State budget. Although Mr. Patriciu resigned as CEO of Rompetrol in June 2009 and as a member of Rompetrol's management board in February 2010, Rompetrol has not been dismissed as a party in the proceedings. The Company estimates that Rompetrol is exposed to potential monetary damages amounting to U.S.$88 million and interest and penalties amounting to U.S.$78.0 million.

Following referral to the Constitutional Court in September 2010, the trial resumed in September 2011 before the Bucharest Tribunal. On 18 July 2012, the Constitutional Court discharged all individuals, including Dinu Patriciu and Alexandru Busca, in respect of all charges. The Constitutional Court also rejected the Romanian Ministry of Public Finance's claim against Rompetrol. The prosecutor's office has, however, since made an application to appeal this decision.

Imposition of Export Customs Duty on TCO's Crude Exports

On 7 September 2010, the Ministry of Finance issued a letter № KTK-0-2/13258, which indicates that TCO must be in the list of companies required to pay the export customs duty on crude oil pursuant to the Resolution № 709 dated 13 July 2010.

TCO made a formal protest against the imposition of these export customs duties, although TCO paid such duties in August and September 2010 in the aggregate amount of U.S.$146.8 million, by deduction from royalties, in order to avoid any disruption of its crude oil exports. TCO believes that the imposition of this duty violates TCO's rights under the Project Agreement, which permit TCO to export crude oil without the imposition of any duties.

Tax Claims against KMG EP

On 12 July 2012, the tax authorities issued a ruling against KMG EP imposing tax liability, administrative fines and late payment interest of KZT 5.8 billion, KZT 7. 2 billion and KZT 4.0 billion, respectively, in respect of the tax audit of KMG EP's activities between 2006 and 2008. KMG EP has appealed this ruling to the Ministry of Finance.

KMG RM

In June 2012, as a result of a tax inspection carried out in 2012 for the activities of KMG RM during the period 2006-2010, the tax authorities imposed (i) additional corporate income tax liability of KZT 3.0 billion and a corresponding late payment penalty of KZT 1.6 billion and (ii) additional value added tax of KZT 0.7 billion and a corresponding late payment penalty of KZT 0.3 billion. KMG RM has been advised that a KZT 1.5 billion administrative penalty in respect of corporate income tax and a KZT 0.3 billion administrative penalty in respect of value added tax may also be imposed. In July 2012, KMG RM appealed the results of the tax audit to the Tax Committee of the Ministry of Finance of Kazakhstan. In November 2012, KMG RM filed an appeal at the Specialised Interregional Economic Court of Astana. This appeal was rejected. In February 2013, KMG RM appealed the results of the tax audit to the Judicial Board of Appeals at the Astana City Court.

Rompetrol Group

In June 2012, the National Customs Authority, the Excise Supervision and Customs Operations Department imposed a fine of RON 108 million on Rompetrol Rafinare in respect of antidumping and countervailing duties, value added tax and interests for late payment and penalties with respect to imports of biodiesel made between 2009 and 2010. This ruling was issued at the request of the OLAF (the European Antifraud Office). Rompetrol Rafinare has contested this fine, which is currently being reviewed by the National Agency for Fiscal Administration-General Directorate of Solving Contestations. As the National Agency for Fiscal Administration-General Directorate of Solving Contestations did not respond within the time frame provided by applicable legislation, Rompetrol Rafinare filed a claim to compel the National Agency for Fiscal Administration-General Directorate of Solving Contestations to revert. The court upheld this claim in February 2013 and the National Agency for Fiscal Administration consequently indicated that it would re-audit for an amount of approximately RON 14 million in relation to the assessment previously issued. Rompetrol Rafinare intends to pursue further legal action with respect to this claim.

Romeptrol Rafinare also filed a claim before the Constanta Court of Appeal seeking the suspension of the effects and enforcement of the RON 108 million fine until the matter had been resolved. This claim was rejected in July 2012 and Rompetrol Rafinare has appealed this ruling to the Supreme Court contesting the entire amount of the fine.

To avoid triggering additional tax risks, Rompetrol Rafinare has paid an amount of RON 58 million representing antidumping and countervailing taxes. Rompetrol Rafinare has initiated legal proceedings in respect of the remaining RON 50 million to obtain approval to reschedule this payment, which has granted by the competent authority.

Rompetrol Antimonopoly Proceedings

In December 2011, the Romanian Competition Council imposed a fine of RON 159.6 million (approximately U.S.$46.8 million) against Rompetrol Downstream SRL in respect of alleged anti-competitive conduct following the withdrawal of a certain type of fuel from the market in 2008. The Rompetrol Group believes that all charges are without merit and is seeking an annulment of the fine before the Romanian courts. The next hearing is set to take place in May 2013. Rompetrol Downstream SRL's petition to suspend payment of the fine until the resolution of the proceedings was rejected by the Supreme Court of Appeal in December 2012.

Since April 2012, the Group has been in discussions with the Romanian Fiscal Authority to attempt to resolve this matter, although no agreement has yet been reached. As at 31 December 2012, Rompetrol Downstream SRL had paid U.S.$7.6 million of this fine out of the total assessment of approximately U.S.$46.8 million. The Rompetrol Group expects that amounts paid to the Romanian State with respect to this fine will be fully recovered.

Insurance

The Company implemented in 2001 and modified in 2007 a unified corporate insurance programme (the "**Insurance Programme**"). The terms of the Insurance Programme are similar to those that are generally accepted in the oil and gas industry and are tailored to address the specific activities of the Company. The Insurance Programme covers third party environmental liability, property and business interruption risks relating to production assets, damaged wells, third party liability coverage (including employer's liability insurance and hazardous object insurance) and directors and officers' liability insurance. However, the Insurance Programme does not mandate and the Company does not carry insurance against environmental damage caused by its own operations, sabotage or terrorist attacks. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions*".

As at 31 December 2012, KMG EP, KTO, ICA and KMG RM, and its subsidiaries, including the Atyrau Refinery, the Pavlodar Refinery, the Shymkent Refinery and KazMunayTeniz, participated in the Insurance Programme. The Company's captive insurance company, Kazakhstan Energy Reinsurance Company Ltd ("**KERC**"), is responsible for the implementation of the Insurance Programme, as well as addressing other insurance needs of the Company. KERC prepares reports on the implementation of the Insurance Programme for supervisory authorities in Kazakhstan and for the Company and monitors the reinsurance agreements it enters into.

In addition to the Insurance Programme, the Company also maintains liability insurance to cover certain assets with respect to fire, lightning, explosion and earthquake and medical insurance for its employees with JSC Kazakhinstrakh insurance company.

Information Technology

The IT management of the Company is undertaken by the IT department, which performs the following functions: development and implementation of the IT programme, development of technical requirements for IT projects, control of implementation and use of information systems and maintenance of uninterrupted performance of the information and telecommunication infrastructure of the Company. As part of the Company's corporate reorganisation, the Company is in the process of integrating the IT systems of all of the Company's subsidiaries into one centralised IT framework, which will service the entire Company. In 2011, the Company completed the first phase of this integration project, which involved the integration of the financial reporting system and management information system. The Company is currently developing a plan to further integrate its IT systems and incorporate operational data from its subsidiaries. The Company spent KZT 3,120 million on maintaining and further upgrading its IT systems in 2012. The Company has budgeted KZT 3,000 million for maintaining and further upgrading its IT systems in 2013.

The Company does not currently have a separate disaster recovery centre or an off-site server located outside of the Company's main administrative premises. The Company is currently evaluating its options for such a centre.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

The operations of the Company are subject to environmental, health and safety legislation, laws and other requirements of Kazakhstan applicable to oil and gas companies ("**Environmental Legislation**"). The Subsoil Use Agreements made by the Company requires that its subsoil operations be carried out in conformity with Environmental Legislation. See "*Business—Exploration and Production—Subsoil Use Agreements*".

Under Articles 68 and 69 of the Ecological Code of the Republic of Kazakhstan, the Company is also obliged to apply for an ecological permit, which sets out certain levels of permitted ecological contamination. The Company is subject to limitations as to air emissions, water use and disposal, waste management, impacts on wildlife as well as land use and reclamation.

State authorities conduct inspections on a regular basis. With respect to any findings resulting from such inspections, the Company is required to remedy violations of environmental legislation.

The Company has conducted scientific and technological studies to create base standards and implement new engineering mechanisms in its upstream operations that are designed to minimise environmental, health and safety hazards. The Company utilises systems based upon the best practices of environmental protection and certified under the requirements of environmental international standards ("**ISO 14001**") and the occupational health and safety management systems ("**OHSAS 18001**"). In 2009, the Company also obtained ISO 14001 and OHSAS 18001 certifications for its occupational health and safety management systems. An independent ecological audit of the Company in 2012 found that its industrial and ecological safety systems conformed to the requirements of ISO 14001.

Environmental Capital Expenditures

The Company has begun a stage-by-stage implementation of a comprehensive ecological compliance programme based on Environmental Legislation and approved by the Management Board of the Company on 7 November 2006 ("**Ecological Programme**"). The Management believes the Ecological Programme will be implemented by 2015. Its objectives include the following:

- assure emissions levels are at or below the permitted levels established by Kazakhstan's environmental laws;
- reduced water contamination;
- assure the volume of contaminated substances in sewage waters at or below the permitted levels;
- dispose of industrial waste as permitted by Environmental Legislation;
- remediation or recultivation of areas impacted by hydrocarbons contamination and well abandonment;
- mitigate oil storage pits; and
- prevent and respond to oil and oil products spillages.

The table set forth below represents the expenditures of the material subsidiaries, joint ventures and associates of the Company for environmental purposes and improvement as at the dates indicated:

	As at 31 December		
	2012	2011	2010
		(KZT millions)	
KMG EP	2,593	1,381	1,463
TCO	24,433	19,629	13,279
KazMunayTeniz	1,055	930	760

Environmental Impact From Operations

The Company's material environmental liability arises from the requirement to remediate historically contaminated land. This accounts for the total liability in the amount of KZT 33.6 million.

Air Emissions

The Company, including KMP EP and TCO, are required under Environmental Legislation to submit to the MEP an application for an ecological permit that certifies the right to emit regulated substances into the environment up to certain permitted levels based on a specific fee. Such permit specifies maximum levels of air emissions, waste water disposal and municipal and industrial waste permitted to be discharged or disposed of by a Company. In the event that the established limits of discharged contaminants and disposed waste exceed permitted levels, penalties for such environmental contamination are assessed. Total fees paid by the Company, including penalties, were KZT 6.1 billion in the year ended 31 December 2012, KZT 5.0 billion in the year ended 31 December 2011 and KZT 4.6 billion in the year ended 31 December in 2010. Rates have been increased in the past and the Company expects that penalty and emission fees will be assessed against the Company continue in the future.

The flaring of gas refers to the burning of gas as a means of disposal. The flaring of associated and natural gas is prohibited, except in certain situations, including: (a)if there is a threat of an emergency situation, which involves a threat to human life or to the environment, (b) in the process of testing a well facility or performing a test operation in respect of a deposit; and (c) where flaring is technologically inevitable as a result of the commissioning, operation, maintenance or repairs of processing equipment. Despite the prohibition on flaring, the MEP has suspended future sanctions for gas flaring violations by companies for subsoil users operating under Subsoil Use Agreements signed before December 2004 and whose programme for the utilisation of gas was approved by (x) a State authority before 1 December 2004 or (y) the Competent Authority and the MEP. As at the date of this Base Prospectus, the sanctions are still suspended and the following members of the Company have programmes for reduction and elimination of the volumes of gas flaring in place: KMG EP, TCO, PKI, Kazgermunai, MMG, KPO, Kazkakturkmunai and Kazakhoil Aktobe.

In 2010, the Kazakhstan Environmental Ministry revoked the emissions permit of North Caspian Operating Company (NCOC, the operator of the North Caspian Project) over environmental violations. The environmental authorities conducted an inspection and concluded that NCOC had breached environmental legislation when performing drilling operations, as a result of which NCOC forfeited its permit for emissions. The permit was revoked for three months, subject to a requirement that NCOC remedy the violations. Following the remedy of these violations, the emissions permit was reissued in December 2010.

Municipal and Industrial Wastewater Treatment and Disposal

Municipal wastewater is handled in accordance with accepted international practices utilising basic treatment and discharge to different unlined evaporation ponds. Industrial wastewaters are discharged only to a lined evaporation pond or injected into a wastewater disposal well. Preliminary wastewater injection permission has been received from most Kazakhstan government agencies. Further, after receiving final approval from the MEP, certain entities of the Company, such as TCO, started to include wastewater injection in environmental use permits.

Municipal and Industrial Solid Waste Management

A number of the Company's subsidiaries, joint ventures and associates, such as KMG EP, have significant quantities of contaminated soils currently stored in various areas. There are also a number of pits and storage areas that have yet to receive environmental permits remaining from periods before current environmental legislation took effect. As a result of KMG EP's ongoing efforts, the number of pits and storage areas has decreased from 164 in 1997 to two in 2008, which remain as at the date of this Base Prospectus.

Sulphur Storage

TCO's fields contain high amounts of hydrogen sulphide. The production of oil and gas with high hydrogen sulphide content requires additional processing to convert the hydrogen sulphide into elemental sulphur, a useful product. Elemental sulphur is stored in block form until it can be sold. TCO estimates that, as at 31 December 2012, 2.7 million tonnes (compared to 4.1 million as at 31 December 2011 and 5.8 million tonnes as at 31 December 2010) of elemental sulphur were stored by TCO in block form. TCO strives to store block sulphur according to internationally accepted practices and has included the storage of sulphur in its environmental use permits and pays fees accordingly. The potential environmental and health impacts from open storage of sulphur has been studied by various institutes selected by an interdepartmental coordination council made up of the MEP, MEMR and Ministries of Health and Emergency Situations. The results of these studies were presented in a public hearing in Atyrau and have been expertised by the MEP. The

conclusions confirmed that the impact from open storage of sulphur beyond the immediate area of the blocks is insignificant. In 2008, TCO began selling sulphur to third parties in order to decrease the amount of sulphur that it is required to store and thereby reduce the risk of incurring fines connected to sulphur storage in the future. TCO sold 3.6 million tonnes of sulphur to third parties in 2010, 3.8 million tonnes in 2011 and 3.5 million tonnes in 2012. TCO expects to sell 3.7 million tonnes in 2013.

Pursuant to amendments to the Ecological Code dated 13 December 2011, permitted amounts of sulphur storage will be specified in environmental permits granted by the environmental authorities. Since 1 January 2013, subsoil users whose operations result in the storage of sulphur have also been obliged to submit a programme to reduce the amounts of accumulated sulphur with their applications for environmental permits.

Land Use and Reclamation, Including Oil Storage Pits and Oil Lakes

Crude oil contaminated earth is carried to sludge collectors that have a waste water drain system, fencing and waterproof membrane. Crude oil contaminated earth itself is treated with the Company's special equipment as well as the advanced equipment of third party contractors. Additional projects have been launched to rehabilitate the dams at a number of operations and develop a programme for removing oil storage pits and oil contaminated areas, including by means of various biological treatment methods.

In some instances, the MEP has agreed not to sanction KMG EP with respect to contamination occurring prior to KMG EP's incorporation in March 2004.

Under the oil production technology prevailing during the time of the Soviet Union, open reservoirs were formed in natural ground folds or specifically designed on the land surface to store accumulations of water oil fractions for emergency purposes or for the disposal of oil and water oil mixtures. The Company no longer uses open reservoirs for these purposes and is in the process of gradually remediating- these with the assistance of external contractors.

The most significant remaining open reservoirs are (i) KMG EP's water oil lake at the Uzen depression (the "**Uzen Lake**") and (ii) the technological oil pit at the Central Oil Transfer Station (the "**COTS Pit**"). In November 2003, the MEP approved KMG EP's utilisation plan for cleaning the Uzen Lake and the COTS Pit. The Company's subsidiaries, joint ventures and associates spent an aggregate of KZT 17.1 million, KZT 21.6 million and KZT 28.1 million in the year ended 31 December 2012, 2011 and 2010, respectively, in relation to the above-mentioned utilisation plan and other similar plans.

Oil and Chemical Spills

Equipment reliability procedures are in place with the Company's subsidiaries, joint ventures and associates, which are intended to evaluate and correct deficiencies and prevent oil and chemical spills. As a result, spill volumes relating to operations, on a per tonne of production basis, have steadily declined. At the same time, as a precaution, the Company's subsidiaries, joint ventures and associates have prepared emergency response plans and routinely conduct drills and training of key response personnel.

MANAGEMENT

Governance Bodies

The Company's management structure consists of its sole shareholder, Samruk-Kazyna, its Board of Directors, its Management Board and the Chairman of the Management Board, the last two of which are responsible for the day-to-day management of the Company.

Sole Shareholder

The sole shareholder performs the functions of the general shareholders' meeting as set forth in the JSC Law, the Law on the Sovereign Wealth Fund (№ 550-IV, dated 13 February 2012) (the "**Sovereign Wealth Fund Law**"), the Company's charter, the latest version of which was approved by a decision of the sole shareholder dated 12 June 2012, and the presidential edicts and decrees of the Government on the establishment of Samruk-Kazyna and its role and functions in Kazakhstan's economy. See "*Share Capital, Sole Shareholder and Related Party Transactions—Samruk-Kazyna*".

Such functions include, among others, the following:

- appointing the Company's external auditors;
- approving any increase in the Company's share capital;
- appointing the members of the Board of Directors;
- approving the Company's annual financial statements;
- approving the appointment of the Chairman of the Management Board;
- approving the payment of dividends by the Company; and
- approving purchases by the Company of shares in other legal entities (whether upon the establishment of such entities or otherwise) and participation by the Company in joint ventures where the amount of consideration paid by the Company in cash or in-kind for such acquisition or participation exceeds 25% of the balance sheet value of the Company's assets.

Board of Directors

The Board of Directors is responsible for the general management of the Company's activities, directs the Company's strategy and policy and has authority to make decisions on all aspects of the Company's activities, except those matters expressly reserved to the sole shareholder pursuant to the JSC Law and the Company's charter (as outlined above). In particular, the powers of the Board of Directors include, among others, the following:

- approving the Company's strategy;
- approving the Company's accounting and taxation policies;
- appointing the members of the Management Board;
- adopting decisions on major transactions (which are defined by the JSC Law as transactions involving amounts greater than or equal to 25% of the balance sheet value of a company's assets) and interested party transactions (unless the counterparty to an interested party transaction is within the Samruk-Kazyna group, in which case, the Management Board may adopt decisions relating to such transactions); and
- approving purchases by the Company of 10% or more of the shares in other legal entities.

Members of the Board of Directors are appointed by a resolution of the sole shareholder for a term of three years and shall not serve on the Board of Directors for more than nine consecutive years (although this limit is subject to certain

exceptions). As at the date of this Base Prospectus, the Board of Directors consists of six members, two of whom, Messrs. Lane and Kuijlaars, are considered to be independent directors.

As at the date of this Base Prospectus, the Company's Board of Directors consists of the following members:

Name	Age	First Appointed	Term expires	Current Position
Sauat Mynbayev	50	2012	2014	Chairman of the Board of Directors of the Company, Member of the Board of Directors of Samruk-Kazyna, Minister of Oil and Gas of the Republic of Kazakhstan
Nurlan Rakhmetov	47	2012	2014	Managing Director of Samruk-Kazyna
Peter Lane..................................	67	2008	2014	Member of the Board of Directors of the Company, Independent Director, Executive Chairman of the Management Board of Campi & Co. Ltd
Frank Kuijlaars...........................	54	2006	2014	Member of the Board of Directors of the Company, Independent Director, Former Executive Vice President, Managing Director for Energy and Resources of ABN AMRO N.V.
Malik Salimgereyev	52	2011	2014	Director for Oil and Gas Assets Management of Samruk-Kazyna
Lyazzat Kiinov	63	2011	2014	Chairman of the Management Board of the Company

Sauat Mynbayev. Mr. Mynbayev was born in 1962 and graduated from the Moscow State University in 1985 with a PhD in Cybernetic Engineering. From November 1985 to November 1988, Mr Mynbayev was a postgraduate student at the Moscow State University. He began his career in 1989 as a teacher at the Institute of National Economy in Almaty and became the Assistant Professor of Economic Planning at the Institute of National Economy in 1990. From 1991 to 1992, Mr. Mynbayev worked as President of the Republican Construction Exchange of Kazakhstan. From 1992 to 1995, he was the First Deputy Chairman of the Management Board of Kazkommertsbank. From 1995 to 1997, Mr. Mynbayev worked as the Deputy Minister of Finance of the Republic of Kazakhstan and the Head of Treasury at the Ministry of Finance of the Republic of Kazakhstan. From 1997 to 1998, he was the First Deputy Minister of Finance of the Republic of Kazakhstan. From 1998 to 1999, Mr. Mynbayev was the Minister of Finance of the Republic of Kazakhstan. In 1999, he was appointed as Deputy Head of the Presidential Administration of the Republic of Kazakhstan. From 1999 to 2001, Mr. Mynbayev was the Minister of Agriculture of the Republic of Kazakhstan. From 2001 to 2002, he was appointed as President of the Development Bank of Kazakhstan ZAO. From 2002 to 2004, Mr. Mynbayev was the Chief Executive Officer of Caspian Industrial Finance Group LLP. From 2003 to 2006, he was the Deputy Prime Minister of the Republic of Kazakhstan and from 2004 to 2006, Mr. Mynbayev was the Minister of Industry and Trade of the Republic of Kazakhstan. From 2006 to 2007, Mr. Mynbayev was the Chairman of the Board of Directors of Kazakhstan Holding for the Management of State Assets Samruk JSC. In 2007, Mr. Mynbayev became the Minister of Energy and Mineral Resources for the Republic of Kazakhstan and, since the renaming of the Ministry in 2010, has been the Minister of Oil and Gas for the Republic of Kazakhstan. Mr. Mynbayev was first appointed to the Board of Directors of the Company in 2012.

Nurlan Rakhmetov. Mr. Rakhmetov was born in 1965 and graduated from the Moscow State University in 1987 with a M.V. Ph.D. in Physics and Mathematics. From 1990 to 1991, he was a research fellow of the Institute of Mathematics and Mechanics at the Academy of Sciences of the Kazakh SSR. From 1991 to 1996, Mr. Rakhmetov was the Senior Lecturer in the Department of Mathematical Analysis of the Almaty State University. From 1997 to 1998, he worked as an Economist, the Head of Planning and Finance, and Chief Financial Officer of JSC. In 1998, Mr. Rakhmetov was appointed as Deputy Chief Executive Officer of RSE Kazakhstan TemirZholy. From 1998 to 2001, he acted as Director of the Department of Analysis and Forecasting of the Ministry of State Revenues of the Republic of Kazakhstan. From 2001 to 2002, Mr. Rakhmetov was the Vice-Minister of State Revenues for the Republic of Kazakhstan. From 2001 to 2003, he was the Vice-Minister of Finance for the Republic of Kazakhstan. From 2003 to 2004, Mr. Rakhmetov was the Deputy Chief Executive Officer of KTG and ZAO ICA. From 2004 to 2006, he worked as the Managing Director for Economy and Finance of the Company. From 2006 to 2008, Mr. Rakhmetov was the Chairman of the Tax Committee of the Ministry of Finance. Since 2008, he has been the Managing Director of Samruk-Kazyna. Mr. Rakhmetov was first appointed to the Board of Directors of the Company in 2012.

Peter Lane. Mr. Lane was born in 1946 and graduated from the London School of Economics in 1968 with a Bachelor's degree and from Essex University in 1970 with a Master's degree, each in economics. He began his career in 1972 as an advisor on the economy in the Industry and Trade Sectors of Her Majesty's Treasury of the United Kingdom. From 1978

to 1980, he served as an advisor on the economy and as an investment manager (representing Her Majesty's Treasury of the United Kingdom) at the National Department of Entrepreneurship. From 1980 to 1985, he worked as Manager for crude oil trading at Shell International Trading Company and later at Shell UK Oil. From 1985 to 1987, Mr. Lane served as Head of the Marketing and Distribution Department of Shell UK Oil. From 1987 to 1991, he worked as the General Director of Royal Dutch Shell East Caribbean Group. From 1991 to 1993, he worked as Commercial Marketing Director of Shell UK Oil and Director for Brand Development of Shell International Petroleum Company. Between 1994 and 1998, Mr. Lane worked as Marketing and PR Director of Lloyds of London and later as General Director for Anti-Crisis Regulation of Lloyds North America. Between 1999 and 2002, he worked as the Chairman of the Board of Directors and General Director of A1 Holdings Inc. In 2004, Mr. Lane founded Exchange Insurance Company Inc. where he served until 2007 as General Director. In 2002, Mr. Lane became Executive Chairman of the Management Board of Campi & Co Ltd., in which position he serves to current date. Mr. Lane has acted as Chairman of the management board, of Fishergate Limited Company and Strathearn Capital Limited Company since 2008 and 2009, respectively. He was appointed at his current position with the Company in June 2008.

Frank Kuijlaars. Mr. Kuijlaars was born in 1958 and holds a Master's degree in law and post university studies at the Dutch Institute for Bank and Insurance Companies and Cambridge University. Mr. Kuijlaars started his career with ABN AMRO in 1984. In 1990, he served as the Head of the Corporate and Investment Banking Services Department in Belgium. In 1994, he worked as a regional manager in São Paulo, Brazil. From 1995 to 1999, he worked as a country manager for Russia and Argentina. In 2001, Mr. Kuijlaars served as a member of ABN AMRO's respective supervisory boards in Russia, Kazakhstan and Uzbekistan. From 2000 till 2003, he led ABN AMRO's Integrated Energy team in Central and Eastern Europe, Middle East and Africa. In 2003, he was appointed Global Head of Oil & Gas, a position which later expanded to include the chemicals sector. In 2004, he became the Head of the Global Industries Team of ABN AMRO supervising the oil and gas divisions of ABN AMRO worldwide. In 2006, he was appointed to the Board of Directors of KazMunayGas. Mr. Kuijlaars holds several Board memberships in companies operating in emerging markets. He is also a member of the Industry Advisory Panel of the European Energy Charter.

Malik Salimgereyev. Mr. Salimgereyev was born in 1960 and graduated from I.M. Gubkin Institute of Oil and Gas Industry in 1982. Mr. Salimgereyev also holds a Master's degree in Geology from the Geology Institute, Academy of Sciences of the Republic of Kazakhstan. Mr. Salimgereyev started his career as a Chief Geologist in the experimental oil-producing administration of Karazhanbastermneft Soyuztermneft. In 1994, he was appointed first Vice-President of Karazhanbasmunay JSC and between 1999 and 2000 was Deputy Director General for science, new methods and technology on oil and gas production in KazNIPIneft Mangyshlakneft. In 2001, he became Vice-President for production at Kasakhoil-emba JSC and was appointed Deputy Director for production at KMG EP in 2004. From 2004 to 2006, Mr. Salimgereyev was Deputy Director on production at KMG EP and at PF Embamunaigas, before becoming an Advisor to the Director General of KMG EP in 2006. From 2007 to 2010, Mr. Salimgereyev was Director of Oil Industry Development Department of the MEMR. From 2010 to 2012, he worked as the Director for Oil-and-Gas Assets Management of Samruk-Kazyna. Since 2012, Mr. Salimgereyev has been the Managing Director of Samruk-Kazyna.

Lyazzat Kiinov. Mr. Kiinov was born in 1949. He graduated from Kazakh Polytechnic Institute in 1971, having specialised in Geology and the Exploration of Oil and Gas Fields. He is a Doctor of Technical Sciences and an Academician of the International Engineering Academy. Mr. Kiinov began his career in 1971 as an oil and gas production operator in the Oil and Gas Department of Zhetibayneft and also worked as the Head of the Exploitation Analysis Laboratory. In 1977, he was appointed as an Instructor in the Industrial and Transport Department of the Mangistau Regional Party Committee. From 1979 to 1982, he worked as Chief Engineer at the Mangyshalknefteppromhim Territorial Production Office and as Chief of the Karazhanbasstermneft Oil and Gas Production Department from 1982 to 1987. In 1992, Mr. Kiinov was appointed Director General of the Production Association, Mangyshlakneft. In 1993, he was appointed head of the Mangistau Regional Administration. In 1995, Mr Kiinov was the Deputy Minister of Oil and Gas of the Republic of Kazakhstan. From 1997 to 1999, he worked as the Deputy Director General of the Caspian Pipeline Consortium. In 1999, Mr Kiinov was appointed Head of the Mangistau Region Administration. Since 2002, he has acted as the President of the Company. In 2003, Mr. Kiinov was appointed as Vice Minister of Energy and Mineral Resources of the Republic of Kazakhstan and, since the renaming of the Ministry in 2010, he has been the Vice-Minister of Oil and Gas of the Republic of Kazakhstan. Mr Kiinov was appointed to the Board of Directors in 2011.

The Company's Board of Directors includes the Audit Committee, the Appointment and Remuneration Committee, the Finance Committee and the Strategy and Innovations Committee.

Audit Committee

The Audit Committee is an advisory body of the Board of Directors that makes recommendations to the Board of Directors on the efficiency of the internal control and risk management systems of the Company, its corporate governance and compliance with applicable auditing requirements under Kazakhstan law (including recommendations on the appointment of external auditors). The Audit Committee consists of three members, of which the Chairman is an independent director.

As at the date of this Base Prospectus, the Audit Committee consists of the following members:

Name	Position
Frank Kuijlaars....................................	Chairman of the Audit Committee, Independent Director of the Company
Peter Lane..	Independent Director of the Company
Saya Mynsharipova	Director of the Audit and Control Department of Samruk-Kazyna

Appointment and Remuneration Committee

The Appointment and Remuneration Committee is an advisory body of the Board of Directors that makes recommendations to the Board of Directors in respect of the required qualifications of candidates to fill the posts of independent directors, Head of the Internal Audit Service and Corporate Secretary of the Company, the policy and structure of remuneration of the top management of the Company, as well as recommendations in respect of the level of remuneration of the top management of the Company on an annual basis. In addition, the Appointment and Remuneration Committee reviews the remuneration of the members of the Boards of Directors and the Management Boards of the subsidiaries, joint ventures and associates of the Company and provides its recommendations thereon. The Appointment and Remuneration Committee also provides its recommendations to the Board of Directors in respect of other matters on an *ad hoc* basis. The Appointment and Remuneration Committee consists of three members, of which at least two members are independent directors.

As at the date of this Base Prospectus, the Appointment and Remuneration Committee consists of the following members:

Name	Position
Peter Lane..	Chairman of the Appointment and Remuneration Committee, Independent Director of the Company
Frank Kuijlaars....................................	Independent Director of the Company
Umirzak Shukeyev	Chairman of the Board of Samruk-Kazyna

Finance Committee

The Finance Committee is an advisory body of the Board of Directors that makes recommendations to the Board of Directors in respect of the effective implementation of the Company's financial condition and performance and the Company's financial strategy. The Finance Committee consists of three members, of which at least two members are independent directors.

As at the date of this Base Prospectus, the Finance Committee consists of the following members:

Name	Position
Frank Kuijlaars....................................	Chairman of the Finance Committee, Independent Director of the Company
Peter Lane..	Independent Director of the Company
Nurlan Rakhmetov	Managing Director of Samruk-Kazyna

Strategy and Innovations Committee

The Strategy and Innovations Committee is an advisory body of the Board of Directors that makes recommendations to the Board of Directors in respect of the Company's strategy, development plan and innovations. The Strategy and Innovations Committee consists of three members, of which at least two members are independent directors.

As at the date of this Base Prospectus, the Strategy and Innovations Committee consists of the following members:

Name	Position
Peter Lane..	Chairman of the Strategy and Innovations Committee, Independent Director of the Company
Frank Kuijlaars....................................	Independent Director of the Company
Umirzak Shukeyev	Chairman of the Board of Samruk-Kazyna

The business address of each of the members of the Board of Directors and of the members of the Board's committees is the registered office of the Company at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

Management Board

In February 2012, the Board of the Directors of the Company approved a reorganisation of the Company's corporate structure into six core business units in order to enhance its operational efficiency and to streamline management processes. In line with this strategic initiative, the Company is continuing to undergo a reorganisation by divesting assets that are not core to its business and consolidating such core businesses into units based on six business segments, including: (i) production and technical development; (ii) geology and prospective projects; (iii) transport infrastructure; (iv) refinery and petrochemistry; (v) innovation development and service projects; and (vi) economy and finance.

Each business unit is run by a Deputy Chairman of the Management Board who is responsible for the operations of that business unit, including appointing senior management and branch representatives, coordinating the work of the Company's branches and coordinating and guiding the operations of the Company's branch and representative offices and operations of the members of the Company. The Deputy Chairman of the Management Board of each business unit reports to the Chairman of the Management Board. This structure aims to clearly demarcate the roles and responsibilities of each business unit and its respective manager. The Company is also in the process of reviewing the corporate structures of its subsidiaries and affiliated companies.

The Management Board is responsible for the day to day management and administration of the Company, subject to the supervision of the Board of Directors and the sole shareholder. The Management Board's responsibilities include the following:

- approving purchases by the Company of up to 10% of the shares in other legal entities;
- implementing the Company's strategic development plan;
- implementing and monitoring the implementation of resolutions of the Board of Directors, the sole shareholder and recommendations of the Company's external auditors and Internal Audit Service;
- adopting decisions relating to interested party transactions concluded with Samruk-Kazyna group companies;
- approving the Company's budget; and
- dealing with all other matters not reserved to the Board of Directors or the sole shareholder.

As at the date of this Base Prospectus, the Company's Management Board consists of ten members. The Board of Directors appoints the members of the Management Board. The current members of the Management Board were appointed in February 2012, with the exception of the Chairman of the Management Board who was appointed in December 2011. In addition, Messrs. Bimagambetov, Iskaziyev, Kassymbek and Shukputov were re-appointed as the members of the Management Board on 15 November 2012. The Board of Directors may at any time terminate the authority of any Management Board members other than the Chairman of the Management Board, who is appointed by the sole shareholder.

As at the date of this Base Prospectus, the Company's Management Board consists of the following members:

Name	Age	Position with the Company
Lyazzat Kiinov	63	Chairman of the Management Board
Daniyar Berlibayev.....................................	44	First Deputy Chairman of the Managing Board for Corporate Development
Timur Bimagambetov.................................	58	Deputy Chairman of the Management Board for Production and Technical Development
Kurmangazy Iskaziyev	47	Deputy Chairman of the Management Board for Geology and Prospective Projects
Nurtas Shmanov	56	Deputy Chairman of the Managing Board for Transport Infrastructure
Daniyar Tiyesov	42	Deputy Chairman of the Managing Board for Refinery and Petrochemistry
Magzum Mirzagaliyev................................	34	Deputy Chairman of the Managing Board for Innovation Development and Service Projects
Ardak Kassymbek	35	Deputy Chairman of the Management Board for Economy and Finance
Andar Shukputov..	58	Chief of Staff
Yerzhan Zhangaulov	44	Head of Legal Service

Lyazzat Kiinov. See "*—Board of Directors*".

Daniyar Berlibayev. Mr. Berlibayev was born in 1968. He graduated from the Al-Farabi State University in 1992 with a degree in 1992. From 2005 to 2007, Mr. Berlibayev worked as Director General of ICA and as Deputy Director General of KTG. From 2007 to 2009, he acted as Managing Director for Gas Projects of the Company. From 2009 to 2011, Mr. Berlibayev was Director General of KMG RM and then as Director General of KTG. In 2012, he was appointed as Deputy Chairman of the Management Board for Corporate Development.

Timur Bimagambetov. Mr. Bimagambetov was born in 1954. He began his career in 1978 as an Operator at the Company, later becoming Head Assistant, Engineer Technologist and Head of Field in the "Zhetibayneft" Oil and Gas Production Department. In December 1981, Mr. Bimagambetov moved to the "Kalamkasmunaygas" Oil and Field Department, where he began as the Operator, later progressing to Chief Engineer and then to the first Deputy Director. From July 2000 to March 2002, Mr. Bimagambetov was the Director of the Oil and Gas Transportation Department at the National Oil Company Kazakhoil. He later became Director of the Department of Sea (Marine) and Coastal Infrastructure Development at the Company and, after a year, became Deputy General Director for Production at KazMunayTeniz. Between 2004 and 2006, Mr. Bimagambetov was the Executive Director of the Company and then of KazMunayTeniz. From 2007 to 2008, he was the General Director of Kurmangazy Petroleum LLP. In 2008, Mr. Bimagambetov was appointed as General Director at N Operating Company LLP. In February 2012, he was appointed as Deputy Chairman of the Management Board for Production and Technical Development.

Kurmangazy Iskaziyev. Mr. Iskaziyev was born in 1965. He began his career as an Operator-Collector of Balykshinsky Management of Prospect Drilling (BURB) at Embaneft and was later appointed as Operator for the Oilwell Cementing Services Office. From 1991 to 1993, Mr. Iskaziyev worked as a Geologist at BURB. From 1993 to 1995, he was the Senior Geologist, and later the Leading Geologist, of the Atyrau Drilling Department. From 1995 to 2004, Mr. Iskaziyev was the Head Geologist and Deputy Director of the Atyrau Management of Oil Recovery of Layers and Major Well Workover and the Director of the Department of Geology and Development of Oil and Gas Fields at JSC Emabmunaygaz. From 2004 to 2008, Mr. Iskaziyev was the Deputy Director and then the Director of the Geology Department at KMG EP. Since 2008, he has occupied various positions at the Company, including, Executive Producer on Oil and Gas Production, Managing Director for Geology, Geophysics and Tanks and Head Geologist. In 2012, he was appointed as Deputy Chairman of the Management Board for Geology and Prospective Projects.

Nurtas Shmanov. Mr. Shmanov was born in 1956. Having graduated from Ufa Oil Institute in 1979 and Market Institute under Kazakh State Agrarian University in 1998, he gained a degree in oil and gas pipeline, gas storage and petroleum storage depot engineering and operation as well as in finance and credit. Mr. Shmanov started his career at the Atyrau Petroleum Pipeline Administration and worked there until 1992. He was General Director of KTO from December 2007 to January 2009. Prior to that, Mr. Shmanov worked at ChevronMunayGas in Almaty and ChevronNefteGas in Moscow as a Regional Transportation Manager. From May 2006 to December 2007, he was the Deputy Director at Caspian Pipeline Consortium-Russia. In 2012, he was appointed as Deputy Chairman of the Management Board for Transport Infrastructure.

Daniyar Tiyesov. Mr. Tiyesov was born in 1970. He graduated from the East-Kazakhstanian State University in 1997 with a degree in Preservation of the Environment in the Oil and Gas Industry and from Atyrau Oil and Gas University in 2004 with a degree in Oil, Gas and Coal Refining. Mr. Tiyesov started his career in 1994 and worked in various petroleum retail companies. Mr. Tiyesov joined the KMG group in 1999 as Secretary of the Board of Atyrau Refinery. He then held various positions in NC "KazakhOil" and was in charge of several refining projects. In August 2006, he was appointed Deputy General Director of JSC Trading House KazMunayGas, responsible for production. In June 2009, he was appointed as Deputy Chairman of the Management Board for Refinery and Petrochemistry.

Magzum Mirzagaliyev. Mr. Mirzagaliyev was born in November 1978 and graduated from the Turan University in Almaty in 1999 with a degree in International Economics. In 2003, he graduated from the Diplomatic Academy in Astana. From 2001 to 2002 he was a manager at the Safety and Environmental Protection Department at the Aktau branch of "MI Drilling Fluids International". From 2002 to 2004, he worked in various positions in major oil companies in the United States and Malaysia. From 2004 to 2007, he held the position of Production Manager at the Aktau branch of "MI Drilling Fluids International". From 2007 to 2009, Mr. Mirzagaliyev held the position of General Director at TenizService, the Company's service subsidiary. In May 2010, he was appointed as Deputy Chairman of the Management Board for Innovation Development and Services Projects.

Ardak Kassymbek. Mr. Kassymbek was born in 1977. He graduated from Al-Farabi Kazakh State National University in 1998 with a specialism in International Economic Relations and from Cass Business School (City University London) in 2001 with a specialism in Banking and International Finance. Mr. Kassymbek has experience in management in the oil and gas sector. From 2009 to 2012, he worked in the corporate development and asset management sectors of the Company. From March to July 2012, he was the Director for Corporate Finance and Asset Management of the Company. In 2012, he was appointed Deputy Chairman of the Management Board for Economy and Finance.

Andar Shukputov. Mr. Shukputov was born in 1958. He began his career in 1981 as a Junior Researcher at the Research Institute of the State Planning Committee Kazakh Soviet Socialist Republic. From 1991 to 1994, Mr. Shukputov held a number of positions in the President's Administration and Government, including Adviser, Deputy Manager of the Department of Economic Policy and Assistant to the Vice-President of the Republic of Kazakhstan responsible for Economics. From 1994 to 1997, Mr. Shukputov was the First Deputy Chairman of the State Committee of the Republic of Kazakhstan on Managing State Property. In 1997, he was appointed as the President of the State Agency for reorganisation and liquidation enterprises. From 1998 to 2000, Mr. Shukputov held a number of positions, including Vice-Minister of Energy, Industry and Trade of the Republic of Kazakhstan, Head of Department and Deputy Head of Office for the Prime Minister of the Republic of Kazakhstan. From 2000 to 2002, Mr. Shukputov was the Minister of Natural Resources and Environmental Protection of the Republic of Kazakhstan. From 2002 to 2007, he held the positions of Ambassador of the Republic of Kazakhstan in the Azerbaijan Republic and Ambassador of the Republic of Kazakhstan in Georgia. From 2007 to 2010, Mr. Shukputov was the Chairman of the Board of JSC NC Social Enterprise Corporation Batys. In February 2012, he was appointed as Vice-Minister of Finance of the Republic of Kazakhstan. In 2012, he was appointed as Chief of Staff of the Company.

Yerzhan Zhangaulov. Mr. Zhangaulov was born in 1968. Mr. Zhangaulov obtained a law degree at Karaganda State University in 1992. Before joining the Company, he was head of the Legal Service and Human Resources departments in the Ministry of Justice, the Office of the Prime Minister and the Office of the President. He was appointed Head of the Company's Legal Service on 6 June 2006. Prior to this appointment, he was Executive Director for Legal Matters of the Company.

The business address of each of the members of the Management Board is the registered office of the Company at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

Chairman of the Management Board

The Chairman of the Management Board is the Company's chief executive officer. The current Chairman of the Management Board, Lyazzat Kiinov, was appointed by a resolution of the Board of Directors of Samruk-Kazyna, the sole shareholder, dated 22 December 2011, until June 2014.

The business address of the Chairman of the Management Board is the registered office of the Company at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

Internal Audit Service

The Internal Audit Service is a permanent collective body of the Company that performs internal audits of the Company, appraisals of reliability and efficiency of the Company's internal risk management and internal controls and monitors the Company's operations and its compliance with the laws of Kazakhstan and internal policies and procedures of the

Company. The Internal Audit Service monitors and supervises the internal audit services of the Company's subsidiaries, joint ventures and associates and provides such internal audit services with guidance on the organisation of internal control and internal audit systems. The Internal Audit Service of the Company may, upon instructions of the Board of Directors of the Company, perform an audit of any subsidiary, joint venture or associate of the Company. Members of the Internal Audit Service of the Company are appointed by the Board of Directors for a term determined by the Board of Directors.

Members of the Internal Audit Service report to the Board of Directors and can be removed at any time. The Internal Audit Service has the right to convene an extraordinary meeting of the Board of Directors of the Company.

As at the date of this Base Prospectus, the Company's Internal Audit Service consists of the following members:

Name	Position with the Company
Aizhan Utembayeva	Head of the Internal Audit Service
Anargul Kairulla	Deputy Head of the Internal Audit Service
Damirzhan Intykbayev	Manager
Zhetken Koshkarov	Manager
Yerbol Musayev	Manager
Kanat Nurpeisov	Manager
Saltanat Aydarbekova	Senior Internal Auditor
Askhat Dairov	Senior Internal Auditor
Tolegen Ermukhametov	Senior Internal Auditor
Madi Iskakbayev	Senior Internal Auditor
Galina Kirilishina	Senior Internal Auditor
Ayazbek Koshatayev	Senior Internal Auditor
Alibek Nurgozhayev	Senior Internal Auditor
Arman Tagashbayev	Senior Internal Auditor
Saltanat Tuyakbayeva	Senior Internal Auditor
Sembai Shamshidenov	Senior Internal Auditor
Gulnar Adenova	Senior Internal Auditor
Abdibek Askanbekov	Senior Internal Auditor
Gauhar Bagiparova	Senior Internal Auditor
Maksat Dastan	Senior Internal Auditor
Asel Kurmasheva	Senior Internal Auditor
Kamargul Utezhanova	Senior Internal Auditor
Kamshat Khamitova	Senior Internal Auditor
Akmaral Shayakhmetova	Senior Internal Auditor
Aidos Altynbekov	Internal Auditor
Aigul Bafubayeva-Mamutova	Internal Auditor
Gulshat Mergenova	Internal Auditor
Kymbat Musurgaliyeva	Internal Auditor

Management Remuneration

In accordance with the Company's charter, the remuneration of the members of the Board of Directors is determined by the sole shareholder, while remuneration of the Chairman of the Management Board, the members of the Management Board and the Internal Audit Service is determined by the Board of Directors based on the policy of the sole shareholder.

Total compensation to the key management personnel of the Company amounted to KZT 4,308.9 million for the year ended 2012, KZT 4,347.7 million for the year ended 2011 and KZT 2,988.3 million for the year ended 31 December 2010. Compensation to key management personnel consists of salary and a performance bonus based on operating results.

Employment Contracts with Senior Executive Officers

In general, the Company enters into employment contracts of indefinite duration with its senior executive officers. Under these contracts, the senior executive officers of the Company are entitled, in addition to their regular salary, to annual bonuses based on the Company's annual performance.

Conflicts of Interest

There are no potential conflicts of interest between any duties owed to the Company by members of the Board of Directors, the Management Board, the Chairman of the Management Board and the Internal Audit Service and their private interests or other duties.

SHARE CAPITAL, SOLE SHAREHOLDER AND RELATED PARTY TRANSACTIONS

Share Capital

The Company was formed in February 2002 with an initial share capital of KZT 47,874 million, which was contributed by the transfer to the Company of 14,561,629 common shares of Kazakhoil with a nominal value of KZT 1,000 per share and 333,119,985 common shares of CJSC NC of Oil and Gas Transport with a nominal value of KZT 100 per share. On 7 August 2002, the Company registered its share capital in the amount of KZT 48,874 million including a further contribution of KZT 1 million in cash, comprising of 95,747,255 common shares with a nominal value of KZT 500 per share.

In 2004, 2005 and 2006, the share capital of the Company was increased several times as a result of the issue of new shares to the Government as a result of cash contributions, which was partially offset by certain sums owed to the Government and expenses incurred by the Government and by the transfer of shares of certain Government owned entities to the Company. On 28 January 2006, the Government shares in the Company were transferred to Samruk-Kazyna. As at the date of this Base Prospectus, Samruk-Kazyna is the sole shareholder of the Company and is in turn wholly-owned by the Government. Following the most recent increase in the Company's share capital, which became effective on 26 June 2012, as at the date of this Base Prospectus, the Company's share capital is KZT 527,760.5 billion, comprised of 518,157,799 common shares with varying nominal values, all of which are issued and outstanding. See Note 19 to the 2012 Financial Statements.

In 2013, the Government agreed to reduce the Company's dividend payout to 15% for 2013 due to the Company's significant capital expenditure investment plans and upcoming debt maturities.

Samruk-Kazyna

Samruk-Kazyna is wholly-owned by the Government and is the national managing holding company for substantially all state enterprises. Samruk-Kazyna was created in 2008 pursuant to the Presidential Edict № 669, dated 13 October 2008, and the Resolution of the Government № 962, dated 17 October 2008, by way of the merger of JSC "Kazakhstan Holding for Management of State Assets" "Samruk" and JSC "Sustainable Development Fund" "Kazyna". Samruk-Kazyna is a joint stock company whose shares are held by the Ministry of Finance's Committee of State Property and Privatisation on behalf of Kazakhstan. In the end of 2008, 100% of the Company's shares were transferred to Samruk-Kazyna.

Samruk-Kazyna's primary objective is to manage shares (participatory interests) of legal entities it owns with a goal of maximising long-term value and increasing competitiveness of such legal entities in world markets. While statements have appeared, from time to time, in the press with respect to a potential initial public offering by Samruk-Kazyna of a minority stake in KMG, the Company understands that no immediate plans for such a sale are being made. The Company continues to believe that it has the strong support of the Government, which has historically assisted the Company by providing financing and strategic support and otherwise played an important role in the expansion of the Company's operations, reserves, production levels and transportation and refining networks.

The governance of Samruk-Kazyna's activities is subject to general corporate governance applicable to all joint stock companies in Kazakhstan. Accordingly, the corporate governance structure of Samruk-Kazyna is as follows: the Government, as the sole shareholder constitutes the supreme governing body, the board of directors constitutes the managing body, and the management board constitutes the executive body.

Members of Samruk-Kazyna's board of directors are appointed by the Government, and its members are, among others, the Minister of Economic Development and Trade, the Minister of Finance, the Minister of Oil and Gas, the Minister of Industry and New Technologies, independent directors and the chairman of the management board of Samruk-Kazyna. In addition, the board of directors is chaired by the Prime Minister of Kazakhstan.

The registered office of Samruk-Kazyna is at 23 Kabanbay Batyr Avenue, Astana 010000, Kazakhstan and the telephone number is: +7 7172 790 486.

Relationships between the Company and its Significant Subsidiaries

Set out below is a summary of the material agreements and transactions that have been entered into by the Company with its significant subsidiaries.

Relationship Agreement

The Relationship Agreement regulating the degree of control that the Company may exercise over the management of KMG EP was entered into between the Company and KMG EP dated 8 September 2006. The principal purposes of the Relationship Agreement are to ensure that:

- KMG EP can effectively access the international capital markets;
- KMG EP (i) is capable of carrying on its business as an independent and free standing business apart from the Company and of any of its affiliates and (ii) operates in the best interests of all shareholders;
- the Company shall use its reasonable endeavours to ensure that no member of the Company shall act in any way which shall prejudice the ability of KMG EP to carry on its business independently of the Company (or render it unsuitable for continued listing on any recognised stock exchange);
- subject to the JSC Law and to the terms of the Services Agreement (as defined below), the Company will not exercise its voting rights in KMG EP, whether as a shareholder or through its representation on KMG EP's Board of Directors, in respect of any resolution which relates to a transaction between KMG EP and the Company and, with respect to KMG EP's Board of Directors, on matters in which the Company's representatives may have an interest as a result of being a director or officer of the Company or any entities of the Company;
- the Company will not require KMG EP to increase the amount of financial contribution to assist in implementing social projects in the regions and cities in which members of KMG EP operate, except as required by social programmes that predate the Relationship Agreement, the terms of exploration or production licences and contracts held by members of KMG EP from time to time, Kazakhstan laws or as otherwise approved by KMG EP's board in accordance with its Charter; and
- both the Company and KMG EP shall (and shall ensure that their respective subsidiaries shall), be subject to all applicable laws and the terms of existing agreements between the Company and KMG EP (or their respective affiliates), conduct any transactions and relationships (whether contractual or otherwise) between any member of the Company, on the one hand, and any member of KMG EP, on the other, on arm's length terms and on a normal commercial basis.

The Relationship Agreement remains valid until the earlier of (i) the GDRs issued by KMG EP ceasing to be listed on any stock exchange to which KMG EP's securities have been admitted (other than the KASE), or (ii) the Company (or any of its affiliates) ceasing to be a "controlling shareholder" in KMG EP. For these purposes, a controlling shareholder is any person (or persons acting jointly by agreement whether formal or otherwise) who is entitled to exercise or to control the exercise of 30% or more of the rights to vote at KMG EP's general meetings or is able to control the appointment of directors who are able to exercise a majority of votes at KMG EP's board meetings.

Services Agreement

KMG EP and the Company enter into the Services Agreement on an annual basis whereby the Company grants certain rights and renders certain services to KMG EP and refrains from undertaking certain business activities in Kazakhstan. The Services Agreement is subject to the requirements of the S-K Rules. Accordingly, the Services Agreement is renewed on an annual basis if KMG EP determines that entry into the Services Agreement is beneficial to KMG EP. KMG EP has received a written assurance from the Company that the Company will continue to participate in any such annual tender in respect of the services to be provided under the Services Agreement until 2016. The Services Agreement was last renewed on 5 April 2011.

Under the Services Agreement:

- The Company undertakes that it will not (and will procure that each member of the Company will not) carry on, be engaged in or otherwise interested economically in onshore exploration, development or production of oil at predominantly oil hydrocarbon deposits in Kazakhstan, except:

  (i) where such operations are carried on by a member of the Company or by an entity in which a member of the Company has an ownership or participatory interest at the date of the Services Agreement and/or pursuant to resolutions of the Government and/or international obligations of Kazakhstan;

  (ii) in connection with the acquisition or holding of any Existing Onshore Oil Asset or New Onshore Oil Asset (each as defined below) as required in order to perform its obligations under the Services Agreement;

  (iii) where the Company has acquired any Existing Onshore Oil Asset or New Onshore Oil Asset and KMG EP has notified the Company that it does not want to acquire such existing onshore oil asset or new onshore oil interest; or

  (iv) as otherwise agreed in writing by KMG EP provided that KMG EP undertakes that it shall only be entitled to grant such consent if approved at a meeting of the Board of Directors of KMG EP at which a majority of Independent Non Executive Directors are present at such meeting and approve such consent.

- If the State elects to sell or transfer a controlling interest in any subsoil use right, in respect of onshore hydrocarbon deposits in Kazakhstan, or any unlicenced exploration areas, fields or blocks in connection with the exploration and production owned or controlled by the Government, the MOG or the Company (a "**New Onshore Oil Interest**"), the Company will, if requested by KMG EP, make a proposal to the MOG that the Company wishes to acquire such New Onshore Oil Interest without undertaking a tender in respect of such New Onshore Oil Interest. If the Company has acquired a New Onshore Oil Interest without undertaking a tender in respect of such interest or the Company decides to sell or transfer a controlling interest in any New Onshore Oil Interest already held by the Company, the Company will first grant KMG EP a right of first refusal to acquire such New Onshore Oil Interest at fair market value. If the Company and KMG EP are unable to agree on the terms of such acquisition, the Company must offer such New Onshore Oil Interest for sale by way of auction to interested parties, in which event KMG EP will be entitled to match the winning bid for such interest and acquire up to 50% of such offered new onshore oil interest.

- If the Government elects to exercise its pre-emptive right (pursuant to Article 12 of the New Subsoil Law, see "*Regulation in Kazakhstan—State Pre-Emptive Rights and Regulation of Subsoil Use Rights*") to acquire an interest in any subsoil use right or asset in respect of oil onshore hydrocarbon deposits in Kazakhstan or an ownership or other participatory interest in any entity (whether incorporated in Kazakhstan or elsewhere) owning (wholly or primarily) such a subsoil use right, or asset (other than a new onshore oil interest) (an "**Existing Onshore Oil Asset**") in which KMG EP has declared an interest to acquire, the Company must use its reasonable endeavours to procure that the Government exercises such pre-emptive right on behalf of KMG EP and KMG EP will acquire such Existing Onshore Oil Asset. If the Company elects to dispose of a controlling interest in any other Existing Onshore Oil Asset held by the Company and in which KMG EP has declared an interest to acquire, the Company must first grant KMG EP a right of first refusal to acquire such Existing Onshore Oil Asset at fair market value. If the Company and KMG EP are unable to agree on the terms of such acquisition, the Company must offer such Existing Onshore Oil Asset (but not less than any part thereof that was offered to KMG EP) by way of auction to interested parties, in which event KMG EP will be entitled to match the winning bid for such interest and acquire 50% of such offered Existing Onshore Oil Asset. If the Company has failed to sell a controlling interest in any Existing Onshore Oil Asset (whether pursuant to the exercise of KMG EP's right of first refusal or by way of auction or otherwise) and subsequently KMG EP requests that the Company sell such Existing Onshore Oil Asset, the Company must consider such request in good faith (but will not be obliged to sell such Existing Onshore Oil Asset to KMG EP).

- The Company will use all reasonable endeavours to ensure that KMG EP continues to benefit on materially the same terms from transportation infrastructure used by members of the Company for so long as the Services Agreement continues. In particular, the Company must procure, in respect of itself, and must use all reasonable endeavours to procure, in respect of any act required of any third party, the following:

  (i) KTO will continue to provide the Company with transportation facilities as provided in the KTO Transportation Agreement (See "*—Relationships between the Subsidiaries, Joint Ventures and Associates of the Company—KTO Transportation Agreement*") and KMG EP shall provide the volume of crude oil for transportation and make payments as provided in the KTO Transportation Agreement;

(ii) after the expiration of the KTO Transportation Agreement, KTO shall allocate to KMG EP at the relevant time oil transportation capacity on terms no less favourable than those offered to other users provided that KTO may give a preferential right of first refusal to users which are in compliance with their contractual obligations to KTO; and

(iii) KTO shall allocate to KMG EP additional residual oil transportation capacities (or new transportation routes) on commercial terms on a take-or-pay basis.

- The Company will use all reasonable endeavours within the rights of the shareholder from Kazakhstan under the CPC Shareholder Agreement (See "*Business—Transportation—Transportation of Crude Oil—CPC Pipeline*") to ensure that:

  (i) KMG EP (or any specified member of KMG EP) is nominated "affiliated shipper" of the Company (including all rights and obligations pursuant to which the Company has access to the CPC Pipeline) for the purposes of access to the CPC Pipeline in respect of any volume of crude oil proposed in writing by KMG EP to be delivered through the CPC Pipeline;

  (ii) the Company is entitled to deliver into the CPC Pipeline any volume of crude oil proposed in writing by KMG EP to be delivered through the CPC Pipeline in accordance with the quota allocated to the shareholder from Kazakhstan; and

  (iii) the CPC consortium allocates any increased capacity (as notified in writing from time to time by KMG EP to the Company) in the CPC Pipeline to KMG EP as the "affiliated shipper" of the Company (where commercially practicable).

In consideration for the grant of such rights and the provision of such services and for the Company agreeing to restrict its business, KMG EP has agreed to pay to the Company the sum of KZT 10.0 billion (including VAT) per year. To the extent that the Company successfully participates in the annual tender for the provision of services set out in the Services Agreement, the annual fee for such services shall be as specified in the tender, but the Company anticipates that it will increase in line with the Consumer Prices Index of Kazakhstan as provided in the Relationship Agreement (see "*—Relationship Agreement*").

Relationships between the Subsidiaries, Joint Ventures and Associates of the Company

The Company's subsidiaries, joint ventures and associates enter into transactions with each other from time to time. Set out below is a summary of the material agreements and transactions that have been entered into among the Company's subsidiaries, joint ventures and associates other than in the ordinary course of business.

Atyrau Refinery Supply Arrangements

KMG RM, as the owner of the Atyrau Refinery, is required by the S-K Rules to make an annual tender for the supply of crude oil to be processed by the Atyrau Refinery. Pursuant to the Relationship Agreement, KMG EP undertook to participate in the annual crude oil procurement tenders until 2015.

KMG EP and the Company agreed that such participation by KMG EP would be on the following terms:

- For the years 2006 to 2010, KMG EP was obligated to sell up to 1.9 million tonnes of crude oil per year, if so requested by the Atyrau Refinery**.** For 2011 to 2015, the amount which KMG EP is obligated to provide under the Relationship Agreement is set out in the Company's budget for that year. In 2012 the Company provided 1.6 million tonnes of crude oil under this agreement. In 2013 and 2014, KMG EP is obligated to provide up to 1.9 million tonnes of crude oil, if so requested by the Atyrau Refinery; and

- the price of any crude oil supplied by KMG EP shall be equal to the cost of such crude oil plus a margin of 3%, where cost is calculated as the production cost of one tonne of crude oil for KMG EP plus the transportation cost incurred by KMG EP, where:

  (i) the production cost of one tonne of crude oil is the ratio of (A) the total crude oil production costs and all administrative and non-production costs (including general administration costs) under the procurement tender plan for the relevant calendar year to (B) the total volume of crude oil production at all production branches of KMG EP under the procurement tender plan for the relevant calendar year; and

(ii) the transportation cost of one tonne of crude oil is the ratio of (A) the total costs of crude oil transportation from all the branches of KMG EP to the Atyrau Refinery under the procurement tender plan for the relevant calendar year to (B) the total volume of crude oil supplies to the Atyrau Refinery from all production branches of KMG EP under the procurement tender plan for the relevant calendar year.

KMG RM Agency Agreement

The relationship established by the Agency Agreement was terminated with effect from 30 April 2012 by mutual agreement of both parties following the internal restructuring of KMG RM. In accordance with the S-K Rules, the Agency Agreement between KMG EP and KMG RM had previously been subject to annual renewal, with the principal provisions of the Agency Agreement remaining the same from year to year. While in effect, KMG EP was obliged, within one month of a request from KMG RM, to provide KMG RM with planned annual volumes for the sale of crude oil for export through KMG RM approved by the MOG under the Agency Agreement. KMG EP also had to submit to KMG RM quarterly and monthly schedules, approved by the MOG, of oil supplies for export, showing transportation and loading requirements. Monthly schedules were provided seven days before the beginning of the relevant month. KMG RM on behalf of KMG EP was required to offer the crude oil sold to it by KMG EP to the market at the best possible price, and to solicit as many offers as possible. Details of each offer were sent to KMG EP in prescribed form within ten working days of receipt by KMG RM. Each purchase sale agreement signed by KMG RM on behalf of KMG EP was required to contain certain provisions (including, as to payment, either provision of a letter of credit, 100% pre-payment or payment within 30 days of delivery). The signed original copy also had to be submitted to KMG EP within ten working days of its execution. While in effect, the Agency Agreement required that each purchase sale agreement provided that ownership of the crude oil would transfer from KMG EP no earlier than upon full payment of the purchase price. In consideration for the agency services provided by KMG RM, KMG EP was obliged to pay KMG RM a commission in the amount of KZT 75 (plus VAT) per tonne of crude oil sold by KMG RM for export. This amount was payable on a monthly basis upon receipt by KMG EP of KMG RM's invoice and was subject to review every six months. KMG EP was also liable for KMG RM's expenses incurred in carrying out its agency function under the Agency Agreement. Since 1 May 2012, KMG EP has exported the crude oil its produces directly.

KTO Transportation Agreement

Pursuant to the agreement between KMG EP and KTO dated 10 September 2004, as amended on 26 April 2006 (the "**KTO Transportation Agreement**"), KTO transports oil produced by KMG EP for export and for the domestic market using its system of main pipelines. The KTO Transportation Agreement expires in 2013. The required minimum volumes specified by the KTO Transportation Agreement for transportation through the UAS pipeline are 5.4 million tonnes in 2013. The KTO Transportation Agreement does not set limits on the minimum volume of transportation through KTO's other pipelines.

KMG EP is required to provide KTO with annual, quarterly and monthly schedules (approved by the MOG) of planned volumes of crude oil for transportation through the KTO pipeline system. Within ten days from the receipt of the annual or quarterly schedule and within three days from the receipt of the monthly schedule, KTO must submit to KMG EP a notification specifying transportation routes for crude oil and volumes to be transported through each route. The payment for the transportation of crude oil by KTO is made by KMG EP based on the gross weight of the transported crude oil in accordance with the tariffs approved by the MOG.

Relationships between the Company and TCO

Several material agreements have been entered into among TCO and its partner, including the Company and the Government. These agreements set out a number of important rights, including TCO taxation and royalty arrangements with the Government, economic stabilisation provisions relating to changes in taxes or other levies and TCO right to export its products and to receive and retain revenue in hard currency in offshore accounts.

Formation Agreement

The Formation Agreement establishing TCO was entered into on 2 April 1993 and was last amended on 13 October 2004, by the Company, Chevron Overseas, LukArco and ExxonMobil Kazakhstan Ventures Inc. The Formation Agreement provides that TCO's objectives are to develop hydrocarbon resources and explore, produce, process, store, transport, export and sell hydrocarbons, hydrocarbon products, and sulphur. The term of the Formation Agreement is 40 years.

The Formation Agreement may terminate prior to the expiration of its term under the following circumstances: (a) mutual agreement of its partners; (b) insolvency of the partnership or withdrawal of one of the partners in accordance with the Formation Agreement; (c) bankruptcy, liquidation or similar events affecting one of its partners; (d) breach by one of the

partners of a material obligation under the Formation Agreement, subject to a cure period; (e) a change of control, merger, amalgamation or reconstruction of one of the partners or any person who has control of a partner, except that (i) no change of control will be considered to occur in the event the Company, or any Kazakhstan legal entity which has control of the Company is privatised, restructured, merged, amalgamated, reconstructed or incorporated in such a way that no person other than the Government holds, directly or indirectly, more than a 10% interest in the Company or such Kazakhstan legal entity and (ii) such provision does not apply to Chevron Corporation, Mobil Corporation, LUKOIL or Atlantic Richfield Company; or (f) the elapse of six months after a merger or change of control of Chevron Corporation, Mobil Corporation, LUKOIL or Atlantic Richfield Company if the Government has reasonable grounds to disapprove of such merger or change of control after having discussed the matter in good faith with Chevron Corporation, Mobil Corporation, LUKOIL or Atlantic Richfield Company or their new controller.

The Formation Agreement provides that each of TCO's partners has an undivided interest in TCO equal to its participatory interest. Parent companies of TCO's partners have entered into guarantees whereby they guarantee to the Government, to TCO and to TCO's partners, their affiliate's cash call obligations under the Formation Agreement. The Company's obligations are guaranteed by the Government.

The Formation Agreement provides that TCO's highest governing body is the general meetings of its partners conducted in the form of (a) Partnership Council meetings or (b) meetings of its partners to accomplish matters reserved to them at law. The Partnership Council consists of eight members: three appointed by Chevron Overseas, two appointed by the Government (failing whom, the Company); two appointed by ExxonMobil Kazakhstan Ventures Inc. and one appointed by LukArco. TCO's General Director and Deputy General Director are unofficial members of the Partnership Council. Unless otherwise agreed, the Government (failing whom, the Company) nominates the Chair of the Partnership Council (subject to a vote) but the Chair has no authority to represent TCO.

The Formation Agreement provides that Partnership Council meetings are held at TCO offices at least quarterly, unless decided otherwise by Partnership Council. A quorum of at least 81% of TCO's Participatory Interests is required for any Partnership Council meetings. Each partner has one vote weighted in accordance with its participatory interest. All Partnership Council decisions require the affirmative vote of at least 81% of participatory interests in TCO, except for the following six fundamental issues that must be decided unanimously:

- termination, liquidation or wind up of TCO's operations, appointment of a receiver or liquidator, or entering into any arrangement with creditors;
- commencement of any new businesses, trading under any name other than "Tengizchevroil" or discontinuing any of TCO's business;
- any sale, transfer, lease, licence, right to use or disposal of all or a substantial part of TCO's business, undertaking or assets;
- any consolidation, merger, acquisition or disposal of any interest in any other entity or becoming a partner in any other partnership;
- applying for or surrendering any exploration or production licence or relinquishing any area covered by a licence; and
- entering into or amending any loan agreement with a partner or affiliate of a partner, unless such agreements or amendments are made on identical terms to all partners.

Under the Formation Agreement, Chevron Overseas provides management and administrative expertise to TCO, including nomination of all of department heads of TCO except the heads of the Governmental Relations, Human Resources and Legal Departments, which are jointly nominated by the Company, ExxonMobil Kazakhstan Ventures Inc. and Chevron Overseas or, failing a joint nomination, Kazakhstan. The Formation Agreement requires that all nominees must be qualified to perform their jobs.

Financial Arrangements under Formation Agreement

The Formation Agreement, to the extent TCO does not have sufficient cash available, establishes its right to require its partners, in proportion to their participatory interests, to make up cash deficiencies required to conduct partnership activities in accordance with approved work programmes and budgets. These cash calls are to be advanced in U.S. Dollars and accounted for as loans between TCO and its partners. Defaults on cash calls are to be made up by non-defaulting partners of TCO and are compensated with interest and a prior right to defaulting partner's share of any of revenue of TCO upon distribution until repaid.

Where such a default lasts for 90 days, non-defaulting partners of TCO may within 60 days thereafter elect to buy the defaulting partner's interest or liquidate TCO. If a price cannot be agreed, non-defaulting partners have a right of first offer with respect to the sale of any of assets of TCO. Under the Formation Agreement, the right to cash calls by TCO partners exists only between TCO and its partners and may be enforced only by TCO and its partners. Nothing in the Formation Agreement confers any rights or remedies on any person other than the parties to it, their respective successors and assigns and TCO, and no provision gives any third person any right of subrogation or action over and against any other party.

The Formation Agreement provides that TCO distributes the maximum amounts of cash available, subject to its reasonable cash requirements. Under this Agreement, each of TCO's partners has the right to receive, keep and use cash advances from TCO outside of Kazakhstan and the CIS in proportion to their interests in TCO. The Formation Agreement provides that TCO is responsible for withholding the applicable taxes on profit and interest distributions it makes.

The Formation Agreement provides that all sales proceeds of TCO in freely convertible currencies will be deposited into London bank accounts of TCO, non-convertible currency proceeds may be deposited as decided by the Partnership Council, freely convertible currency obligations will be paid directly from London accounts of TCO and non-convertible obligations from non-convertible accounts of TCO.

Transfer and Assignment of Interest

The Formation Agreement provides that each of TCO's partners has the right to transfer all or part of its interest in TCO to any person capable of performing its obligations, subject to the consent (not to be unreasonably withheld) of the other partners. If any such transfer is to a non-affiliate, the transferring partner shall first offer to sell or transfer all or part of such participatory interest to the non-transferring partners, but where TCO partners cannot agree on terms within 45 days, the transferring partner has 180 days thereafter to sell its interest to qualified third parties (subject to the consent of non-transferring partners of TCO, which shall not be unreasonably withheld) on terms no more favourable than those offered to non-transferring partners of TCO. Under the Formation Agreement TCO's partners may withdraw from the partnership at any time after giving 180 days advance notice. Other partners have 45 days from receipt of such notice to accept the withdrawing partner's interest (subject to assumption of all future obligations related thereto) or join in withdrawal. Withdrawal does not excuse a partner from its financial obligations existing or accrued up to the date of the withdrawal notice.

Project Agreement

A project agreement was entered into on 2 April 1993 and was last amended on 13 October 2004 by the Government, the Company, Chevron Overseas, CTOPI, ExxonMobil Kazakhstan Ventures Inc. and LukArco (the "**Project Agreement**") and sets forth the parties' obligations with respect to payments, taxes, royalty and other matters associated with the activities of TCO. Pursuant to the Project Agreement, TCO has exclusive rights until 6 April 2033 to develop and produce all hydrocarbons, hydrocarbon products and sulphur from its concession area, as set out in its production licence. The Government is obligated to ensure that TCO operations are not adversely affected by the actions and operations of other operators in the area with respect to emissions and the use of natural resources and the infrastructure.

The Project Agreement provides that agreements between TCO and Kazakhstan with respect to (a) taxes and other governmental exactions, (b) royalty, (c) exchange, transportation, export and marketing and (d) currency matters are effective until 6 April 2033, shall govern in case of any inconsistency with existing or future Kazakhstan laws and may not be changed without the express written consent of the Government, Chevron Corporation, Mobil Corporation, OJSC Oil Company LUKOIL and Atlantic Richfield Company (now a subsidiary of BP). The Project Agreement provides that the Government shall take such action as may be required to give such provisions the force of law. The Project Agreement provides that the aggregate amount of taxes and other forms of levies and royalty applicable to TCO with respect to the Tengiz project, the Company with respect to payments of interest and profit distributions received from TCO, CTOPI with respect to payments from TCO and the Government, and Chevron Overseas, ExxonMobil Kazakhstan Ventures Inc. and LUKARCO, each with respect to its participatory interest in TCO and otherwise in connection with the Tengiz project, are fixed as described below until 6 April 2033.

TCO pays the Government a base royalty of 25% of the dollar value equivalent of crude oil, gas, propane, sulphur and other products valued at the wellhead. Under the terms of the Project Agreement, TCO pays the base royalty quarterly. Each quarterly payment is due within 30 days of the end of the applicable quarter and consists of 90% of the base royalty estimated to be due for such quarter plus the difference between the prior quarter's estimated payment and the amount of the base royalty actually due for the prior quarter. The Government may elect to receive the base royalty in the form of crude oil and other products if sufficient production is available.

The Project Agreement provides that TCO will not make any claim for refund from the Government in respect of any Net VAT (defined below) or claim depreciation in respect of any amount representing an increase in Non-Offsettable VAT (defined below). The Project Agreement provides that the base royalty will be reduced by an amount equal to (a) the amount of any refund in respect of Net VAT referable solely to the Tengiz project that would be due to TCO but for the provision of the Project Agreement described in the preceding sentence plus (b) any increase in the amount of Non-Offsettable VAT paid by TCO over the amount of Non-Offsettable VAT that would have been payable had the applicable goods or services been purchased on the date of the Project Agreement. "**Net VAT**" means the difference between (i) those amounts of value added tax imposed by any republic in the CIS paid by TCO on goods and services supplied to TCO in relation to the Tengiz project, and (ii) those amounts of value added tax imposed by Kazakhstan which are received by TCO on goods and services supplied by TCO in relation to the Tengiz project. "**Non-Offsettable VAT**" means value added tax imposed by any republic in the CIS on goods and services which under Kazakhstan law from time to time is not to be included in determining Net VAT.

The Project Agreement establishes a profits tax at the rate of 30% until such time as a lower tax rate on profits is made available to at least two other similar joint venture projects.

If the total amount of (a) taxes and levies paid pursuant to the Project Agreement for any tax year less VAT, (b) taxes assessed which were not applicable to TCO at the time of the formation ("**non-applicable taxes**"), and (c) employment taxes, exceeds or falls short of the amount that would be payable at the following rates then the amount of royalty payable to Kazakhstan is to be adjusted. The adjustment is made to ensure that the aggregate amount received by Kazakhstan in taxes and royalty (excluding VAT, non-applicable taxes and employment taxes) equals the amount which would be payable under the following rates: 30% on TCO profit, 20% withholding tax on interest paid by TCO, 15% withholding tax on profit distributions made by TCO and the aggregate relevant indexed amount (U.S.$7 million indexed to 1997 prices), as defined in the Project Agreement, with respect to additional taxes. The profit tax and withholding tax rates must be adjusted if a lower tax rate is made available to at least two other similar joint ventures.

Where reductions in royalty payable to the Government exceed royalty due to the Government, such excess will be offset against any taxes and other non-discriminatory government exactions owed to the Government. If TCO is prevented from receiving the world market price (which is defined as the freely negotiated arms length export price at the time) for the full value of any of TCO's crude oil sold or any part of the proceeds of crude sales is prevented from being deposited in freely-convertible currency in London, then base royalty payments are reduced by an amount equal to the amount of such loss.

LLP "PSA"

In June 2010, the Company established LLP "PSA", a 100%-owned subsidiary with charter capital of KZT 5,000 million. LLP "PSA" is legally owned by the Company in its capacity as agent for the Government and its assets and activities are managed for the benefit of the MOG pursuant to a trust management agreement between the Company and the MOG. LLP "PSA"'s primary objective is to monitor and protect the interests of the Government under PSAs. LLP "PSA" is responsible for the PSAs covering the North Caspian Project (Kashagan Field), Karachaganak Field and Dunga Field, respectively. The ultimate allocation of the responsibilities and functions of the MOG, the Company and LLP "PSA" with respect to the agency functions historically administered by the Company is still being considered. The MOG, the Company and LLP "PSA" are engaged in ongoing discussions regarding the most appropriate structure to optimise and protect the interests of all parties, although no immediate decision or action is expected.

Relationships with Certain Related Parties

The Company also enters into transactions with related parties other than those described above. See Note 33 to the 2012 Financial Statements and Note 30 to the 2011 Financial Statements. The Company identifies related party transactions as transactions between its subsidiaries, joint ventures and associates and:

- the key management personnel of the Company;
- enterprises in which a substantial interest in the voting shares is owned, directly or indirectly, by the Company's key management personnel; or
- Samruk-Kazyna entities and other entities controlled by the Government.

Related party transactions are made in accordance with Kazakhstan law, including the JSC Law, as well as Samruk-Kazyna internal regulations, on terms agreed between the parties. Such terms 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 total amount of transactions, which have been entered into with related parties during 2012, 2011 and 2010 and the related balances as at 31 December 2012, 2011 and 2010, respectively:

Related party	Year	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
			(KZT millions)		
Samruk-Kazyna entities [1]	2012	46,727.8	26,164.5	47,594.5	784.2
	2011[2]	26,998.7	20,898.8	149,674.6	1,343.5
	2010	23,796.6	21,802.7	188,823.3	2,523.8
Associates	2012	63,947.3	0.1	55,542.9	1,321.6
	2011[2]	428.0	10.4	48,829.7	1.1
	2010	—	—	—	—
Joint ventures in which the Company is a partner	2012	315,394.7	176,344.4	53,899.5	38,836.4
	2011[2]	121,980.6	172,652.6	16,088.7	62,507.6
	2010	62,722.3	35,824.1	3,568.7	47,635.9

Notes:

(1) Includes primarily transactions of the Company with JSC National Company Kazakhstan Temir Zholy, JSC Kazakhtelecom, JSC Kazatomprom, JSC KEGOK, JSC Kazpost, JSC Samruk-Energo and other entities.

(2) Certain restatements have been made to the 2011 financial information contained in the 2012 Financial Statements. See "Presentation of Financial, *Reserves and Certain Other Information—Restatements*" and Note 8 to the 2012 Financial Statements.

Transactions with Samruk-Kazyna and other state controlled entities are mainly represented by transactions of the Company with JSC National Company Kazakhstan Temir Zholy, JSC Kazakhtelecom, JSC Kazatomprom, JSC KEGOK, JSC Kazpost, JSC Samruk-Energo and other entities.

Companies in the Samruk-Kazyna group of companies are subject to the S-K Rules, which require them to conduct a public tender for certain purchases of goods, works or services aimed at ensuring that Samruk-Kazyna group companies enter transactions only on market terms and conditions.

Since January 2012, Halyk Bank is no longer considered to be a related party to the Company as the former key member of the Company's management who was a member of the controlling party of Halyk Bank has resigned. BTA Bank, Alliance Bank and JSC Temirbank, which are controlled by Samruk-Kazyna, are all considered to be related parties of the Company.

On 21 September 2010, the Company extended the Loan to S-K, a loan in the aggregate principal amount of KZT 152 billion, bearing interest at the rate of 7.0% per year for a period of 20 years.

In January 2011, the Company received the Kazakhstan section of the Tuimazy-Omsk-Novosibirsk-2 (TON 2) pipeline for consideration of KZT 1.7 billion in shares in the Company issued to Samruk-Kazyna.

In January 2011, the Company entered into a loan agreement with Samruk-Kazyna for a principal amount of KZT 23.3 billion to fund the construction of the Beineu-Bozoi-Shymkent Gas Pipeline. The proceeds of this loan were transferred to KTG. The loan bears interest at a rate of 2% per year and matures in January 2024. The Company partially repaid this loan in 2012 and, as at 31 December 2012, the amortised cost of this loan was KZT 6.6 billion. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*".

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

Final Terms dated [•]

JSC NATIONAL COMPANY KAZMUNAYGAS

KAZMUNAIGAZ FINANCE SUB B.V.

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]

U.S.$10,500,000,000 Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 15 April 2013 [and the supplemental Base Prospectus dated ●] which [together] constitute[s] a Base Prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC as amended by Directive 2010/73/EU) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein prepared for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the relevant Issuer and, if the relevant Issuer is KMG Finance, KMG and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. [The Base Prospectus [and the supplemental Base Prospectus] [has] [have] been published [on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html], copies are available for viewing during normal business hours at [*address*] and copies may be obtained from [*address*].]]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated ● [and the supplemental Base Prospectus dated ●]. This document constitutes the Final Terms of the Notes described herein prepared for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC as amended by Directive 2010/73/EU) (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated 15 April 2013 [and the supplemental Base Prospectus dated ●][1], which [together] constitute[s] a Base Prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated ● [and the supplemental Base Prospectus dated ●] and are attached hereto. Full information on the relevant Issuer and, if the relevant Issuer is KMG Finance, KMG and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 15 April 2013 and ● [and the supplemental Base Prospectuses dated ● and ●]. [The Base Prospectuses [and the supplemental Base Prospectuses] have been published [on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html], copies are available for viewing during normal business hours at [*address*] and copies may be obtained from [*address*].]]

[THE NOTES REFERRED TO HEREIN THAT ARE REPRESENTED BY A RULE 144A GLOBAL NOTE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN SECTION 2(A)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER THAT IS ALSO A QUALIFIED PURCHASER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF NOTES REPRESENTED BY A RULE 144A GLOBAL NOTE.]

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK, SEE THE SECTION ENTITLED "RISK FACTORS" SET OUT IN THE BASE PROSPECTUS.]

1.	[(i)]	Issuer:	[KMG Finance] [KMG]
	[(ii)	Guarantor:	KMG]
2.	[(i)]	Series Number:	[•]
	[(ii)]	Tranche Number:	[•]
	[(iii)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [•] on [[•]/[Not Applicable]]
3.	Specified Currency or Currencies:		[•]
4.	Aggregate Nominal Amount of Notes:		[•]
	[(i)]	Series:	[•]
	[(ii)	Tranche:	[•]]
5.	Issue Price:		[•]%, of the Aggregate Nominal Amount [plus accrued interest from [•]]
6.	(i)	Specified Denominations:	[•]
	(ii)	Calculation Amount:	[•]
7.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date	[•]
8.	Maturity Date:		[•]
9.	Interest Basis:		[[•]% Fixed Rate] [[•]+/- [•]% Floating Rate] [Zero Coupon] (further particulars specified below at paragraphs 13-15)
10.	Redemption/Payment Basis:		[Redemption at par] [Partly Paid] [Instalment]
11.	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below at paragraphs 16-19)]
12.	[Date [Board] approval for issuance of Notes [and Guarantee] obtained:		[•]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Rate[(s)] of Interest:	[•]%, per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[•] in each year [adjusted in accordance with Business Day Convention/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount
	(iv)	Broken Amount(s):	[•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]
	(v)	Day Count Fraction:	[30/360 / Actual/ Actual (ICMA/ISDA)]
	(vi)	Determination Dates:	[[•] in each year/Not Applicable]
14.	**Floating Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Interest Period(s):	[•]
	(ii)	Specified Interest Payment Dates:	[•]
	(iii)	First Interest Payment Date:	[•]
	(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention]
	(v)	Business Centre(s):	[•]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[•]
	(viii)	Screen Rate Determination:	
		- Reference Rate:	[[•] month LIBOR/EURIBOR]
		- Interest Determination Date(s):	[•]
		- Relevant Screen Page:	[•]
	(ix)	ISDA Determination:	
		- Floating Rate Option:	[•]
		- Designated Maturity:	[•]
		- Reset Date:	[•]
	(x)	Margin(s):	[+/-][•]% per annum
	(xi)	Minimum Rate of Interest:	[•]% per annum
	(xii)	Maximum Rate of Interest:	[•]% per annum

	(xiii)	Day Count Fraction:	[•]
15.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable]
	(i)	[Amortisation/Accrual] Yield:	[•]% per annum
	(ii)	Reference Price:	[•]

PROVISIONS RELATING TO REDEMPTION

16.	**Call Option**		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note:	[•] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount:	[•] per Calculation Amount
17.	**Put Option**		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note:	[•] per Calculation Amount
18.	**Final Redemption Amount of each Note**		[•] per Calculation Amount
19.	**Early Redemption Amount**		
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:		[•]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

20.	**Form of Notes:**	[Registered Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Registered Temporary Global Note exchangeable for Definitive Notes on [•] days' notice] [Registered Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
21.	**New Global Note:**	[Yes] [No]
22.	**Financial Centre(s):**	[Not Applicable/[•]]

23. Details relating to Partly Paid Notes:

- Payment Amount(s):	[Not Applicable/[•]]
- Payment Date(s):	[Not Applicable/[•]]
- Consequences of Failure to Pay:	[Not Applicable/Issuer has the right to forfeit the Notes and interest due]

24. Details relating to Instalment Notes:

- Instalment Amount(s):	[Not Applicable/[•]]
- Instalment Date(s):	[Not Applicable/[•]]

THIRD PARTY INFORMATION

[(*Relevant third party information*) has been extracted from [Not Applicable/[•]]. [Each of KMG Finance and] KMG confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [Not Applicable/[•]], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

[Signed on behalf of KMG Finance:

By: ....
Duly authorised]

Signed on behalf of KMG:

By: ....
Duly authorised

FINAL TERMS

PART B – OTHER INFORMATION

1. **LISTING**

(i)	Listing:	London Stock Exchange [and Kazakhstan Stock Exchange]
(ii)	Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market with effect from [•].] [Application is expected to be made by the relevant Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market with effect from [•].] [Application has also been made by the Issuer (or on its behalf) for the Notes to be admitted to the "rated debt securities (highest category)" category of the "debt securities" category of the official list of the Kazakhstan Stock Exchange with effect from [•].] [Application is expected to be made by the relevant Issuer (or on its behalf) for the Notes to be admitted to the "rated debt securities (highest category)" category of the "debt securities" category of the official list of the Kazakhstan Stock Exchange with effect from [•].]
(iii)	Estimate of total expenses related to admission to trading:	[•]

2. **RATINGS**

Ratings: The Notes to be issued have been rated:

[S & P: [•]]

[Moody's: [•]]

[Fitch: [•]]

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**

"Save as discussed in ["Subscription and Sale"], so far as KMG Finance and KMG are aware, no person involved in the offer of the Notes has an interest material to the offer."]

4. **[Fixed Rate Notes only - YIELD**

Indication of yield: [•]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

5. OPERATIONAL INFORMATION

ISIN Code:	[•]
Common Code:	[•]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification numbers):	[Not Applicable/[•]]
Names and addresses of additional Paying Agent(s) (if any):	[•]

TERMS AND CONDITIONS OF THE NOTES

This Note is one of a duly authorised issue of notes (the "**Notes**"), issued either by JSC National Company KazMunayGas ("**KMG**") or KazMunaiGaz Finance Sub B.V. ("**KMG Finance**") under a U.S.$10,500,000,000 Global Medium Term Note Programme (the "**Programme**") established by KMG Finance and KMG. Where KMG Finance acts as the Issuer of Notes, the payment of all amounts owing by KMG Finance in respect of such Notes will be unconditionally and irrevocably guaranteed by KMG pursuant to the guarantee (the "**Guarantee**") contained in the Trust Deed (as defined below).

The Notes are constituted by an amended and restated Trust Deed (as amended or supplemented as at the date of issue of the Notes (the "**Issue Date**"), the "**Trust Deed**") dated 1 November 2010 between KMG Finance, KMG and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all Persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes referred to below. An amended and restated Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 1 November 2010 has been entered into in relation to the Notes between KMG Finance, KMG, the Trustee, Citibank N.A., London as calculation agent (the "**Calculation Agent**"), principal paying agent (the "**Principal Paying Agent**" and a "**Paying Agent**") and a transfer agent (a "**Transfer Agent**"), Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**"), and Citibank N.A., London (in its capacity as paying agent, a "**Paying Agent**", and in its capacity as transfer agent, a "**Transfer Agent**"). Copies of the Trust Deed, the Agency Agreement and any Final Terms are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. All Capitalised terms that are not defined in these conditions will have the meanings given to them in the Trust Deed and the relevant Final Terms.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects except for the Issue Date, Interest Commencement Date and the amount of the first interest payment.

1. Form, Denomination and Title

The Notes are issued in registered form in the Specified Denomination(s) shown in the relevant Final Terms or integral multiples thereof, without interest coupons, provided that (i) the Specified Denomination(s) shall not be less than €100,000 or its equivalent in other currencies and (ii) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.$200,000 or its equivalent in other currencies.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Instalment Note, a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the relevant Final Terms.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no Person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the Person in whose name a Note is registered, "**holder**" shall be read accordingly and capitalised terms have the meanings given to them in the relevant Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. Transfers of Notes

(a) **Transfer of Notes:** One or more Notes may be transferred, in whole or in part in the authorised denominations set out in the applicable Final Terms and subject to minimum transfer amounts specified therein, upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Note or Notes, together with the form of transfer endorsed on such Note or Notes (or another

form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of a Note, a new Note shall be issued to the transferee in respect of the part transferred and a further new Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer or, if the Issuer is KMG Finance, KMG, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) **Exercise of Options or Partial Redemption in Respect of Notes:** In the case of an exercise of the Issuer's, KMG's or Noteholders' options in respect of, or a partial redemption of, a holding of Notes, a new Note shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Notes shall be issued in respect of those Notes of that holding that have the same terms. New Notes shall only be issued against surrender of the existing Notes to the Registrar or any Transfer Agent. In the case of a transfer of Notes to a Person who is already a holder of Notes, a new Note representing the enlarged holding shall only be issued against surrender of the Note representing the existing holding.

(c) **Delivery of New Notes:** Each new Note to be issued pursuant to Conditions 2(a) or (b) shall be available for delivery within five business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(f)) and surrender of the Note for exchange. Delivery of the new Note(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition (c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) **Transfer Free of Charge:** Transfer of Notes on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) **Closed Periods:** No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount or Interest Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(e) or (iii) after any such Note has been called for redemption.

(f) **Restrictions on Transfer**: If at any time, the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a QIB and a QP is not a QIB and a QP, the Issuer may (i) require such beneficial owner to sell its Notes, or may sell such Notes on behalf of such beneficial owner, to a non-U.S. person who purchases in an offshore transaction pursuant to Regulation S or to a person who is a QIB who is also a QP and who is otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act or (ii) require the beneficial owner to sell such Notes, or may sell such Notes on behalf of such beneficial owner, to the Issuer or an affiliate thereof at a price equal to the lesser of (x) the purchase price paid by the beneficial owner for such Notes, (y) 100% of the principal amount thereof and (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of interests in the Rule 144A Global Note or of Rule 144A Definitive Notes to a U.S. person who is not a QIB and a QP.

3. Guarantee and Status

(a) **Status of the Notes:** The Notes constitute direct, general, unconditional and (subject to Condition 4(a)) unsecured obligations of the Issuer which rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated

obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law.

(b) **Status of the Guarantee:** Where KMG Finance is the Issuer of the Notes, KMG has, in accordance with the Guarantee, unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by KMG Finance in respect of the Notes and the Trust Deed. The obligations of KMG under the Guarantee constitute direct, general, unconditional and (subject to Condition 4(a)) unsecured obligations of KMG which rank and will rank at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of KMG, save only for such obligations as may be preferred by mandatory provisions of applicable law.

4 Negative Pledge and Covenants

So long as any amount remains outstanding under the Notes:

(a) **Negative Pledge:** KMG shall not, and shall not permit any Material Subsidiary to, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its or their assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Notes are secured equally and rateably with such other Indebtedness or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its sole discretion shall consider to be not materially less beneficial to the interests of the Noteholders.

(b) **Limitation on Payments of Dividends**

(i) KMG will not pay any dividends, in cash or otherwise, or make any other distribution of any sort (whether by way of redemption, acquisition or otherwise) in respect of its share capital or by way of management or other similar fees payable to its direct or indirect shareholders:

(A) at any time when there exists an Event of Default (as defined in Condition 10 or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default); or

(B) at any time when no such Event of Default or event exists, in an aggregate amount exceeding 50% of KMG's Consolidated Net Income for the period in respect of which the dividend or other distribution or other fee is being paid; *provided* that for the purposes of this Condition 4(b)(i), Consolidated Net Income shall exclude any gains or losses from the Net Cash Proceeds of the sale of all or substantially all of the assets or property or any business or division, or the Capital Stock, respectively of any Material Subsidiary or Minority Company.

(ii) The above limitation shall not apply to the payment of (i) any dividends in respect of any Preferred Stock of KMG, which may be issued by KMG from time to time and (ii) any dividends in respect of any Capital Stock of KMG made out of the Net Cash Proceeds of the substantially concurrent sale of, or by issuance of, Capital Stock of KMG (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of KMG or an employee stock ownership plan or to a trust established by KMG or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by KMG from its shareholders.

(iii) KMG will not permit any Material Subsidiary to make any dividends or other distributions in respect of any series of Capital Stock of such Material Subsidiary unless such dividends or distributions are made on a *pro rata* basis to holders of such series of Capital Stock or such dividends or distributions are made on a basis that results in KMG or a Material Subsidiary receiving dividends or other distributions of greater value than would result on a *pro rata* basis.

(c) **Limitation on Sales of Assets and Subsidiary Stock**

KMG will not, and will not permit any Material Subsidiary to, consummate any Asset Disposition unless:

(i) KMG or such Material Subsidiary receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the shares and assets subject to such Asset Disposition; and

(ii) solely with respect to an Asset Disposition of shares of Capital Stock of a Material Subsidiary, after giving effect to any such Asset Disposition, KMG will continue to "beneficially own" (as such term is defined in Rule 13(d)(3) and Rule 13(d)(5) under the Exchange Act), directly or indirectly, at least the Restricted Percentage of the shares of Capital Stock of such Material Subsidiary.

(d) **Limitation on Indebtedness**

(i) KMG will not, and will not permit any Material Subsidiary to Incur, directly or indirectly, any Indebtedness; *provided*, *however*, that KMG and Material Subsidiaries will be entitled to Incur Indebtedness if:

(A) after giving effect to such Incurrence and the application of the proceeds thereof, on a *pro forma* basis, no Default or Event of Default would occur or be continuing; and

(B) the ratio of Consolidated KMG Net Indebtedness as of any date of determination, after giving effect to such Incurrence and the application of the proceeds thereof, on a *pro forma* basis, to the aggregate amount of Consolidated KMG EBITDA for the most recent two semi-annual financial periods for which consolidated financial statements have been delivered pursuant to Condition 4(e), does not exceed 3.5 to 1.

For purposes of calculating the ratios described in this Condition 4(d)(i), acquisitions that have been made by KMG or any Material Subsidiary, including through mergers or consolidations and including any related financing transactions (including, without limitation, any acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of Indebtedness), during (a) for the most recent two semi-annual financial periods for which consolidated financial statements have been delivered pursuant to Condition 4(e) or (b) subsequent to such semi-annual financial periods and on or prior to the date on which the ratio is calculated, will be given pro forma effect as if they had occurred on the first day of the measurement period used in the calculation of Consolidated KMG EBITDA; *provided*, *however*, that (i) any such pro forma EBITDA in respect of an acquisition may only be so included in the calculation of Consolidated KMG EBITDA if such pro forma EBITDA shall have been derived from financial statements of, or relating to or including, such acquired entity and (ii) such financial statements have been prepared in accordance with IFRS, U.S. GAAP or any body of accounting principles that has been determined by the European Commission to be equivalent to IFRS (without regard to any modification to such principles that may be required after the date of such financial statements in connection with or pursuant to such determination).

(ii) Condition 4(d)(i) will not prohibit the incurrence of any of the following items of Indebtedness:

(A) refinancing (including successive refinancing) of Indebtedness of KMG or any Material Subsidiary outstanding on the Issue Date (including the Notes issued on the Issue Date) or permitted to be Incurred under Condition 4(d)(i) above; *provided* that the aggregate principal amount is not thereby increased by more than the expenses incurred by KMG or its Material Subsidiaries in connection with such refinancing plus the amount of any premium to be paid in connection with such refinancing;

(B) intercompany debt (i) between KMG and any Material Subsidiary and (ii) between any Material Subsidiary and another Material Subsidiary; *provided*, *however*, that any subsequent issuance or transfer of any Capital Stock which results in any such Material Subsidiary ceasing to be a Material Subsidiary or any subsequent disposition, pledge or transfer of such Indebtedness (other than to KMG or a Material Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon; and

(C) Indebtedness arising out of interest rate agreements or currency hedging agreements for the benefit of KMG or any Material Subsidiary; *provided* that such interest rate agreements do not exceed the aggregate principal amount of the related Indebtedness and such currency hedging agreements do not increase the obligations of KMG or any Material Subsidiary other than as a result of fluctuations in interest or foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder.

(e) **Financial Information**

(i) KMG shall deliver to the Trustee as soon as they become available, but in any event within five months after the end of each of its financial years, copies of KMG's stand-alone financial statements and consolidated financial statements for such financial year, in each case audited by the Auditors and prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period.

(ii) KMG shall as soon as the same become available, but in any event within 90 days following the end of each first half year of each of its financial years, deliver to the Trustee KMG's stand-alone financial statements and consolidated financial statements for such period.

(iii) KMG hereby undertakes that it will deliver to the Trustee, without undue delay, such additional information regarding the financial position or the business of KMG, any Material Subsidiary or any Minority Company as the Trustee may reasonably request, including providing certification according to the Trust Deed.

(iv) KMG shall ensure that each set of stand-alone financial statements and consolidated financial statements delivered by it pursuant to this Condition 4(e) is:

(A) prepared generally on the same basis as was used in the preparation of its Original Financial Statements (including with respect to presentation of prior periods) and in accordance with IFRS and consistently applied;

(B) in the case of the statements provided pursuant to Condition 4(e)(i), accompanied by a report thereon of the Auditors referred to in Condition 4(e)(i) (including opinions of such Auditors with accompanying notes and annexes); and

(C) in the case of the statements provided pursuant to Conditions 4(e)(i) and 4(e)(ii), certified by an Authorised Signatory of KMG that the information with respect to the Group included in the financial statements pursuant to Condition 4(e)(vi) give a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period.

(v) KMG undertakes to furnish to the Trustee such information as the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**") (or the Kazakhstan Stock Exchange, if Notes are listed or admitted to trading thereon) may require as necessary in connection with the listing or admission to trading on such stock exchange or relevant authority of such instruments.

(vi) The semi-annual and annual financial information to be delivered pursuant to Conditions 4(e)(i) and 4(e)(ii) will be prepared on the basis of accounting principles consistent with those that formed the basis of the Original Financial Statements in respect of the Group, in each case as at and for the periods covered by the relevant financial information, either on the face of the financial statements or in the footnotes thereto.

(f) **Limitations on Dividends from Material Subsidiaries**

(i) KMG shall procure that none of the Material Subsidiaries will create, assume or otherwise permit to subsist or become effective any encumbrance or restriction on the ability of such Material Subsidiaries to:

(A) pay any dividends or make any other payment or distribution on or in respect of its shares;

(B) make payments in respect of any Indebtedness owed to KMG or any other Material Subsidiary; or

(C) make loans or advances to KMG or any other Material Subsidiary or guarantee indebtedness of KMG or any other Material Subsidiary.

(ii) The provisions of Condition 4(f)(i) will not prohibit:

(A) solely with respect to Condition 4(f)(i)(A), any encumbrance or restriction pursuant to an agreement relating to the Incurrence of Indebtedness; *provided*, *however* that any such encumbrance or restriction shall be limited such that the payment of dividends or other payments or distributions in any period in an amount up to 50% of Consolidated Net Income for such period shall be permitted;

(B) any encumbrance or restrictions pursuant to an agreement (including any shareholder or joint venture or similar agreement) in the form in effect at or entered into on the Issue Date the terms of which were disclosed in the Base Prospectus;

(C) any encumbrance or restriction with respect to an entity that becomes a Material Subsidiary after the Issue Date pursuant to an agreement relating to any Indebtedness Incurred prior to the date on which such Subsidiary becomes a Material Subsidiary (to the extent such encumbrance or restriction was not put in place in anticipation of such entity becoming a Material Subsidiary) and outstanding on such date;

(D) any encumbrance or restriction pursuant to an agreement effecting a refinancing of Indebtedness incurred pursuant to an agreement referred to in Condition 4(f)(ii)(B) above or Condition 4(f)(ii)(C) above or Condition 4(f)(ii)(E) below or contained in any amendment, modification, restatement, renewal, increase, supplement, refunding or replacement of an agreement referred to in Condition 4(f)(ii)(B) above or Condition 4(f)(ii)(C) above or Condition 4(f)(ii)(E) below; *provided*, *however*, that the encumbrances and restrictions with respect to such Material Subsidiary contained in any such refinancing agreement or amendment, modification, restatement, renewal, increase, supplement, refunding or replacement agreements are no more restrictive in any material respect than those encumbrances and restrictions, taken as a whole, with respect to such Material Subsidiary contained in such predecessor agreements; and

(E) any encumbrance or restriction that is as a result of applicable law or regulation.

(g) **Maintenance of Authorisations**

(i) KMG shall, and shall procure that each of the Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of KMG or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and/or operations; and

(ii) KMG shall, and shall procure that each of the Material Subsidiaries shall, take all necessary action to obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in any relevant jurisdiction for the execution, delivery or performance of the Notes and the Agreements or for the validity or enforceability thereof.

(h) **Mergers and Consolidations**

(i) KMG will not, directly or indirectly, in a single transaction or a series of related transactions, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable legislation or otherwise), participate in any other type of corporate reconstruction, or sell, lease, transfer, convey or otherwise

dispose of all or substantially all of the assets of KMG or KMG and the Material Subsidiaries (taken as a whole) (in each case, a "**reorganisation**") unless:

(A) KMG will be the surviving or continuing Person;

(B) immediately prior to and immediately after giving effect to such transaction and the incurrence of any Indebtedness to be incurred in connection therewith, and the use of any net proceeds therefrom on a *pro forma* basis, no Event of Default shall have occurred and be continuing; and

(C) during the period commencing upon the announcement or (in the absence of such announcement) the occurrence of any such reorganisation and ending upon the occurrence of such reorganisation, no Adverse Ratings Event shall have occurred by reason of such reorganisation; *provided* that any if any Adverse Ratings Event shall have occurred during the six months immediately following the occurrence of such reorganisation by reason of such reorganisation, the Issuer shall comply with provisions of Condition 6(d).

(ii) KMG shall ensure that no Material Subsidiary will enter into any reorganisation unless:

(A) such Material Subsidiary will be the surviving or continuing Person;

(B) immediately prior to and immediately after giving effect to such transaction and the incurrence of any Indebtedness to be incurred in connection therewith, and the use of any net proceeds therefrom on a *pro forma* basis, no Event of Default shall have occurred and be continuing; and

(C) during the period commencing upon the announcement or (in the absence of such announcement) the occurrence of any such reorganisation and ending upon the occurrence of such reorganisation, no Adverse Ratings Event shall have occurred by reason of such reorganisation; *provided* that any if any Adverse Ratings Event shall have occurred during the six months immediately following the occurrence of such reorganisation by reason of such reorganisation, the Issuer shall comply with provisions of Condition 6(d).

(iii) For purposes of the foregoing, the transfer (by lease, assignment, sale, conveyance or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Material Subsidiaries, the Capital Stock of which constitute all or substantially all of the properties and assets of KMG, will be deemed to be the transfer of all or substantially all of the properties and assets of KMG.

Notwithstanding the foregoing, any Material Subsidiary may consolidate with, merge with or into or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to KMG or another Subsidiary of KMG (which after such transaction will be deemed to be a Material Subsidiary for purposes hereof).

(i) **Transactions with Affiliates**

KMG shall not, and shall ensure that none of the Material Subsidiaries, directly or indirectly, will enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans, disposals or acquisitions, unless the terms of such Affiliate Transaction are no less favourable to KMG or such Material Subsidiary, as the case may be, than those that could be obtained (at the time of such transaction or, if such transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefor) in a comparable arm's-length transaction with a Person that is not an Affiliate of KMG or such Material Subsidiary.

This Condition 4(i) shall not apply to (i) compensation or employee benefit arrangements with any officer or director of KMG or any of its Subsidiaries arising as a result of their employment contract, (ii) Affiliate Transactions pursuant to agreements or arrangements entered into prior to the Issue Date the terms of which were disclosed in the Base Prospectus, (iii) any sale of equity of KMG,

(iv) transactions between KMG and a Material Subsidiary, transactions between KMG and/or a Material Subsidiary and a Subsidiary or transactions between Material Subsidiaries and (v) Affiliate Transactions involving an aggregate amount not to exceed U.S.$100 million in any one calendar year.

(j) **Payment of Taxes and Other Claims**

KMG shall, and shall ensure that the Material Subsidiaries will, pay or discharge or cause to be paid or discharged before the same shall become overdue all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, KMG and the Material Subsidiaries *provided* that none of KMG nor any Material Subsidiary shall be in breach of this Condition 4(j) if KMG or any Material Subsidiary has failed to pay or discharge or cause to be paid or discharged any tax, assessment, charge or claim (a) if such amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made, or (b) if a failure to pay or discharge or cause to be paid or discharged such amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, would not have a Material Adverse Effect.

(k) **Officers' Certificates**

(i) Within 14 days of any request by the Trustee, KMG shall deliver to the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default or Put Event has occurred and, if it has occurred and shall be continuing, what action KMG is taking or proposes to take with respect thereto and that KMG has complied with its obligations under the Trust Deed.

(ii) KMG will at the same time as delivering KMG's audited annual financial statements pursuant to Condition 4(e)(i) and within 30 days of a request from the Trustee, deliver to the Trustee an Officers' Certificate specifying those companies which were, at a date no more than 20 days before the date of such Officers' Certificate, Material Subsidiaries or Minority Companies, as the case may be.

(iii) Following the occurrence of any matter or event specified in the Notes or the Trust Deed where the Notes or the Trust Deed provide for a determination of whether such matter or event has or will have a Material Adverse Effect, KMG, at the request of the Trustee, shall provide the Trustee with an Officers' Certificate certifying whether such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Trustee shall be entitled to rely solely on an Officers' Certificate from KMG, certifying whether or not such matter has or will have a Material Adverse Effect.

(l) **Change of Business**

KMG shall not, and shall ensure that no Material Subsidiary will engage in any business other than a Permitted Business.

5. Interest and other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is partly paid, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest, such interest being payable in arrear on each Interest Payment Date up to the Maturity Date.

If a Fixed Coupon Amount or a Broken Amount is specified in the Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the Final Terms.

(b) **Interest on Floating Rate Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount (or, if it is partly paid Note, the amount paid up) from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such

interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the Final Terms

(y) the Designated Maturity is a period specified in the Final Terms and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Final Terms.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(x) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:

(I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

(II) the arithmetic mean of the Relevant Rates of the Persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

(y) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (x)(I) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (x)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe (the "**Principal Financial Centre**") are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(c) **Zero Coupon Notes:** Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the due date for payment, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the Final Terms.

(e) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(f) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding:**

(i) If any Margin or Rate Multiplier is specified in the Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the Final Terms, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries (as applicable) of such currency.

(g) **Calculations:** The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(h) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer and, if the Issuer is KMG Finance, KMG, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(i) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may do so (or may appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee may apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6. Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified in the Final Terms) is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d), 6(e) or 6(f), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in the Final Terms. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d), 6(e) or 6(f), each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount (which, unless otherwise provided in the Final Terms, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) Early Redemption:

(i) *Zero Coupon Notes:*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the Final Terms.

(B) Subject to the provisions of sub-paragraph (C) below, the "**Amortised Face Amount**" of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be a made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Final Terms.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified in the Final Terms.

(c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified in the Final Terms, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if, immediately before giving such notice, the Issuer satisfies the Trustee that (a) (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Netherlands (in the case of KMG Finance) or Kazakhstan (in the case of KMG) or any political subdivision or any authority thereof having power to tax therein, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue of the first Tranche of the Notes and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (b) (i) in respect of Notes issued by KMG Finance, KMG has or (if a demand was made under the Guarantee) would become obliged to pay additional amounts as provided or referred to in Condition 8 or the Guarantee, as the case may be, or KMG has or will become obliged to make any such withholding or deduction of the type referred to in Condition 8 or in the Guarantee, as the case may be, from any amount paid by it to KMG Finance in order to enable KMG Finance to make a payment of principal or interest in respect of the Notes, in either case to any greater extent than would have been required had such a payment been required to be made before the date on which agreement is reached to issue the first Tranche of the Notes as a result of any change in, or amendment to, the laws or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by KMG (or KMG Finance, as the case may be) taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, if the Issuer is KMG Finance, KMG would be obliged to pay such additional amounts or KMG would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due, or (as the case may be) a demand under the Guarantee (if applicable) were then made or (also as the case may be) KMG would be obliged to make a payment to KMG Finance to enable it to make a payment of principal or interest in respect of the Notes if any such payment on the Notes were then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (1) a certificate signed by two directors of the Issuer (or KMG, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers in form and substance satisfactory to the Trustee of recognised standing to the effect that the Issuer or (as the case may be) KMG has or will become obliged to pay such additional amounts and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (a)(ii) and/or (b)(ii) above in which event it shall be conclusive and binding on Noteholders.

(d) **Redemption at the Option of Noteholders upon a Change of Status:** If at any time while any Note remains outstanding a Change of Status occurs, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer redeem such Note on the Optional Redemption Date(s) at 101% of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Change of Status Put Date (as defined below).

Such option (the "**Change of Status Put Option**") shall operate as set out below.

If a Change of Status occurs then, within 14 days of the occurrence of the Change of Status, the Issuer shall, and upon the Trustee becoming so aware (the Issuer having failed to do so) the Trustee may, and, if so requested by the holders of at least one-fifth in principal amount of the Notes then outstanding, shall, give notice (a "**Change of Status Notice**") to the Noteholders in accordance with Condition 16 specifying the nature of the Change of Status and the procedure for exercising the Change of Status Put Option.

To exercise the Change of Status Put Option, a holder of Notes must deliver at the specified office of any Paying Agent on any Business Day falling within the period commencing on the occurrence of a Change of Status and ending 90 days after such occurrence or, if later, 90 days after the date on which the Change of Status Notice is given to Noteholders as required by this Condition 6(d) (the "**Change of Status Put Period**"), a duly signed and completed notice of exercise in the form (for the time being current and which may, if the certificate for such Notes is held in a clearing system, be any form acceptable to the clearing system delivered in any manner acceptable to the clearing system) obtainable

from any specified office of any Paying Agent (a "**Change of Status Put Option Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this paragraph accompanied by the certificate for such Notes or evidence satisfactory to the Paying Agent concerned that the certificate for such Notes will, following the delivery of the Change of Status Put Option Notice, be held to its order or under its control.

The Issuer shall at its option redeem or purchase (or procure the purchase of) the Notes the subject of each Change of Status Put Option Notice on the date (the "**Change of Status Put Date**") seven days after the expiration of the Change of Status Put Period unless previously redeemed or purchased and cancelled. A Change of Status Put Option Notice given by a holder of any Note shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Status Put Option Notice.

For the purposes of this Condition 6(d):

A "**Change of Status**" will be deemed to have occurred upon the occurrence of any of the following:

(i) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that the Republic of Kazakhstan and/or any other federal or state agencies appropriately authorised to hold the shares of KMG ceases to own and control (directly or indirectly) 100% of the issued and outstanding voting share capital of KMG; or

(ii) KMG ceasing to be a "national company" within the meaning of Article 1 of the Law of the Republic of Kazakhstan № 291-IV "On Subsoil and Subsoil Use" dated 24 June 2010 (the "**Subsoil Law**"); or

(iii) any change to such laws the result of which is that KMG ceases to act as the government of Kazakhstan's agent in relation to domestic production sharing agreements, or ceases to benefit from KMG's first right of refusal to acquire the participation and operating rights in any hydrocarbon deposits in Kazakhstan being alienated as provided by Articles 12 and 13 of the Subsoil Law, or ceases to benefit from its right of having at least 50% participatory interest in all new off-shore contracts (as provided by Article 93.3 of the Subsoil Law); or

(iv) the occurrence of an Adverse Ratings Event during the six months immediately following the occurrence of a reorganisation entered into by KMG (directly or indirectly) or any Material Subsidiary in accordance with Condition 4(h)(i) and (ii), by reason of such reorganisation.

(e) **Redemption at the Option of the Issuer and Exercise of Issuer's Options:** If Call Option is specified in the Final Terms, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the Final Terms) redeem, or exercise any option of the Issuer (as may be described in the Final Terms) in relation to, all or, if so provided, some of the Notes on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of a Issuer's option, the notice to Noteholders shall specify the nominal amount of Notes drawn and the holder(s) of such Notes, to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements. So long as the Notes are listed on the Official List of the Financial Conduct Authority and admitted to trading on the London Stock Exchange or the Kazakhstan Stock Exchange and the rules of the relevant stock exchange so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation in London or as specified by the Kazakhstan Stock Exchange, a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

(f) **Redemption at the Option of Noteholders and Exercise of Noteholders' Options:** If Put Option is specified in the Final Terms, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to (but excluding) the date fixed for redemption.

To exercise such option or any other Noteholders' option that may be set out in the Final Terms (which must be exercised on an Option Exercise Date) the holder must deposit the Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(g) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the Final Terms.

(h) **Purchases:** KMG Finance, KMG and any of their subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(i) **Cancellation:** All Notes purchased by or on behalf of KMG Finance, KMG or any of their subsidiaries may be held, resold or, at the option of the Issuer, surrendered for cancellation by surrendering the Notes to the Registrar and, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and, if the Issuer is KMG Finance, KMG in respect of any such Notes shall be discharged.

7. Payments

(a) **Payments of Principal and Interest:**

(i) Payments of principal (which for the purposes of this Condition 7(a) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Notes shall be made against presentation and surrender of the relevant Notes at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(a) shall include all Instalment Amounts other than final Instalment Amounts) on Notes shall be paid to the Person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed by uninsured post to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. The holder of such Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of such Notes as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

(b) **Payments subject to Laws:** Without prejudice to the provisions of Condition 8, all payments are subject in all cases to any applicable fiscal or other laws, regulations and directives. No commission or expenses shall be charged to the Noteholders in respect of such payments.

All payments are subject in all cases to any withholding or deduction required pursuant to an agreement described in FATCA or any law implementing an intergovernmental approach thereto. In that event, the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding tax or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agent nor any other person will be obliged to make any additional payments to the Noteholders in respect of any amounts so withheld or deducted.

(c) **Appointment of Agents:** The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by KMG Finance and KMG and their respective specified offices are listed below. The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of KMG Finance, KMG and, in certain circumstances, the Trustee and do not assume any obligation or relationship of agency or trust for or with any Noteholder. KMG Finance and KMG reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) a Paying Agent and a Transfer Agent having specified offices in such cities as may be required by any stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vi) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any such change or any change of any specified office shall promptly be given to the Noteholders in accordance with Condition 16.

(d) **Calculation Agent and Reference Banks:** The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the Notes and for so long as any such Note is outstanding (as defined in the Trust Deed). If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall (with the prior written approval of the Trustee) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, within 7 days of the date upon which any such amount is due to be calculated, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

Notice of any such change shall promptly be given to the Noteholders.

(e) **Non-Business Days:** If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" in the Final Terms and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. Taxation

All payments by or on behalf of the Issuer or, if the Issuer is KMG Finance, KMG in respect of the Notes or under the Guarantee shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Netherlands or the Republic of Kazakhstan or, in either case, any political subdivision or any authority thereof or therein having the power to tax (collectively "**Taxes**") unless such withholding or deduction is required by law. In such event, KMG Finance or (as the case may be) KMG will pay such additional amounts to the holder of any Note as will result in receipt by the Noteholder of such amounts as would have been received

by them had no such withholding or deduction on account of any such Taxes had been required, except that no additional amounts shall be payable with respect to any Note:

(a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Note by reason of his having some connection with the Netherlands or, in the case of payments by KMG, the Republic of Kazakhstan other than the mere holding of the Note or the receipt of payment thereunder or under the Guarantee; or

(b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Note representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day;

(c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/ EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26–27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(d) **Presentation in another jurisdiction:** presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union.

Notwithstanding anything to the contrary in this Condition 8, none of KMG Finance, KMG, any Paying Agent or any other Person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to FATCA, any treaty, law, regulation or other official guidance enacted by the Netherlands or the Republic of Kazakhstan implementing FATCA, or any agreement between KMG Finance or KMG and the United States or any authority thereof implementing FATCA.

As used in these Conditions, "**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

9. Prescription

Claims against KMG Finance and/or KMG for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. Events of Default

If any of the following events (each an "**Event of Default**") occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject to it being indemnified and/or secured to its satisfaction, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together with accrued interest to the date of such notice:

(a) **Non-payment:** the Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or additional amounts on any of the Notes and such default in respect of interest or additional amounts continues for a period of five days; or

(b) **Breach of other obligations:** KMG Finance or KMG is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under Notes issued by it, the Guarantee (if applicable) or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 10) and such default or breach is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to KMG Finance or KMG, as the case may be, by the Trustee; or

(c) **Cross-default**: (i) any Indebtedness for Borrowed Money of KMG Finance, KMG or any Material Subsidiary (a) becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof by reason of default by KMG Finance, KMG or such Material Subsidiary or (b) is not repaid at maturity as extended by the period of grace, if any, applicable thereto or (ii) any Indebtedness Guarantee given by KMG Finance, KMG or any Material Subsidiary in respect of Indebtedness for Borrowed Money of any other Person is not honoured when due and called, provided that the aggregate principal amount of such Indebtedness for Borrowed Money exceeds U.S.$50,000,000 (or its equivalent in other currencies); or

(d) **Bankruptcy:** (i) any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities, moratorium of payments or similar arrangements involving KMG Finance or KMG or any Material Subsidiary or all or (in the opinion of the Trustee) substantially all of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 45 days; or (ii) KMG Finance or KMG or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of KMG Finance or KMG or any Material Subsidiary, as the case may be, or in respect of its property, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or KMG Finance or KMG or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the Material Subsidiary, (in the sole opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or

(e) **Judgments:** The failure by KMG or any subsidiary to pay any final judgment in excess of U.S.$10,000,000 (or its equivalent in other currencies) which final judgment remains unpaid, and undischarged, and unwaived and unstayed for a period of more than 30 consecutive days after such judgement becomes final and non-appealable, and, in the event such judgment is covered by insurance, an enforcement proceeding has been commenced by any creditor upon such judgment that is not promptly stayed; or

(f) **Material compliance with applicable laws:** KMG Finance or KMG fails to comply in any respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable KMG Finance or KMG lawfully to exercise its rights or perform or comply with its obligations under the Notes, the Guarantee or the Trust Deed or the Agency Agreement or to ensure that those obligations are legally binding and enforceable or to ensure that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect and the Trustee certifies that such non compliance is, in the sole opinion of the Trustee, materially prejudicial to the interests of Noteholders; or

(g) **Invalidity or Unenforceability:** (i) the validity of Notes, the Trust Deed, the Guarantee or the Agency Agreement is contested by KMG Finance or KMG or KMG Finance or KMG shall deny any of its obligations under the Notes, the Trust Deed, the Guarantee (if applicable) or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (ii) it is or becomes unlawful for KMG Finance or KMG to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed, the Guarantee (if applicable) or the Agency Agreement or (iii) all or any of KMG Finance's or KMG's obligations set out in the Notes, the Trust Deed, the Guarantee (if applicable) or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 10(g), the Trustee is of the opinion (determined in its sole discretion) that such occurrence is materially prejudicial to the interests of the Noteholders; or

(h) **Government Intervention:** (i) all or any substantial part of the undertaking, assets and revenues of KMG Finance or KMG or any Material Subsidiary is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (ii) KMG Finance, KMG or any Material Subsidiary is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets, revenues and, following the occurrence of any of the events specified in this Condition 10(h), the Trustee is of the opinion (determined in its sole discretion) that such occurrence is materially prejudicial to the interests of the Noteholders.

11. Meetings of Noteholders, Modification, Waiver and Substitution

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by KMG Finance or KMG (as the case may be) or the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than 10% in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more Persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more Persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown in the Final Terms, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to take any steps that as specified in the Final Terms may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution or any resolution, or (ix) (if applicable) to modify or cancel the Guarantee, in which case the necessary quorum shall be two or more Persons holding or representing not less than 75%, or at any adjourned meeting not less than 25%, in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

(b) **Modification:** The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Notes or the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Notes or the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of the Issuer's successor in business (if applicable) or of KMG or its successor in business or any subsidiary of KMG or its successor in business in place of the Issuer or (if applicable) KMG, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and the Trust Deed provided that such change would not in the opinion of the Trustee determined in its sole discretion be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from KMG

Finance or KMG any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

12. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against KMG Finance and/or KMG as it may think fit to enforce the terms of the Trust Deed, the Notes or the Guarantee but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder may proceed directly against KMG Finance or KMG unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into business transactions with KMG Finance, KMG and any entity related to KMG Finance or KMG without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes as a result of such holders being connected in any way with a particular territory or tax jurisdiction and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, any indemnification or payment in respect of any tax consequences of such exercise upon individual Noteholders.

14. Replacement of Notes

If a Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes) and otherwise as the Issuer may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

15. Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single Series with the outstanding securities of any Series or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single Series with existing Notes or a separate Series. Further securities will be issued under a different CUSIP number unless there are issued pursuant to a “qualified reopening” for U.S. federal income tax purposes. Any further securities forming a single Series with the outstanding securities of any Series shall, and any other securities forming a separate Series may (with the consent of the Trustee), be constituted by the Trust Deed or any deed supplemental to it. The Trust Deed contains provisions for convening a single meeting of the Noteholders of a Series and the holders of securities of other Series where the Trustee so decides.

16. Notices

Notices to the Noteholders shall be sent by first class mail of (if posted overseas) by airmail to them (or, in the case of joint holders, to the first-named in the Register) at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. In addition, so long as any Notes are listed on the London Stock Exchange and the Kazakhstan Stock Exchange, such notice will be published in a daily newspaper of general circulation in the place or places

required by the rules of such stock exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

17. Contracts (Rights of Third Parties) Act 1999

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. Governing Law, Jurisdiction and Arbitration

(a) **Governing law:** The Trust Deed and the Notes, including any non-contractual obligations arising out of or in connection with the Trust Deed and/or the Notes, are governed by, and shall be construed in accordance with, English Law.

(b) **Submission to Jurisdiction; Arbitration:** Each of KMG Finance and KMG have in the Trust Deed (i) submitted irrevocably to the jurisdiction of the courts of England for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed or the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated Jordans International Limited at 20-22 Bedford Row, London WC1R 4JS to accept service of any process on its behalf in England; (iv) consented to the enforcement of any judgment; (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction; and (vi) agreed that the Trustee may elect by written notice to KMG Finance or KMG (as the case may be) that any dispute (including a claim, dispute or difference regarding the existence, termination or validity of the Notes), shall be finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration as at present in force and as modified by the Trust Deed.

19. Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Adverse Ratings Event**" shall be deemed to have occurred if any Rated Security or any corporate credit rating of KMG or any Material Subsidiary assigned by any Rating Agency is (i) placed on "credit watch" or formal review or equivalent with negative implications or negative outlook or (ii) downgraded or withdrawn on the date such Rated Security or corporate rating of KMG is so placed, downgraded or withdrawn as the case may be;

"**Affiliates**" of any specified person means any other persons, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified person. For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing;

"**Agreements**" means the Agency Agreement and the Trust Deed;

"**Asset Disposition**" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by KMG or any Material Subsidiary, including any disposition by means of a merger, consolidation or similar transaction, of:

(i) any shares of Capital Stock of a Material Subsidiary or Minority Company; or

(ii) any other assets of KMG or any Material Subsidiary or Minority Company;

Notwithstanding the preceding, transfers of assets between or among KMG and any Subsidiaries shall not be deemed to be Asset Dispositions;

"**Attributable Indebtedness**" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded semi-annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended);

"**Auditors**" means the Ernst & Young LLP or, if they are unable or unwilling to carry out any action requested of them under the Agreements, such other internationally recognised firm of accountants as may be nominated by KMG and approved in writing by the Trustee for this purpose;

"**Authorised Signatory**" means, in relation to KMG, any Person who is duly authorised and in respect of whom the Trustee has received a certificate or certificates signed by a director or another Authorised Signatory of KMG setting out the name and signature of such Person and confirming such Person's authority to act;

"**Base Prospectus**" means the base prospectus relating to the Programme which comprises a base prospectus for the purpose of Article 5.4 of Directive 2003/71/EC (as amended by Directive 2010/73/EU, the "**Prospectus Directive**") (which term shall include those documents incorporated in it by reference from time to time as provided in it) as from time to time amended, supplemented or replaced (but not including any information or documents replaced or superseded by any information so subsequently included or incorporated) and, in relation to each Tranche, the relevant Final Terms;

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of a currency and/or one or more Business Centres (specified in the Final Terms) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

"**Capital Stock**" of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity;

"**Capitalised Lease Obligations**" means an obligation that is required to be classified and accounted for as a capitalised lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation will be the capitalised amount of such obligation at the time any determination thereof is to be made as determined in accordance with IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty;

"**Commodity Hedging Agreements**" means, in respect to any Person, any forward, futures, spot-deferred or option contract or other similar agreement or arrangement to which such Person is a party or a beneficiary entered into for protection against or to benefit from fluctuations in the price of any commodity produced or used by KMG or its Material Subsidiaries pursuant to a Permitted Business;

"**Consolidated KMG EBITDA**" means EBITDA of KMG and its Material Subsidiaries on a consolidated basis in accordance with IFRS as shown in the then most recent financial statements delivered pursuant to Condition 4(e);

"**Consolidated KMG Net Indebtedness**" means, at any date of determination, Consolidated KMG Total Indebtedness *minus* cash and Temporary Cash Investments of KMG and KMG Finance;

"**Consolidated KMG Total Asset Value**" means, at any date of determination, the amount of the consolidated total assets of KMG and its Material Subsidiaries, as calculated in accordance with the then most recent financial statements delivered pursuant to Condition 4(e);

"**Consolidated KMG Total Indebtedness**" means, at any date of determination, the total amount (without duplication) of the Indebtedness of KMG and its Material Subsidiaries on a consolidated basis in accordance with IFRS;

"**Consolidated Income Taxes**" means, with respect to any Person for any period, taxes imposed upon such person or other payments required to be made by such Person by any governmental authority which taxes or other payments are calculated by reference to the income or profits of such Person or person and its Material Subsidiaries (to the extent such income or profits were included in computing Consolidated Net Income for such period), regardless of whether such taxes or payments are required to be remitted to any governmental authority;

"**Consolidated Interest Expense**" means, for any period, the total interest expense of KMG and its Subsidiaries, on a consolidated basis, whether paid or accrued, plus, to the extent not included in such interest expense:

(i) interest expense attributable to Capitalised Lease Obligations and the interest portion of rent expense associated with Attributable Indebtedness in respect of the relevant lease giving rise thereto, determined as if such lease were a capitalised lease in accordance with IFRS and the interest component of any deferred payment obligations;

(ii) amortisation of debt discount and debt issuance cost;

(iii) non-cash interest expense;

(iv) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(v) interest actually paid by KMG or any such Material Subsidiary under any Guarantee of Indebtedness or other obligation of any other Person;

(vi) net costs associated with Hedging Obligations;

(vii) the consolidated interest expense of such Person and its Material Subsidiaries that was capitalised during such period;

(viii) all dividends paid or payable in cash, Temporary Cash Investments or Indebtedness or accrued during such period on any series of Disqualified Stock of such Person or on Preferred Stock of its Material Subsidiaries payable to a party other than KMG or a Material Subsidiary; and

(ix) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than KMG) in connection with Indebtedness Incurred by such plan or trust, *provided*, *however*, that there will be excluded therefrom any such interest expense of any Immaterial Subsidiary to the extent the related Indebtedness is not guaranteed or paid by KMG or any Material Subsidiary.

For purposes of the foregoing, total interest expense will be determined after giving effect to any net payments made or received by KMG and its Subsidiaries, on a consolidated basis, with respect to Interest Rate Agreements;

"**Consolidated Net Income**" means, for any period, the net income (loss) (being income (loss) attributable to equity shareholders of KMG) of KMG and its Subsidiaries, on a consolidated basis, determined in accordance with IFRS; *provided*, *however*, that there will not be included in such Consolidated Net Income:

(i) any net income (loss) of any Person if such Person is not a Material Subsidiary, except that:

  (A) subject to the limitations contained in paragraphs (iii), (iv) and (v) below, KMG's equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to KMG or a Material Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Material Subsidiary, to the limitations contained in paragraph (ii) below); and

(B) KMG's equity in a net loss of any such Person for such period will be included in determining such Consolidated Net Income to the extent such loss has been funded with cash from KMG or a Material Subsidiary;

(ii) any net income (but not loss) of any Material Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Material Subsidiary, directly or indirectly, to KMG, except that:

(A) subject to the limitations contained in paragraphs (iii), (iv) and (v) below, KMG's equity in the net income of any such Material Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Material Subsidiary during such period to KMG or another Material Subsidiary as a dividend or distribution paid or permitted to be paid, directly or indirectly, by loans, advances, intercompany transfers or otherwise (for so long as permitted) to KMG or a Material Subsidiary of KMG (subject, in the case of such a dividend or distribution to another Material Subsidiary, to the limitation contained in this clause); and

(B) KMG's equity in a net loss of any such Material Subsidiary for such period will be included in determining such Consolidated Net Income;

(iii) any gain (loss) realised upon the sale or other disposition of any property, plant or equipment of KMG or its consolidated Material Subsidiaries (including pursuant to any Sale/Leaseback Transaction) which is not sold or otherwise disposed of in the ordinary course of business and any gain (loss) realised upon the sale or other disposition of any Capital Stock of any Person;

(iv) any extraordinary gain or loss;

(v) any foreign exchange gains or losses; and

(vi) the cumulative effect of a change in accounting principles;

"**Currency Agreement**" means in respect of a Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party or a beneficiary;

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the "**Calculation Period**"):

(i) if "**Actual/365**" or "**Actual/Actual - ISDA**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(v) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30;

"**Disqualified Stock**" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(i) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(ii) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(iii) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

"**EBITDA**" means, for any period with respect to any Person, without duplication, the Consolidated Net Income for such period of such Person, plus the following to the extent deducted in calculating such Consolidated Net Income:

(i) Consolidated Interest Expense;

(ii) Consolidated Income Taxes;

(iii) consolidated depreciation expense;

(iv) consolidated amortisation of intangibles;

(v) other non-cash charges reducing Consolidated Net Income (excluding any such non-cash charge to the extent it represents an accrual of or reserve for cash charges in any future period or amortisation of a prepaid cash expense that was paid in a prior period not included in the calculation) less other non-cash items of income increasing Consolidated Net Income (excluding any such non-cash item of income to the extent it represents a receipt of cash in any future period); and

(vi) minority interest in (income)/loss of consolidated subsidiaries;

in each case on a consolidated basis and in accordance with IFRS;

"**Effective Date**" means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the Final Terms or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates;

"**Event of Default**" has the meaning assigned to such term in Condition 10 hereof;

"**Extraordinary Resolution**" has the meaning assigned to such term in the Trust Deed;

"**Fair Market Value**" means, with respect to any asset or property, the price which could be negotiated in an arm's-length, market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined in good faith by the Board of Directors of KMG, whose determination will be conclusive or, in the case of any sale of the Capital Stock of a Material Subsidiary or a Minority Company exceeding U.S.$200 million, in writing by an Independent Appraiser;

"**FATCA**" means section 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, as of the date of the Base Prospectus and any current or future regulations or agreements thereunder or official interpretations thereof;

"**Final Terms**" means, in relation to a Tranche, the Final Terms issued specifying the relevant details of such Tranche"

"**Group**" means KMG and its Subsidiaries taken as a whole;

"**guarantee**" means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise); or

(ii) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, *however*, that the term "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning. The term "guarantor" shall mean any Person guaranteeing any obligation;

"**Guarantor**" means KMG where KMG Finance is the Issuer for a Series, as specified in the relevant Final Terms;

"**Hedging Obligations**" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Hedging Agreement;

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time), as consistently applied, and any variation to such accounting principles and practices which is not material;

"**Immaterial Subsidiary**" means any Subsidiary of KMG that is not a Material Subsidiary;

"**Incur**" means issue, assume, guarantee, incur or otherwise become liable for; *provided*, *however*, that any Indebtedness of a Person existing at the time such Person becomes a Material Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Material Subsidiary. The term "Incurrence" when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with Condition 4(d):

(i) amortisation of debt discount or the accretion of principal with respect to a non interest bearing or other discount security;

(ii) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and

(iii) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption or the making of a mandatory offer to purchase such Indebtedness,

will not be deemed to be the Incurrence of Indebtedness;

"**Indebtedness**" means, with respect to any Person on any date of determination (without duplication):

(i) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money;

(ii) the principal of and premium (if any) in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(iii) the principal component of all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments (including reimbursement obligations with respect thereto except to the extent such reimbursement obligation relates to a trade payable and such obligation is satisfied within 30 days of Incurrence);

(iv) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto;

(v) Capitalised Lease Obligations and all Attributable Indebtedness of such Person;

(vi) the principal component or liquidation preference of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

(vii) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided*, *however*, that the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Persons;

(viii) the principal component of Indebtedness of other Persons to the extent guaranteed by such Person; and

(ix) to the extent not otherwise included in this definition, net obligations of such Person under Hedging Obligations (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The amount of Indebtedness of any Person at any date will be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date.

In addition, "Indebtedness" of any Person shall include Indebtedness described in the preceding paragraph that would not appear as a liability on the balance sheet of such Person if:

(i) such Indebtedness is the obligation of a partnership or Joint Venture that is not a Material Subsidiary;

(ii) such Person or a Material Subsidiary of such Person is a general partner of the Joint Venture (a "**General Partner**"); and

(iii) there is recourse, by contract or operation of law, with respect to the payment of such Indebtedness to property or assets of such Person or a Material Subsidiary of such Person; and then such Indebtedness shall be included in an amount not to exceed:

(A) the lesser of (i) the net assets of the General Partner and (ii) the amount of such obligations to the extent that there is recourse, by contract or operation of law, to the property or assets of such Person or a Material Subsidiary of such Person; or

(B) if less than the amount determined pursuant to clause (A) immediately above, the actual amount of such Indebtedness that is recourse to such Person or a Material Subsidiary of such Person, if the Indebtedness is evidenced in writing and is for a determinable amount and the related interest expense shall be included in Consolidated Interest Expense to the extent actually paid by KMG or its Material Subsidiaries;

"**Indebtedness for Borrowed Money**" means any Indebtedness of any Person for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service and (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a "with recourse" basis) having the commercial effect of a borrowing;

"**Indebtedness Guarantee**" means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such Indebtedness, (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for repayment of such Indebtedness;

"**Independent Appraiser**" means any of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP, Ernst & Young LLP or such reputable investment banking, accountancy or appraisal firm of international standing selected by the competent management body of KMG or relevant Material Subsidiary; *provided* it is not an Affiliate of KMG or any Material Subsidiary;

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

"**Interest Amount**" means the amount of interest payable, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the Final Terms;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two London Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the Final Terms;

"**Interest Rate Agreements**" means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such Person is party or a beneficiary;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the Final Terms;

"**Issuer**" means KMG Finance or KMG, as specified in the relevant supplemental Trust Deed for the Series;

"**Lien**" means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

"**Material Adverse Effect**" means a material adverse effect on (a) the business, property, condition (financial or otherwise), operations or prospects of KMG, its Material Subsidiaries, its Minority Companies, or the Group (taken as a whole), (b) the Issuer's ability to perform its obligations under the Notes or the Trust Deed, (c) KMG's ability to perform its obligations as a guarantor under the Notes or (d) the validity, legality or enforceability of the Notes or any Agreement;

"**Material Subsidiary**" means any Subsidiary of KMG that (a) becomes a directly held Subsidiary of either KMG or a Material Subsidiary and is designated as a Material Subsidiary by the Board of Directors of KMG, (b) has either (i) assets which constitute 5% or greater of the total assets of KMG and its Subsidiaries on a consolidated basis or (ii) EBITDA which accounts for 5% or greater of EBITDA of KMG and its Subsidiaries on a consolidated basis as of the date of the most recently delivered financial statements to the Trustee pursuant to Condition 4(e)(i) or 4(e)(ii) or (c) is the direct or indirect parent company of any Subsidiary required to be designated a Material Subsidiary or Minority Company. The Board of Directors of KMG may designate any Subsidiary of KMG (including any newly acquired or newly formed Subsidiary) to be a Material Subsidiary. Any such designation by the Board of Directors of KMG shall be evidenced to the Trustee by promptly providing to the Trustee a copy of the resolution of the Board of Directors of KMG giving effect to such designation. Any Subsidiary of KMG designated by the Board of Directors of KMG as a Material Subsidiary shall not be capable of subsequently being undesignated as a Material Subsidiary.

"**Minority Company**" means any Subsidiary of KMG that (a) becomes a directly held Subsidiary of either KMG or a Material Subsidiary and is designated as a Minority Company by the Board of Directors of KMG, (b) has either (i) assets which constitute 5% or greater of the total assets of KMG and its Subsidiaries on a consolidated basis or (ii) EBITDA which accounts for 5% or greater of EBITDA of KMG and its Subsidiaries on a consolidated basis as of the date of the most recently delivered financial statements to the Trustee pursuant to Condition 4(e)(i) or 4(e)(ii) or (c) is the direct or indirect parent company of any Subsidiary required to be designated a Material Subsidiary or Minority Company. The Board of Directors of KMG may designate any Subsidiary of KMG (including any newly acquired or newly formed Subsidiary) to be a Minority Company. Any such designation by the Board of Directors of KMG shall be evidenced to the Trustee by promptly providing to the Trustee a copy of the resolution of the Board of Directors of KMG giving effect to such designation. Any Subsidiary of KMG designated by the Board of Directors of KMG as a Minority Company shall not be capable of subsequently being undesignated a Minority Company.

"**Net Cash Proceeds**" with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of lawyers' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions, and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof;

"**Officer**" means, with respect to any Person, any managing director, director, general director, the chairman of the board, the president, any vice president, principal executive officer, deputy general director, the chief financial officer, principal financial officer, principal accounting officer, the controller, the treasurer or the secretary of such Person or any general partner or other person holding a corresponding or similar position of responsibility;

"**Officers' Certificate**" means a certificate signed by two Officers of KMG at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of KMG;

"**Original Financial Statements**" means the audited stand-alone financial statements and consolidated financial statements of KMG as at and for the year ended 31 December 2012;

"**Page**" means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 ("**Reuters**") and Telerate ("**Telerate**")) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the Person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate;

"**Permitted Business**" means (a) oil and gas exploration, production, transportation, refining and processing, (b) electricity generation, (c) chemicals, (d) any wholesale or retail marketing relating to any of the foregoing and (e) any business reasonably related, ancillary or complementary thereto;

"**Permitted Liens**" means, without duplication:

(i) Liens existing as at the Issue Date of these Notes;

(ii) Liens granted in favour of KMG or any Material Subsidiary;

(iii) Liens on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property; *provided* that any such Lien secures Indebtedness only under such lease;

(iv) Liens securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with KMG or a Material Subsidiary or becomes a Material Subsidiary; *provided* that such Liens were not created in contemplation of such merger or consolidation or event and do not extend to any assets or property of KMG already existing or any Material Subsidiary other than those of the surviving Person and its subsidiaries or the Person acquired and its subsidiaries;

(v) Liens already existing on assets or property acquired or to be acquired by KMG or any Material Subsidiary; *provided* that such Liens were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property);

(vi) Liens granted upon or with regard to any property hereafter acquired or constructed in the ordinary course of business by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition and repairs related to such property; *provided* that the maximum amount of Indebtedness thereafter secured by such Lien does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property and related transactional expenses;

(vii) any Liens arising by operations of law;

(viii) Liens for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings and for which KMG or any Material Subsidiary has set aside in its books of account appropriate reserves;

(ix) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Group and existing, arising or incurred in the ordinary course of business;

(x) (a) statutory landlords' Liens (so long as such Liens do not secure obligations constituting Indebtedness for borrowed money and such Liens are incurred in the ordinary course of business), and (b) Liens arising from any judgment, decree or other order which does not constitute an Event of Default under Condition 10(e);

(xi) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(xii) Liens on Capital Stock of Immaterial Subsidiaries or on the assets and properties of Immaterial Subsidiaries securing Indebtedness, *provided* that, at the time that any such Immaterial Subsidiary is designated a Material Subsidiary, the Indebtedness of such Immaterial Subsidiary that is secured by such Liens shall be deemed, for the purposes of paragraph (xiii) below, to be Indebtedness of a Material Subsidiary Incurred at such time that such Immaterial Subsidiary is designated a Material Subsidiary;

(xiii) any Lien granted in favour of a Person providing Project Financing if the Lien is solely on the property, income, assets or revenues of the project for which the financing was incurred *provided* (i) such Lien is created solely for the purpose of securing Indebtedness incurred by KMG or a Subsidiary of KMG in compliance with Condition 4(d) and (ii) no such Lien shall extend to any other property, income assets or revenues of KMG or any Material Subsidiary or their respective Subsidiaries.

(xiv) any Liens on the property, income or assets of any member of the Group securing Indebtedness to the extent that at the time of Incurrence of such Indebtedness, such Indebtedness together with the aggregate principal amount of other Indebtedness subject to any Lien granted in accordance with this paragraph (xiv) does not exceed in the aggregate 20% of Consolidated KMG Total Asset Value at any one time outstanding. For the avoidance of doubt, this paragraph (xiv) does not include any Lien created in accordance with paragraphs (i) to (xiii) above; and

(xv) any Liens arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Lien permitted by any of the above exceptions, *provided* that the Indebtedness thereafter secured by such Lien does not exceed the amount of the original Indebtedness and such Lien is not extended to cover any property not previously subject to such Lien;

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity;

"**Potential Event of Default**" means any event or circumstance which could with the giving of notice or the lapse of time become an Event of Default;

"**Preferred Stock**" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person;

"**Project Financing**" means any financing of all or part of the costs of the acquisition, construction or development of any asset or project if (i) the revenues derived from such asset or project are the principal source of repayment for the monies advanced and (ii) the person or persons providing such financing have been provided with a feasibility study prepared by competent independent experts on the basis of which it is reasonable to conclude that such project would generate sufficient operating income to service the indebtedness incurred in connection with such project;

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the Final Terms;

"**Rated Security**" means the Notes and any Indebtedness of KMG or any Material Subsidiaries having an initial maturity of one year or more which is rated by a Rating Agency;

"**Rating Agency**" means Standard & Poors Rating Services, a division of the McGraw Hill Companies, Inc. ("**S&P**"), Moody's Investors Service Limited ("**Moody's**"), Fitch Ratings or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by KMG, from time to time, with the prior written approval of the Trustee;

"**Reference Banks**" means the institutions specified as such in the Final Terms or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe);

"**Relevant Financial Centre**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the Final Terms or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London;

"**Relevant Rate**" means either LIBOR or EURIBOR (as specified in the relevant Final Terms) for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date;

"**Relevant Time**" means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the Final Terms or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre or, if no such customary local time exists, 11.00 hours in the Relevant Financial Centre and, for the purpose of this definition, "**local time**" means, with respect to Europe as a Relevant Financial Centre, Brussels time;

"**Representative Amount**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the Final Terms or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

"**Restricted Percentage**" means (a) with respect to the Issuer, 100% of its issued and outstanding Capital Stock, (b) with respect to any other Material Subsidiary of which KMG, directly or indirectly, owned 100% of its Capital Stock on the earlier of the Issue Date and the date such Person was designated a Material Subsidiary, 75% of total voting power of the capital stock of such Material Subsidiary, (c) with respect to any Material Subsidiary of which KMG, directly or indirectly, owned less than 100% of its Capital Stock but more than 75% of its Capital Stock on the earlier of the Issue Date and the date such Person was designated a Material Subsidiary, 75% of total voting power of the capital stock of such Material Subsidiary and (d) with respect to any Material Subsidiary of which KMG, directly or indirectly, owned 75% or less but more than 50% of its Capital Stock on the earlier of the Issue Date and the date such Person was designated a Material Subsidiary, 50% plus one share of total voting power of the capital stock of such Material Subsidiary;

"**Sale/Leaseback Transaction**" means an arrangement relating to property now owned or hereafter acquired whereby KMG or a Material Subsidiary transfers such property to a Person and KMG or a Material Subsidiary leases it from such Person;

"**Specified Currency**" means the currency specified as such in the Final Terms or, if none is specified, the currency in which the Notes are denominated;

"**Specified Duration**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the Final Terms or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 5(b)(ii);

"**Stated Maturity**" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof;

"**Subsidiary**" means in respect of any Person (including KMG), any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50% of the total voting power of the Voting Stock is held by KMG and/or any of its Subsidiaries and KMG and/or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which KMG or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract, if (in the case of each of (a) or (b) above) in accordance with IFRS such entity would be consolidated with KMG for financial statement purposes;

"**TARGET2 System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) system or any successor thereto;

"**taxes**" means any taxes (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) which are now or hereafter imposed, levied, collected, withheld or assessed by the Netherlands or any taxing authority thereof or therein;

"**Temporary Cash Investments**" means any of the following:

(i) any investment in direct obligations of a member of the European Union, the United States or any agency thereof or obligations guaranteed by a member of the European Union or the United States or any agency thereof maturing within one year of the date of acquisition thereof;

(ii) any investment in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by a bank or trust issuer which is organised under the laws of a member of the European Union or the United States or any state thereof, and which bank or trust issuer has capital, surplus and undivided profits aggregating in excess of U.S.$500 million (or the foreign currency equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one Rating Agency;

(iii) any investment in repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraph (i) above entered into with a bank meeting the qualifications described in paragraph (ii) above;

(iv) any investment in commercial paper with a maturity of six months or less from the date of acquisition, issued by a corporation (other than an Affiliate KMG) organised and in existence under the laws of a member of the European Union or the United States with a rating at the time as of which any investment therein is made of "P 1" (or higher) according to Moody's or "A l" (or higher) according to S&P;

(v) any investment in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of a member of the European Union or the United States, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody's; and

(vi) any investment in money market funds that invest substantially all their assets in securities of the types described in paragraphs+ (i) through (v) above;

"**U.S. Dollars**", "**USD**" and "**U.S.$**" denote the lawful currency of the United States of America; and

"**Voting Stock**" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees (or Persons performing similar functions) thereof.

There will appear at the foot of the Terms and Conditions endorsed on each Certificate the name and specified office of the Agents as set out at the end of this Base Prospectus.

THE OIL AND GAS INDUSTRY IN KAZAKHSTAN

The information contained in this section of this Base Prospectus has been extracted from publicly available documents and other publications. There is not necessarily any uniformity of views among such sources as to the information provided therein. In the case of statistical information presented herein, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Accordingly, the Company and KMG Finance each only accepts responsibility for accurately reproducing such extracts as they appear in this section of this Base Prospectus.

Introduction

The oil and gas sector is of strategic importance to the Government because it is the principal source of Kazakhstan's export earnings and reserves, fiscal revenue and future foreign direct investment inflows. As at 31 December 2011, the hydrocarbon industry accounted for 40% of the Government's revenue and 62.5% of its export earnings.

Kazakhstan was a major raw materials supplier to the former Soviet Union and has sizeable, largely unexploited endowments of oil, natural gas and minerals. As at 31 December 2012, the two significant crude oil producing countries in the Caspian region were Kazakhstan and Azerbaijan. It is expected that these countries will continue to lead the region in crude oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields, including Kashagan. Russia plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea. The Government's stated intention is to preserve Kazakhstan's position as a major destination of foreign direct investment inflows within the CIS.

Reserve Classifications

Kazakhstan has its own classification system of oil and gas reserves that is based on the system employed in the former Soviet Union and approved by an order of the Competent Authority (currently , the MOG which replaced the MEMR as a Competent Authority in March 2010), which is referred to in this Base Prospectus as the "Kazakhstan methodology". The Company calculates its reserves using the Kazakhstan methodology, which differs from accepted practices in most other parts of the world in that it does not base its estimates on economic viability of the recovery of oil reserves. Accordingly, under this methodology, stated reserves do not necessarily correspond to economically recoverable reserves and cannot be accurately reconciled with reserves calculations performed using different methodologies. See "*Presentation of Financial, Reserves and Certain Other Information—Certain Reserves Information*".

The Kazakhstan methodology classification system is based on the degree of development of the field reserves. All hydrocarbon accumulations in a field are grouped together. Once development commences in a field, all hydrocarbon accumulations in that field are included in the developed reserves. Each field has two subgroups: profitable and unprofitable reserves.

Profitable (or recoverable) reserves are reserves the extraction of which is economical using existing technologies and techniques. These reserves are determined on the basis of the recovery ratio. By the degree of exploration, reserves are divided into proved (A, B, C1) and preliminary estimated (not explored) (C2) reserves. Proved reserves are further sub-divided into reserves to be developed (A and B) and reserves to be explored (C1).

Reserves not currently identified as commercial are classified as "resources". All figures set out in this Base Prospectus are figures for category A, B and C1 only, which are referred to in this Base Prospectus as "**A+B+C1 reserves**". Resource estimates are not included in this Base Prospectus.

The following table sets forth a detailed discussion of each reserve classification used in the Kazakhstan methodology:

Category A...................................... Category A reserves relate to the part of a deposit drilled in accordance with an approved development project for the oil or natural gas field. They represent reserves that have been analysed in sufficient detail to comprehensively define the type, shape and size of the deposit, the level of hydrocarbon saturation, the reservoir type, the nature of changes in the reservoir characteristics, the hydrocarbon saturation of the productive strata of the deposit, the content and characteristics of the hydrocarbons and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and oil balance, hydro and other features).

Category B .... Category B reserves relate to the part of a deposit drilled in accordance with either a trial industrial development project, in the case of a natural gas field, or an approved technological development scheme, in the case of an oil field. They represent reserves in which natural gas, gas condensate and oil content is determined on the basis of commercial flows from wells at various depths.

Category C1 .... Category C1 reserves are calculated on the results of both commercial flows from operational wells and geological exploratory work, which are analysed to determine the type, shape and size of the deposit and the structure of the hydrocarbon bearing reservoir. The reservoir type and characteristics, hydrocarbon saturation, liquid hydrocarbon displacement rate, level of hydrocarbon saturation of the productive strata, content and characteristics of the hydrocarbons under stratum and standard productivity, stratum pressure, temperature, hydrocarbon balance and hydro geological and other conditions are analysed according to test data from drilled wells, core analyses and comparisons with neighbouring explored fields. Based on these analyses, preliminary data for trial industrial development, in the case of a natural gas field, or a technological development project, in the case of an oil field, is drawn up.

As a rough approximation, recoverable A and B reserves can be broadly compared to proved reserves and C1 reserves to proved and probable reserves in accordance with international methodology, although these categories do not necessarily consistently correspond to international methodologies. For example, the estimation of recoverable reserves under the Kazakhstan methodology is usually higher than under international methodologies such as the internationally accepted classifications and methodologies established by PRMS, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

Oil Reserves and Production

According to the BP Statistical Review of World Energy 2012 (the "**BP Report**"), the proven oil reserves of Kazakhstan are estimated at 3.9 billion tonnes, placing Kazakhstan's proven reserves in the top ten in the world, and the proved natural gas reserves of Kazakhstan are 66.4 trillion cubic feet (1.9 tcm) or 1.8% and 0.9%, respectively, of the world's total proven reserves.

With the consumption rates maintained at the current level (10.2 million tonnes in 2011 according to the BP Report), the oil reserves are estimated to suffice for 40 years.

Kazakhstan is the second largest oil producer in the CIS after Russia and has the Caspian region's largest recoverable crude oil reserves. According to the BP Report, total production of oil and gas condensate in Kazakhstan in 2006, 2007, 2008, 2009, 2010 and 2011 amounted to 66.1 million tonnes, 68.4 million tonnes, 72.0 million tonnes, 78.2 million tonnes and 81.6 million tonnes and 82.4 million tonnes, respectively, despite the decline in the global demand for crude oil due to the global economic crisis, which represents year-on-year increases of 3.5%, 5.3%, 8.6%, 4.3% and 1.0%

Kazakhstan exports most of the oil and gas it produces. In 2011, Kazakhstan exported 72.2 million tonnes of oil, which accounted for 88% of Kazakhstan's total oil production.

The following table sets forth oil production levels (including associated gas) in Kazakhstan for the years indicated:

Oil Production

2008	2009	2010	2011	% change over 2010	2011% share of global production
		(million tonnes per year)			
72.0	78.2	81.6	82.4	0.9	2.1

Source: BP Statistical Review of World Energy, 2012

As at the beginning of 2012, there were over 200 oil and gas fields registered in Kazakhstan. The most significant of these fields are the Tengiz Field, Kashagan Field and Karachaganak Field. For a detailed description of the Tengiz Field and Kashagan Field, in which the Company has a direct interest, see "*Business—Exploration and Production—Significant Production Fields of Other Jointly-Controlled Entities and Associates—TCO* " and "*Business—Exploration and Production—Exploration Projects—NCPC*", respectively.

The Kazakhstan Government has stated that it expects production to increase to 150.0 million tonnes per year by 2015. Most of this growth is expected to come from the Kashagan, Tengiz and Karachaganak.

Karachaganak Field

The Karachaganak Field is being developed by KPO, a consortium operating under a joint operating agreement among the BG Group, ENI, Chevron, Lukoil and the Company (which acquired a 10% interest in June 2012). Members of the international consortium developing the Karachaganak Field are party to a 40-year production sharing agreement with the Government that provides for investments of U.S.$16 billion. It is anticipated that the Government will be paid 80% of the shared income over the 40-year concession period. See "*Business—Exploration and Production—Other Significant Production Fields—KPO*" for a more detailed discussion of KPO and its operations.

The Karachaganak Field is a large gas-oil-condensate field located in North-western Kazakhstan, with an area of about 280 km^2. The field was discovered in 1979. The field holds an estimated 1.2 billion tonnes of liquid hydrocarbons and 1.3 tcm of gas. In 2011, 19.2 million tonnes of oil and condensate were produced at the Karachaganak Field compared to 18.1 million tonnes in 2010, and 19.1 million tonnes in 2009. Additionally, the Karachaganak Field produced 14.6 bcm of gas in 2011 and 14.3 bcm and 14.5 bcm in 2010 and 2009, respectively.

In 2009, access to the CPC Pipeline and the UAS Pipeline allowed sales of certain amounts of processed liquids from the Karachaganak Field to be sold in international markets at international market prices with the remaining amounts sold to Russian markets. During 2009, work continued on a fourth train that is designed to increase this export of processed liquids.

Exploration

North Caspian Project

In December 1993, the Kazakhstan sector of the Caspian Sea was opened for international oil exploration. Seven international oil companies (AGIP S.p.A., British Gas Exploration and Production Limited, Mobil Oil Kazakhstan Inc., Shell Exploration B.V., Total EP Kazakhstan and BP Exploration Operating Company Limited and Statoil (in alliance)) and the state-owned company KazakhstanCaspyShelf were initially selected by the Government to form NCPC, the purpose of which is to develop the major offshore oil and gas fields, including the Kashagan Field, in the north part of the Kazakhstan sector of the Caspian Sea.

NCOC estimates that, according to Kazakhstan Methodology, Kashagan's A+B+C1 oil reserves were 760 million tonnes. See "*Business—Exploration and Production—Exploration Projects—NCPC*" for a more detailed discussion of NCPC and its operations. Commercial production at the Kashagan Field is expected to commence in the second quarter of 2013.

Other Exploration

- In 2009, Kurmangazy Petroleum LLP drilled the Kurmangazy-2 well at the Kurmangazy block, located in the shallow-water area of the central northern Caspian Sea at a cost of U.S.$36 million. However, the well resulted in a dry hole and exploration activities were stopped in 2011. Kurmangazy Petroleum LLP is currently in the process of being liquidated.

- In November 2009, Caspi Meruerty Operating Company B.V. successfully completed an appraisal well at the Khazar prospect in its Pearls offshore block. The Khazar-2 oil discovery was drilled up to a depth of 2,032 metres in a water depth of nine metres and was estimated to cost U.S.$60,4 million. This is the first successful appraisal well drilled in the contract area.

- Other onshore exploration and appraisal activities were conducted with mixed success by smaller players.

Gas Reserves and Production

According to the BP Report, as at 31 December 2011, Kazakhstan's proven natural gas reserves are estimated at 1.9 tcm. Most of Kazakhstan's natural gas reserves are located in the west of the country near the Caspian Sea, with roughly 25% of proven reserves situated in the Karachaganak Field. Another important natural gas field, the Amangeldy Field, is situated in the south of the country, near Zhambul.

Natural gas in Kazakhstan is almost entirely "associated" gas, meaning it is produced with oil. For this reason, several fields including the Karachaganak Field re-inject significant quantities of gas into the ground to maintain crude wellhead pressure for liquids extraction. In the long-term, when the liquids are exhausted, this gas can be recovered. In May 2005,

the Government ordered all oil producing firms to reduce oil production to levels that would avoid natural gas flaring and, accordingly, flaring has declined steadily to date (See "*Environmental, Health and Safety Matters—Environmental Impact From Operations—Air Emissions*").

Natural gas production in Kazakhstan has increased significantly since 1999. In 1999, the Government passed a law requiring subsoil users (such as oil companies) to include natural gas utilisation projects in their development plans. As a result of this law, natural gas production has steadily increased and, by 2000, it had eclipsed its pre-independence production levels. According to the 15 year development strategy of the MOG, Kazakhstan expects to increase its gas production to 79 bcm per year by 2015. Increases in Kazakhstan's gas production are expected to come primarily from associated gas at the Tengiz, Karachaganak and Kashagan fields.

The following table sets forth gas production levels (including associated gas) in Kazakhstan for the years indicated:

Gas Production

2009	2010	2011	2011% change over 2010	2011% share of global production
		(million tonnes per year)		
16.0	15.8	17.3	9.6	0.6

Source: BP Statistical Review of World Energy, 2012

TCO

TCO, which owns the single largest production field in Kazakhstan and is the Company's most significant joint venture as at the date of this Base Prospectus, is a joint venture between the Company, with a 20% interest, and either directly or through wholly-owned affiliates, Chevron, with a 50% interest, ExxonMobil Kazakhstan Ventures Inc., with a 25% interest, and LukArco, with a 5% interest. See "*Share Capital, Sole Shareholder and Related Party Transactions—Relationships Between the Company and TCO*" for a discussion of the agreements relating to the operation and internal governance of TCO.

TCO operates the Tengiz Field in Western Kazakhstan, which is among the largest fields under development in the world based on estimated A+B+C1 reserves, and TCO also operates the nearby Korolev Field. The Government has granted TCO exclusive rights within a 4,000 km^2 area adjacent to the Caspian Sea to develop these fields under a Subsoil Use Agreement that can be extended to 2033. See "*Business— Exploration and Production—Significant Production Fields of Other Jointly-Controlled Entities and Associates—TCO*" and "*Business—Transportation—Transportation and Sale of Crude Oil—TCO*" for a more detailed discussion of TCO and its operations.

Refining Facilities

Oil refining in Kazakhstan is strictly regulated by the Government, through direct administration and through control of transportation tariffs by two national companies, the Company and Kazakhstan Temir Zholy (Kazakhstan Railways).

Kazakhstan has a significant or controlling interest in three major Kazakhstan oil refineries with total refining capacity of 105 million barrels per year. These refineries supply the northern region (at Pavlodar), western region (at Atyrau) and the southern region (at Shymkent). The Pavlodar Refinery is supplied mainly by an oil pipeline from Western Siberia because Russian reserves are well placed geographically to serve that refinery. The Atyrau Refinery, which has been under reconstruction, refines solely on domestic oil from northwest Kazakhstan. The Shymkent Refinery currently uses oil from fields at Kumkol, Aktyubinsk, and Makatinsk in Kazakhstan, although it is linked by pipeline to Russia. The Company controls the Atyrau Refinery and in 2007, acquired a 49.72% interest in PetroKazakhstan Oil Products LLP, which owns the Shymkent Refinery. Furthermore, in August 2009, a 100.0% interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 25.1% interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 74.9% interest in Pavlodar Refinery JSC being held by the State). Refinery Company RT leases the assets comprising the Pavlodar Refinery to Pavlodar Refinery JSC, which then operates the Pavlodar Refinery.

Currently, total oil processing capabilities in Kazakhstan are estimated to be approximately 18 million tonnes and approximately 14 million tonnes of oil were refined in Kazakhstan in 2011.

The Company announced plans in January 2009 to invest U.S.$4.1 billion to increase its oil refining capacity over the next six years by expanding all three of its refineries. The Company plans to invest U.S.$2.2 billion in the Atyrau Refinery, U.S.$550 million in the Shymkent Refinery and U.S.$1.3 billion in the Pavlodar Refinery. Between 2013 and

2015, the Company plans to spend more than U.S.$6 billion on the renovation of these refineries. See "*Business—Refining, Marketing and Trading*".

Subsoil Use Agreements

The New Subsoil Law provides that subsoil resources in Kazakhstan are owned by the Government. The Government grants Subsoil Use Agreements in the form of exploration, production or exploration and production agreements for fixed periods of time. Exploration may not be conducted without an exploration agreement. When commercial discoveries are made, the holder of an exploration agreement has an exclusive right to obtain a production contract through direct negotiations with the Competent Authority (as defined below, which is currently the MOG). Hydrocarbons may only be extracted and sold if the relevant producer has entered into a production agreement with the MOG, except for limited production made for trial purposes. Production agreements may govern the production rights for more than one block.

The negotiation of a Subsoil Use Agreement is a complex process requiring the agreement of a number of governmental ministries, including the MOG, and requires the preparation of economic models with financial expenditure commitments. In the event a Subsoil Use Agreement cannot be negotiated, an applicant or producer risks not obtaining rights to exploration production for the block in question. In addition, the explorer or producer and a department of the Government, known as a research and design institute, must formulate a development plan for each field specifying detailed drilling and production targets once commercial discovery is made. The development plan may be periodically modified with the approval of the Competent Authority in order to reflect changing circumstances. Default by a producer under the terms of a Subsoil Use Agreement or development plan can result in the termination of a Subsoil Use Agreement and the relevant production rights.

Exploration agreements give the exclusive right to explore resources from fields in a defined area and are valid for up to six years from issuance. Production agreements give the subsoil users the exclusive right to extract resources from fields in a defined area and are valid for up to 25 years from issuance and up to 45 years from issuance for large and "unique" deposits. Generally, the term of a combined exploration and production contract is up to 31 years, or up to 51 years for large fields, however, combined exploration and production contracts are now entered into only on an exceptional basis, pursuant to a decision of the Government.

See "*Business—Exploration and Production—Subsoil Use Agreements*" for a discussion of the licences and contracts of the Company.

Fiscal Regime

The 2009 Tax Code, which became effective as of 1 January 2009, introduces a number of significant changes to tax legislation in Kazakhstan, which is applicable to the oil and gas industry. See "*Management's Discussion and Analysis of Financial Performance and Results of Operation—Main Factors Affecting Results of Operation and Liquidity—Taxation*".

. In summer 2010, the Government re-introduced the export customs duty on crude oil at the rate of U.S.$20 per tonne. The Government increased this rate to U.S.$40 per tonne with effect from 1 January 2011 and again to U.S.$60 per tonne with effect from 2 April 2013. In addition, the rates of export customs duty for light and heavy petroleum products have also been increased on a number of occasions. According to rate increases, which entered into force on 1 January 2012, the Government increased the rate of export customs duty for light petroleum products from U.S$143.54 to U.S.$164.97 per tonne and the rate of export customs duty for heavy petroleum products from U.S.$95.69 to U.S.$109.98 per tonne. In September 2012, the Government introduced further increases in the rates of export customs duty for light and heavy petroleum products to U.S.$168.88 per tonne and U.S.$112.59 per tonne, respectively. The Company expects that these increases in export customs duties will significantly increase its export costs and reduce profitability. No assurance, however, can be given that further increases of the export customs duty will not occur or have a significant impact in future years.

Exploration Licences

The Government limited the awarding of new licences during the drafting of the 2009 Tax Code, which entered into force on 1 January 2009. The licences awarded were primarily for the exploration of offshore fields in the Caspian region.

- In May 2009, an exploration contract (concession) for the Zhambyl block was signed with a KNOC-led consortium, which received a 27% interest in the project, with the remainder held by the Company.

- In June 2009, ConocoPhillips and Mubadala signed an agreement with the Company for the development of N Block, with ConocoPhillips and Mubadala each holding a 24.5% interest and the Company holding a 51% interest in the

project. In January 2013, the Company acquired ConocoPhillips' 24.5% interest in the N Block Project for a total consideration of U.S.$32.5 million. Consequently, as at the date of this Base Prospectus, the Company holds a 75.5% interest in the N Block Project and a 75.5% interest in N Operating Company LLP. See "*Business—N Block Project*".

- In October 2010, the Government also agreed to accelerate negotiations with CNPC for the Darkhan block, located west of the Buzachi Peninsula, but to date, no further contract has been signed. The Company, CNPC and CNOOC reached an agreement in August 2005 for joint development of the block. In December 2008, the Company was awarded a 30-year exploration and production contract for the onshore Urikhtau field in the Aktobe region, which is expected to secure gas supplies for deliveries from western to southern Kazakhstan via the planned Beineu-Bozoi-Shymkent Gas Pipeline. The Company and CNPC are currently negotiating a joint venture agreement for exploration and development in the Urikhtau Field.

- In December 2005, a PSA on exploration and production of Zhemchuzhiny Block was entered into between the Company, MEMR and Oman Pearls Company Limited under the general agreement between the Government and the Sultanate Oman of May 1993. Further Oman Pearls Company Limited sold its 55% interest in the project to Shell EP Offshore Ventures Limited. In April 2007, a Caspian Meruerty Operating Company B.V. was established to operate the project, which is a jointly-controlled entity of the Company, with a 25% interest, Shell EP Offshore Ventures Limited, with a 55% interest and Oman Pearls Company Limited, with a 20% interest. Caspian Meruerty Operating Company is currently conducting exploration activities at the Zhemchuzhiny Block.

- In June 2010, the Company was awarded an exploration and production contract in respect of the Satpayev Block. Project Satpayev is operated by Satpayev Operating LLP, which is a jointly-controlled entity among the Company, with a 75% interest, and OVL, with 25% interest. The project is in the exploration stage.

Foreign Investment in Oil and Gas

In 2011, foreign investors invested U.S.$19.8 billion in Kazakhstan's oil and natural gas sector compared to U.S.$12.8 billion in 2010. International investment in the oil and gas sector in Kazakhstan has taken the form of joint ventures, including with the Company and its subsidiaries, as well as production sharing agreements and exploration and field concessions. Major projects in Kazakhstan include projects at the Tengiz, Karachaganak and Kashagan Fields.

Oil and Gas Exports

Overview

Oil is exported via the Caspian Sea, rail cars and pipelines. The following table sets forth the volumes of oil exported by the routes indicated in 2010:

Name of route	Volume of exported oil in 2011
	(million tonnes)
Tengiz - Novorossiysk (CPC Pipeline)	27.9
Atyrau—Samara	15.4
Aktau Sea Port	7.06
Atyrau—Alashankou	10.4

Source: MOG

Kazakhstan's land-locked geographic position means that the pipeline infrastructure through neighbouring countries has played an important role in the exploitation of Kazakhstan's hydrocarbon resources, allowing it to reach international markets.

Exports Routes for Kazakhstan Oil

The CPC Pipeline, which has been operational since 2001, represents a major export route for oil produced in Kazakhstan. It extends 1,510 km, originating in the Tengiz Field, running through Russia and terminating at the CPC marine terminal on the Black Sea near the Russian port of Novorossiysk. The CPC Pipeline is the first major pipeline in Russian territory not owned by the Russian operator Transneft. In May 2008, the Russian Ministry of Energy announced its approval to double the capacity of the CPC Pipeline. On 17 December 2008, the MEMR, the Russian Ministry of Energy and all other CPC shareholders (except LukArco B.V.) agreed to proceed with the expansion of the CPC Pipeline process and signed a memorandum on expansion, which was approved by the other shareholders in the first half of 2009. On 16 December 2009, the final agreement on expansion was approved. Under the terms of the CPC shareholders' agreement, the design of the CPC Pipeline will be increased from 33 million tonnes per year to 67 million tonnes per year, of which up to 52.5

million tonnes per year of oil and condensate will come from Kazakhstan. The expansion project will also comprise the construction of ten oil-transfer stations (two in Kazakhstan and eight in the Russian Federation), six tank farms next to Novorossiysk, a third berth unit at the CPC oil terminal and the replacement of 88 km of pipeline in Kazakhstan. Transneft will manage the expansion project in the Russian Federation, Chevron will manage the expansion at Novorossiysk port and the Company will manage the expansion in Kazakhstan. As a result of the CPC Pipeline expansion, the Company's preferential capacity rights will increase to 14.3 million tonnes from 5.76 million tonnes. The estimated capital expenditures for expanding the CPC pipeline capacity will be U.S.$5.4 billion, which is expected to be financed out of CPC's own cash flows from the proceeds of oil transportation services provided to the CPC shareholders pursuant to their preferential capacity rights and excess capacity rights on a ship-or-pay basis and, to the extent necessary, through external financings. The expansion is expected to be completed by 2015. In October 2011, CPC announced that all construction contracts in relation to the CPC Pipeline expansion had been awarded, construction works were progressing within budget and that CPC would not be seeking external financing for the expansion. In December 2012, CPC further announced the completion of the first CPC Pipeline facility in the Iki-Burulskiy district of the Republic of Kazakhstan.

In November 2008, Kazakhstan began supplying oil from the Tengiz Field to the BTC Pipeline, according to the pipeline's operator BP. Azerbaijan and Kazakhstan have been discussing the possibility of exporting Kazakhstan crude through the BTC Pipeline since 2002 and a final agreement was signed on 16 June 2008.

In October 2008, the first Kazakhstan oil from the TCO project was shipped across the Caspian Sea and exported via the BTC Pipeline, marking the first delivery of non-Azeri oil via the pipeline since its commissioning in 2006. In 2009, approximately 1.9 million tonnes of oil of the Tengiz Field were exported via the BTC Pipeline.

The 1,767 km BTC Pipeline delivers crude oil from Baku to a new marine terminal in the Turkish port of Ceyhan on the Mediterranean Sea and is the first direct pipeline link between the Caspian Sea and the Mediterranean Sea. The BTC Pipeline is designed to transport up to 50 million tonnes by 2010. In May 2005, construction of the pipeline was completed and the pipeline began operating in July 2006. The BTC Pipeline is expected to be largely dedicated to the production from the Azeri Chirag Gunashli fields in the Azerbaijan sector of the Caspian Sea but, to the extent there is available capacity, the BTC Pipeline may be used to transport Kazakhstan crude oil shipped across the Caspian Sea to Baku by tanker, as a part of the trans-Caspian marine transportation system. Kazakhstan is expected to obtain access to the BTC Pipeline upon reaching an agreement with Azerbaijan on the principal terms of operation of the trans-Caspian marine transportation system. Kazakhstan and Azerbaijan have been negotiating a potential connection of the Eskene-Kuryk route to the BTC Pipeline to transport oil from the Tengiz and Kashagan fields.

The UAS Pipeline transports oil from fields in the Atyrau and Mangistau regions to Russia. The pipeline system runs for 1,232 km, from Uzen in southwest Kazakhstan to the Caspian port of Atyrau, before crossing into Russia and linking with Russia's Transneft system at Samara.

In December 2005, China and Kazakhstan the 962 km Atasu-Alashankou pipeline put into operation, forming part of the KC Pipeline. The initial capacity of the Atasu-Alashankou pipeline is 10 million tonnes per year, with a projected increase up to 20 million tonnes per year beginning in 2010. Other pipeline routes from Kazakhstan are being considered, such as routes through the Caucasus region to Turkey and routes through Iran and Afghanistan. See "*Business—Competition*".

In accordance with the Kazakhstan-Russia treaty dated 7 June 2006 on Oil Transit, the export volumes as at 31 December 2007 were set at 148 million barrels, excluding the CPC Project, of which upon the agreement between Transneft and the Company, 110 million barrels will be transported via the Atyrau-Samara segment of the UAS pipeline and 38 million barrels through the Makhachkala-Novorossiysk route. Kazakhstan has also been invited to participate in the development of other export routes, including Russia's Baltic Pipeline System, the Bourgas Alexandropolis Pipeline and the integration of the Druzhba and Adria Pipelines. Modernisation of the Atyrau Samara Pipeline, conducted in 2000, boosted its annual capacity from 7.3 billion barrels to 10.9 billion barrels. In June 2002, Kazakhstan and Russia signed a 15 year oil transit agreement under which Kazakhstan will export at least 127.75 million barrels of oil annually via the Russian pipeline system. As the KC Pipeline project is completed, absolute volumes though Atyrau Samara are expected to grow, but this pipeline will become relatively less significant.

Rail transportation was the primary export route for Kazakhstan crude production before the development of the UAS and CPC Pipelines. The rail infrastructure remains an alternative transportation option.

See "*Business—Transportation—Transportation of Crude Oil*" for a more detailed discussion of the Kazakhstan's oil pipeline infrastructure.

Export Routes for Kazakhstan Gas

Kazakhstan has two separate domestic natural gas distribution networks: one in the west that services the country's producing natural gas fields and one in the south that mainly delivers imported natural gas to the southern consuming regions, including Almaty.

The lack of internal pipelines connecting Kazakhstan's natural gas producing areas to the country's industrial belt (between Almaty and Shymkent) has hampered the development of natural gas resources in Kazakhstan. Since Kazakhstan natural gas is a potential competitor with Russian natural gas, several new natural gas export pipelines from the Caspian Sea region are in development or under consideration, potentially opening up new markets for Kazakhstan natural gas.

In August 2007, an agreement was reached between the Government and China on cooperation for the construction and operation of the Asia Gas Pipeline, which will extend from Turkmenistan through Uzbekistan to Khorgos in China, passing through Kazakhstan. The construction of the Asia Gas Pipeline is being completed in two phases. On 12 December 2009, the first phase of this project, comprising a pipeline with a throughput capacity of 10 bcm per year, was completed. The second phase, with a designed throughput capacity of 40 bcm per year was completed at the end of 2012. Further development of the Asia Gas Pipeline to 55 bcm per year is planned through a third phase of construction to be completed by January 2016.

The Company is also a participant in the consortium constructing the Beineu-Bozoi-Shymkent Gas Pipeline. The first phase of the project, comprising the Bozoi-Shymkent pipeline with a throughput capacity of 6 bcm per year, is expected to be completed by May 2015. The second phase of the project, comprising the Beineu-Bozoi pipeline, which will increase throughput capacity to 10 bcm per year, is expected to be completed by the end of 2016.

In addition, the CAC Pipeline, which has two branches, is currently the main gas export pipeline from Central Asia. The two branches of the CAC Pipeline meet in the South-western Kazakhstan city of Beyneu before crossing into Russia at Alexandrov Gay and feeding into the Russian pipeline system. Therefore, Kazakhstan is a major transit route for gas from Turkmenistan to Russia and on to other markets across the CIS.

In the north, Kazakhstan is developing its ability to export its natural gas through Russia's natural gas pipeline system. Natural gas from the Karachaganak Field is currently sent north to Russia's Orenburg gas processing plant. Efforts are currently underway to expand that link and boost export capacity. Some of the gas being sent to Orenburg will then be routed for marketing in the Russian system and some will be sent back to Kazakhstan.

Southern Kazakhstan receives its natural gas supplies from Uzbekistan via the Tashkent-Bishkek Almaty-Pipeline. This pipeline runs through Uzbekistan before reaching Shymkent, crosses Kyrgyzstan, and terminates in Almaty. Southern Kazakhstan's dependence on imported natural gas from Uzbekistan was reduced as a result of development of the Amangeldy natural gas field.

See "*Business—Transportation—Transportation and Storage of Gas*" for a more detailed discussion of Kazakhstan's gas pipeline infrastructure.

Regional Oil and Gas Industry

While Russia dominates oil supply in the region, backed by large and under-exploited reserves, the Caspian states have an important role to play, with Kazakhstan and Azerbaijan becoming increasingly important. The growth rate in Russian oil supply has slowed since the beginning of the decade, while the Caspian region has continued to expand.

Regional Oil Consumption and Production

The following table sets forth key regional oil consumers:

Country	2009	2010	2011
		(*million tonnes per year*)	
Azerbaijan	3.3	3.2	3.6
Kazakhstan	**9.0**	**9.5**	**10.2**
Poland	25.3	26.7	26.3
Romania	9.2	8.7	9.0
Russia	124.8	128.9	136
Turkmenistan	4.6	4.8	4.9
Ukraine	13.4	13.0	12.9

Source: BP Statistical Review of World Energy, 2012

According to Business Monitor International ("**BMI**"), regional oil consumption was 257.4 million tonnes per year in 2008. Kazakhstan accounted for 4.21% of 2008 regional consumption.

The following table sets forth key regional oil producers:

Country	2009	2010	2011
		(*million tonnes per year*)	
Azerbaijan	50.6	50.8	45.6
Kazakhstan	**78.2**	**81.6**	**82.4**
Romania	4.5	4.3	4.2
Russia	494.2	505.1	511.4
Turkmenistan	10.4	10.7	10.7

Source: BP Statistical Review of World Energy, 2012

According to the BP Statistical Review, regional oil production was an estimated 657.9 million tonnes per year. Kazakhstan in 2011 accounted for an estimated 2.1% of the world's oil production.

According to the EIA, in 2010, the region exported and estimated 281,061 barrels of oil per day.

According to the BP Statistical Review, regional oil production was estimated to be 657.9 million tonnes per year. In 2011, Kazakhstan accounted for an estimated 2.1% of the world's oil production.

Regional Refining Capacity

Refining capacity for the CIS region was 8,093 thousand barrels per day in 2011 with Kazakhstan's share of regional refining capacity in 2008 estimated at 18.95%.

Regional Gas Consumption and Production

In terms of natural gas, the region in 2011 consumed an estimated 529.3 bcm and produced an estimated 772.9 bcm in 2011. Kazakhstan's share of world gas consumption in 2011 was an estimated 0.3%, while its share of production is put at 0.6%.

Regulatory Bodies

Ministry of Oil and Gas

In 2002, the Government clarified the division of functions between the Company and petroleum-related State entities (Government Decree №707 dated 29 June 2002). In 2002, the Government also adopted rules for the Company to represent the State's interests in Subsoil Use Agreements by way of the Company's mandatory participation in petroleum projects (Government Decree №708 dated June 29, 2002). The Company was empowered to act as the "authorised body" with regards to control, monitoring and regulation of petroleum operations under PSAs.

The presidential edict of 12 March 2010 restructured several government ministries and, in particular created the MOG to replace the MEMR as a Competent Authority in the oil and gas sector. The MEMR's supervisory authority over energy,

ore mining and atomic industries has been transferred to the newly created Ministry of Industry and New Technologies of the Republic of Kazakhstan.

According to the New Subsoil Law and the Regulations on the MOG (approved by Governmental Resolution № 454, dated 20 May 2010), certain non-commercial or regulatory functions of the Company as an "authorised body" of the Government were transferred to the MOG, including, *inter alia*, representing non-commercial (regulatory, as the competent authority) interest of the State under the PSAs.

The creation of the MOG and the related transfer of non-commercial and regulatory functions from the Company to the MOG are not expected to adversely affect the Company's commercial interests, including among other things, representing the State's commercial interest under the PSAs for the North Caspian Project and the Karachaganak Field.

REGULATION IN KAZAKHSTAN

Regulation of Mineral Rights in Kazakhstan

General

In Kazakhstan, the subsoil and minerals are owned by the State, in accordance with the Constitution of Kazakhstan. The State shall ensure access to the subsoil on the terms, conditions and within the limits as provided for by the New Subsoil Law. Unless otherwise stipulated by Kazakhstan laws and Subsoil Use Agreements, mineral raw materials shall be owned by the subsoil user under a right of ownership (or in the case of a State-owned enterprise, under a right of economic or day-to-day management). The Government develops and implements Kazakhstan's subsoil use policy. As at the date of this Base Prospectus, the designated "competent authority" for the oil and gas sector to act on behalf of the State to exercise rights relating to the execution and performance of Subsoil Use Agreements, except for contracts for exploration and production of commonly occurring minerals, which was historically the MEMR, but, from and after 12 March 2010, is the MOG for oil and gas rights and, the Ministry of Industry and New Technologies ("**MINT**"), which assumed the functions of the MEMR relating to electricity, mining and nuclear energy (the MOG and MINT being jointly referred to as the "**Competent Authority**"). The Competent Authority grants the exploration and production rights.

Subsoil use rights are granted on the basis of tenders or, in exceptional cases, by direct negotiations. Oil and gas exploration and production rights are then secured by executing a contract with the Competent Authority. Subsoil use rights are granted for a determinable period but may be extended before the expiration of the relevant contract and licence (if applicable, agreed and permitted) subject to certain limitations and conditions.

Subsoil use rights may be terminated by the Competent Authority pursuant to the bases of termination stipulated by the New Subsoil Law, which include among other things, in situations where subsoil users do not satisfy their contractual obligations, which may include periodic payment of taxes to the Government and the satisfaction of mining, environmental, and health and safety requirements.

Prior to August 1999, subsoil use rights for hydrocarbons and mining sector operations were established by the grant of a licence and the execution of a Subsoil Use Agreement. In August 1999, the Government, in an attempt to simplify the procedure, abolished this two tier process. Subsoil use rights are now established only by means of a Subsoil Use Agreement, and no licence is required. Certain entities within the Company hold their subsoil use rights on the basis of the pre August 1999 "licence and contract" regime. See "*The Oil and Gas Industry in Kazakhstan—Subsoil Use Agreements*".

The current regime for granting subsoil use rights is as follows:

- Exploration Contracts: exploration contracts may be concluded for up to 6 years, subject to a general right of extension for the purposes of appraisal of a commercial discovery. In contrast to the Old Subsoil Law (as defined below), two 2-year extensions of the exploration period are no longer permitted for contracts entered into under the New Subsoil Law, and only a single 2-year extension for offshore petroleum contracts is permitted.

- Production Contracts: there is no set term for the duration of production contracts, which are established based on the planned production operations.

- Combined E&P Contracts: combined E&P contracts are now only granted for deposits considered to be of strategic importance and for complex geological structures, and require approval through a decision of the Government.

State Pre-Emptive Rights and Regulation of Subsoil Use Rights

There have been four main phases of subsoil use regulation in Kazakhstan:

- from Kazakhstan's independence in 1991 to August 1994;

- the licensing-contractual regime from August 1994 to August 1999, which has two sub-phases: (i) August 1994 to January 1996, and (ii) January 1996 to August 1999;

- the contractual regime, which commenced in August 1999 and was regulated by the Old Subsoil Law, as amended from time to time; and

- the present regulation of activities in the oil and gas sector by the New Subsoil Law, adopted in June 2010.

The Old Subsoil Law and the 1999 Amendments

The legal framework that previously regulated subsoil use rights of the Company under the Subsoil Use Agreements, to which it is a party, was established with the adoption of the Law of the Republic of Kazakhstan № 2828 "On subsoil and subsoil use" on 27 January 1996 (the "**Old Subsoil Law**"). In August 1999, the Old Subsoil Law was amended by Law № 467-1 "Concerning the Introduction of Amendments and Additions to Several Legislative Acts on the Subsoil and Petroleum Operations in the Republic of Kazakhstan" (the "**1999 Amendments**"). The 1999 Amendments simplified the process of obtaining subsoil use rights by allowing the Competent Authority to grant these rights contractually, without first having to issue a licence (which was required under the previous regulatory framework).

The 2004-2005 Amendments to the Old Subsoil Law

The Old Subsoil Law was further amended by the Law № 2-III on "Introduction of Amendments and Additions to Certain Legal Acts on Subsoil Use and Petroleum Operations in the Republic of Kazakhstan" dated 1 December 2004 and Law № 79-III on "Introduction of Amendments and Additions to Certain Legal Acts on Subsoil Use and Performance of Petroleum Operations in the Republic of Kazakhstan" dated 14 October 2005 (the "**2004-2005 Amendments**"). The 2004-2005 Amendments (in particular article 71 of the Old Subsoil Law) provided a pre-emptive right to the State (through the Government) in connection with any transfer of subsoil use rights or shares or participation interests in a legal entity which can, directly or indirectly, affect or determine the decisions of another legal entity with subsoil use rights, if the core business of the controlling entity is related to subsoil use in Kazakhstan (the "**State's Pre-Emptive Right**"). This gave the State a right of first refusal in respect of any such transfers on terms "no worse than those offered by other prospective purchasers".

The 2004-2005 Amendments also created a regulatory regime to enable subsoil users to pledge their subsoil use rights.

The 2007 Amendments to the Old Subsoil Law

In October 2007, Kazakhstan adopted new legislation amending the Old Subsoil Law (the "**2007 Amendments**"). The 2007 Amendments came into force on 3 November 2007. They introduced a concept of so-called "strategic deposits the list of which was approved by the Government on 13 August 2009. The revisions provided the Competent Authority with the right to initiate reviews of Subsoil Use Agreement terms and to demand: (a) amendments or additions to Subsoil Use Agreements in circumstances where the activities of the subsoil user in "strategic deposits" lead to material changes in the economic interests of the State which jeopardise national security and (b) termination of Subsoil Use Agreements in case the parties fail to execute the respective amendments or additions to a Subsoil Use Agreement within six months from the date when an agreement has been reached to restore the economic interests of the State (the "**Strategic Deposit Right**"). The 2007 Amendments had retroactive effect in respect of previously concluded Subsoil Use Agreements which were deemed to be of strategic importance.

New Subsoil Law

The New Subsoil Law replaced two major laws governing relations of the State and subsoil users in the oil and gas sector: the Old Subsoil Law and the Republic of Kazakhstan Law "On Oil" (№ 2350, dated 28 June 1995, as amended) (the latter replicating most of the provisions of the Old Subsoil Law). Adoption of the New Subsoil Law was aimed at, inter alia: (i) consolidation of the existing overlapping laws and regulations related to subsoil and subsoil use, including those in the sphere of oil and gas; (ii) clarifying areas of uncertainty by adding more procedures (specifically related to obtaining various consents, approvals and waivers from the Competent Authority; and (iii) essentially eliminating stabilisation of Subsoil Use Agreements on a basis going forward.

Under the New Subsoil Law, the subsoil use rights may be permanent or temporary, alienable or inalienable, payable or free of charge. Most types of subsoil operations shall be carried out on the basis of temporary and payable subsoil use (except for production of commonly occurring minerals for the subsoil user's own needs in the land plots which are held under the right of ownership or use, which shall be carried out under the right of permanent and free of charge subsoil use). Subsoil use rights shall be granted following a tender process with a number of exceptions. For example, a Subsoil Use Agreement for exploration or production with the Company should be executed on the basis of direct negotiations without holding a tender.

Subsoil use rights may be held by Kazakhstan and foreign nationals and legal entities. A subsoil user shall be guaranteed protection of its rights in accordance with Kazakhstan legislation. Any amendments and additions to legislation that worsen the results of a subsoil user's business activities under Subsoil Use Agreements shall not apply to those Subsoil Use Agreements that were concluded prior to such amendments and additions. Such guarantees shall not apply to changes

in Kazakhstan legislation in the areas of national security, defence capabilities, environmental protection, health, taxation and customs regulation.

The following State's rights were transferred from the Old Subsoil Law to the New Subsoil Law:

Pre-emption Right to Acquire Minerals

The State shall have a priority right over other parties to acquire a subsoil user's minerals at prices not exceeding those applied by the subsoil user in transactions related to the relevant minerals, which prevail on the date of any relevant transaction minus transportation and selling costs.

Right to Requisition Minerals

In a state of emergency, the Government may requisite some or all of the minerals owned by a subsoil user. Requisition may be in any amount necessary to cover the needs of the State during the entire state of emergency period. Minerals may be requisitioned from any subsoil user regardless of the form of ownership. The State shall guarantee compensation for requisitioned minerals either by payment in kind or by paying their monetary value to a foreign subsoil user in freely convertible currency and to a domestic subsoil user in the national currency at prices not exceeding those applied by subsoil users in transactions related to the relevant minerals, which prevail on the date of requisition minus transportation and selling costs.

The State's Pre-Emptive Right

The New Subsoil Law differentiates between subsoil use rights and "the objects related to the subsoil use rights" (the "**Objects**"), which are participatory interests (or shares, securities confirming title to shares, securities convertible into shares) in a legal entity holding the subsoil use right, as well as a legal entity which may directly or indirectly determine or influence decisions adopted by a subsoil user (the "**Controlling Legal Entity**"), if the principal activity of such Controlling Legal Entity is related to the subsoil use in Kazakhstan. The concept of the State's Pre-Emptive Right (formerly known as Article 71 of the Old Subsoil Law) was transferred from the Old Subsoil Law to Article 12 of the New Subsoil Law in respect of both the subsoil use rights and the Objects. The State's Pre-Emptive Right applies retroactively to all existing contracts, as well as prospectively to future contracts.

With certain limited exemptions discussed in "*—The Right to Grant Consents for Transfer of Subsoil Use Rights and Objects Related to Subsoil Use Rights*" below, the State's waiver of the State's Pre-Emptive Right would need to be obtained for any transfer of the subsoil use rights or the Objects.

The State's Pre-Emptive Right should also be applicable to any initial public offering of shares on an organised securities market or other securities confirming title to shares or securities convertible into shares in a subsoil user legal entity or a Controlling Legal Entity, including the initial public offering of additionally issued securities in such legal entities on an organised securities market. In addition, except for certain circumstances which are described below, such public offerings require the permission of the Competent Authority which shall be granted in accordance with the provisions of the New Subsoil Law.

The Right to Grant Consents for Transfer of Subsoil Use Rights and Objects, Related to Subsoil Use Rights

The subsoil use right (or part thereof) and the Objects must be transferred, including in cases of foreclosure (including pledges), with the permission of the Competent Authority pursuant to provisions of Article 36 of the New Subsoil Law (which provision of the New Subsoil Law corresponds to provisions of Article 14 of the Old Subsoil Law) and in accordance with the procedure established by Article 37 of the New Subsoil Law.

A credit facility secured by pledge of the subsoil use right shall only be applied for the purposes of subsoil use or for reorganisations or relocation of a subsoil user in a contract territory as provided by the relevant Subsoil Use Agreement, by the subsoil user itself or by its wholly-owned subsidiary.

The initial public offering of shares on an organised securities market or other securities confirming title to shares or securities convertible into shares in a subsoil user legal entity or a Controlling Legal Entity, including the placement of additionally issued securities in such legal entities on an organised securities market, requires the permission of the Competent Authority. The Competent Authority's consent shall not, however, be required in the following instances:

- transactions for alienation of shares or other securities confirming title to shares, or securities convertible into shares which are traded on an organised securities market and are issued by a subsoil user legal entity or a Controlling Legal Entity;

- the transfer, in full or in part, of the subsoil use right or an Object:
  - to a subsidiary in which at least a 99% participatory interest (shareholding) is directly or indirectly held by the subsoil user, provided that such subsidiary is not registered in a jurisdiction with a preferential tax treatment (the so-called "black-listed offshore jurisdictions");
  - between legal entities in each of which at least a 99% participatory interest (shareholding) is directly or indirectly held by one and the same person, provided that the acquirer of all or part of the subsoil use right or the Objects is not registered in a jurisdiction with a preferential tax treatment.
- the transfer of shares (participatory interests) in a subsoil user legal entity if, as the result of such a transfer, an entity acquires the right to directly or indirectly control less than 0.1% of the participatory interests (shareholdings) in the charter capital of the subsoil user.

In these instances, the State's waiver of the State's Pre-Emptive Right shall also not be required.

In addition, the New Subsoil Law does not allow for the transfer of a subsoil use right within two years following the effective date of a Subsoil Use Agreement, except for the transfer of the subsoil use right or the transfer of shares in a subsoil user, entity, as described above as well as in the event of a:

- transfer or acquisition of the subsoil use rights by Samruk-Kazyna, the Company or subsidiaries thereof;
- foreclosure of the pledged subsoil use right; and
- transfer or acquisition of the subsoil use rights during reorganisation of a legal entity having the subsoil use right.

Though the New Subsoil Law somewhat clarifies the procedures relating to obtaining the State's waiver of the State's Pre-Emptive Rights and the consent (and registration, where applicable) of the Competent Authority, such procedures remain unclear in many instances. It is generally expected that the process to obtain both the waiver of the State's Pre-Emptive Rights Waiver and the consent of the Competent Authority will take approximately 70 business days, although in practice, this may be a lengthier and more complicated process.

If the State makes a decision to exercise its Pre-Emptive Right to acquire the subsoil use right or the Objects, then such subsoil use right or the Objects should be acquired within no more than six months from the date of such decision.

According to the New Subsoil Law, the State exercises its Pre-Emptive Right through Samruk-Kazyna, the Company or a designated state agency, for which purposes the Competent Authority should, subject to recommendations of the special Interdepartmental commission for the exercise of the Pre-Emptive Right (the "**Interdepartmental Commission**"), adopt a decision on behalf of the Government on the acquisition of the alienated subsoil use right or the object related to such subsoil use right (the "**Object**") by Samruk-Kazyna or the Company. If Samruk-Kazyna or the Company declares its intention to make the acquisition, then the Interdepartmental Commission should recommend the Competent Authority to designate Samruk-Kazyna or the Company as the acquirer on behalf of the State. If Samruk-Kazyna or the Company does not express its willingness to purchase the subsoil use right or the Object, then the Government should determine the state agency authorised to acquire the same. Samruk-Kazyna or the Company or the designated state agency should initiate negotiations with the subsoil user or the holder of the Object following receipt of the decision by the State to exercise its Pre-Emptive Right. According to the New Subsoil Law, Samruk-Kazyna or the Company or the designated state agency would acquire the alienated subsoil use right of the Object on terms no worse than those offered by other proposed acquirers.

Consents for Establishment of Pledge over the Subsoil Use Rights and the Objects

The New Subsoil Law explicitly requires that subsoil use rights and the Objects may be pledged only with the permission of the Competent Authority. The pledgor of subsoil use rights or an Object is responsible for obtaining the Competent Authority's consent, which consent should be obtained in the manner and order and according to the procedures provided by the New Subsoil Law for the Competent Authority's consent for the transfer of the subsoil use right or the Objects. Any transactions or other related actions effected without such Competent Authority's consent for the pledge should be deemed invalid as of the date of their conclusion or undertaking.

Termination of Subsoil Use Agreements

According to Article 72.3 of the New Subsoil Law, the Competent Authority may prematurely terminate a Subsoil Use Agreement on a unilateral basis:

- if the subsoil user fails to timely eliminate more than two violations of obligations under its Subsoil Use Agreement or project documents within the time set in the Competent Authority's notice; and

- in the event of a transfer of a subsoil use right by the subsoil user or of the Objects without the Competent Authority's permission where such permission was required under the New Subsoil Law.

Amendments to Subsoil Use Agreements in relation to Strategic Deposit Rights

As in the Old Subsoil Law, according to the New Subsoil Law, the State has the right to initiate reviews of the terms of a Subsoil Use Agreement and to demand amendments or additions to Subsoil Use Agreements in circumstances where the activities of the subsoil user in "strategic deposits" lead to material changes in the economic interests of the State which jeopardise national security and, under these circumstances, the State has a right to unilaterally terminate the Subsoil Use Agreement as follows:

- if within a period of up to two months after the receipt of the Competent Authority's notice of a required amendment or an addition to the relevant Subsoil Use Agreement, the subsoil user fails to give its consent in writing to the conduct of such negotiations or if it refuses to conduct them;

- if within a period of up to four months after the receipt of the subsoil user's consent to negotiate a required amendment or addition to the relevant contract, the subsoil user and the Competent Authority fail to reach an agreement on the amendment or addition to the contract; or

- if within a period of up to six months following a mutually agreed outcome of negotiations on the restoration of the economic interests of the State, the parties fail to sign the agreed amendments or additions to the contract to reflect the outcome.

Unlike the Old Subsoil Law, the New Subsoil Law expressly provides that the amendments or additions to a Subsoil Use Agreement may also be initiated in respect to Subsoil Use Agreements that have been earlier concluded.

As in the Old Subsoil Law, according to the New Subsoil Law, amendments to a Subsoil Use Agreement may also be made upon mutual agreement of the parties and in accordance with the Kazakhstan legislation and the provisions of the contract.

In replication of the Old Subsoil Law, the New Subsoil Law generally requires subsoil users to comply with certain local content requirements, including the use of Kazakhstan suppliers and Kazakhstan personnel. These general requirements should be detailed in Subsoil Use Agreements.

Stabilisation and taxation of the Subsoil Use Agreements

According to the New Subsoil Law, a subsoil user is guaranteed protection of its rights in accordance with Kazakhstan legislation. Any amendments and additions to legislation that worsen the results of a subsoil user's business activities under a Subsoil Use Agreement should not apply to contracts concluded prior to such amendment and additions, except for changes in Kazakhstan laws in the area of national security, defence capabilities, environmental protection, health, taxation and customs regulation.

The referred provision of the New Subsoil Law was adopted, *inter alia*, with the purpose to refer the subsoil users to the provisions of the 2009 Tax Code. In light of the referred provision of the New Subsoil Law, subsoil users should be subject to taxes and customs duties (such as crude oil export duties) which may fluctuate based on changes in Kazakhstan legislation.

Oil and gas export duties

Although, under the 2009 Tax Code, the export duty for crude oil imports was effectively replaced with a rent tax, the Government, in 2010, re-introduced an export customs duty for crude oil exports as it did in 2008.

On 15 October 2005, the Government adopted a Resolution (№ 1036), which approved a list of certain oil products on which export customs duty was levied (the "**ED Resolution**"). Initially, one of the purposes of the ED Resolution was to stimulate development of internal refinery and processing industries. By amendments to the ED Resolution, dated 8 April 2008, "crude oil" was added to the list of oil products covered by the ED Resolution. The April 2008 amendments imposed a customs duty rate of U.S.$109.91 per tonne of exported crude oil. Pursuant to amendments to the ED Resolution, dated 29 August 2008, the rate was increased to U.S.$203.8 per tonne of the exported crude oil, with a subsequent decrease in the rate to U.S.$139.79 per tonne of exported crude oil from 20 January 2009. On 27 January

2009, the rate was established at "0" ("**zero**"). While establishment of a "zero" rate was explained as an anti-crisis measure, many subsoil users claimed that their subsoil contracts were stabilised for tax and customs purposes and as a result that, in any event, the duty should not be applied to them. Such rates have subsequently been subject to changes implemented approximately two or three times per year.

The 2010 amendments to the ED Resolution provide that the export duties for crude oil shall not apply to (i) export by subsoil users of crude oil, produced under their production sharing contracts, if such contracts had been signed with the Government or the Competent Authority before 1 January 2009, where such contract went through a mandatory tax appraisal, and contain a specific exemption from paying export customs duties for crude oil; and (ii) export by subsoil users of crude oil, produced under their Subsoil Use Agreements, which are not production sharing contracts and which provide for an exemption from paying export customs duties for crude oil, except for crude oil, that is exported by subsoil users paying royalties. With effect from 1 January 2011, the Government raised the rate of export customs duty for crude oil exports from U.S.$20 to U.S.$40 per tonne. Although the rate of export customs duty for crude oil has not been changed since 2011, the rates of export customs duty for light and heavy petroleum products have been increased several times. Pursuant to the most recent increases, which entered into force on 1 January 2012, the rate of export customs duty for light petroleum products was increased from U.S.$143.54 to U.S.$164.97 per tonne and the rate of export customs duty for heavy petroleum products was increased from U.S.$95.69 to U.S.$109.98 per tonne. In addition, in September 2012, the Government introduced new rates increasing export customs duty for light and heavy petroleum products to U.S.$168.88 per tonne and U.S.$112.59 per tonne, respectively. As at the date of this Base Prospectus, these rates have not entered into force.

Offshore and Certain Exploration Operations

The New Subsoil Law provides that a national company (including the Company) must be given at least 50% interest in offshore Subsoil Use Agreements, which condition is a mandatory condition of tenders for the subsoil use right to conduct off-shore petroleum operations.

According to the New Subsoil Law, exploration under Subsoil Use Agreements in which the Company is the contractor should be financed by its strategic partner, unless otherwise provided for by a joint operation agreement.

Dispute Resolution

The New Subsoil Law states that disputes in connection with a Subsoil Use Agreement should firstly be resolved by negotiations, and secondly, if the dispute continues, the parties to a Subsoil Use Agreement shall be entitled to resolve such disputes in accordance with the laws of Kazakhstan and international treaties ratified by Kazakhstan.

New Law on Trunk Pipeline

The Trunk Pipeline Law sets out a unified legislative basis for the construction, ownership, and operation of trunk pipelines, as well as the State's control over strategic industries.

Pursuant to the Trunk Pipeline Law, the State has a priority right to acquire a controlling interest (of not less than 51%) in any trunk pipeline project and participate with investors in the creation or construction of new trunk pipelines. In addition, the Trunk Pipeline Law provides that, for trunk pipelines in which the State, a national management holding company, or a national company directly or indirectly owns more than a 50% interest, operator services must be provided by the national operator, unless otherwise agreed by the Government. The State may waive its pre-emptive right or subscribe for less than a 51% interest. The Trunk Pipeline Law does not provide the State with a pre-emptive right in respect of an expansion of an existing trunk pipeline.

The Trunk Pipeline Law (as well as legislation regulating natural monopolies also) provides for equal rights of access to trunk pipeline services for all shippers if there is free throughput capacity, subject to certain statutory limitations. If there is limited throughput pipeline capacity, oil and oil product transportation services must be rendered in the priority established by the Trunk Pipeline Law, where first priority is given to shippers supplying oil to domestic refineries. The Trunk Pipeline Law also provides for the possibility of swap operations (*i.e.*, swaps of products by one shipper for the products of another shipper) for the purposes of supplying oil to domestic refineries and gas to the domestic market or outside Kazakhstan, upon written consent of the pipeline owner (or other person legally holding rights to the pipeline), the competent authority, and the relevant swapping entities.

The Trunk Pipeline Law defines a trunk pipeline as an integrated production and technological facilities complex and includes an obligation to ensure the safe transportation of products. Pursuant to the Trunk Pipeline Law, the owner of a trunk pipeline must perform environmental rehabilitation procedures upon the removal of a trunk pipeline from operation. The costs of complying with such a requirement are, at present, unknown.

New Law on Gas and Gas Supply

The Law on Gas and Gas Supply (№ 532-IV, dated 9 January 2012) consolidates and streamlines various legislation that previously regulated this area.

Pursuant to the Gas Law the State is the owner of associated gas produced in Kazakhstan (under all new contracts, and old contracts that provide for such state's title) and transferred to the State by producers (under old contracts that provide that the subsoil user is the owner of associated gas).

The Gas Law establishes the State's priority right to purchase (through the Government, a national management holding company or a national operator): (i) any facility within an integrated sales gas supply system (*i.e.*, connecting pipelines, trunk pipelines, sales gas storage facilities and other facilities for production, transport, storage, sale and consumption of gas); (ii) a share in the right of common ownership over such facilities, and (iii) shares (or a participatory interest) in the ownership of such facilities (*i.e.*, any oil producer that owns gas processing facilities or connecting pipelines for sales gas). Such purchases must be made on terms no less favourable than those offered by a third party.

In addition, the Gas Law provides for the State's pre-emptive right to buy (through the national operator) natural and purified gas at a price approved by the MOG and determined pursuant to a governmental decree. The price of natural and purified gas includes production costs, processing costs, transportation costs and a maximum profit margin. If the State waives its pre-emptive right, the seller may sell the gas to a third party.

Under the Gas Law, KTG has been appointed as the "national operator" for the transportation of gas. Accordingly, KTG has been given a priority right to purchase (on behalf of the State) all associated gas produced in Kazakhstan at a set price, which it will then sell on the domestic market at a premium, using a significant portion of the premium to modernise and extend the domestic network. The Company expects that the adoption of the Gas Law will further enhance its revenue from gas sales to end-users and lessen its dependence on gas transportation tariffs.

Regulation of Production Sharing Rights Related to Offshore Oil Operations

The Law on Production Sharing Agreements

The Kazakhstan Law "On Production Sharing Agreements for Conducting Offshore Petroleum Operations" (№ 68-III, dated 8 July 2005) (the "**PSA Law**"), which, together with other subsoil legislation, was the applicable law for production sharing agreement in Kazakhstan, was abolished by the introduction of the new Tax Code on 10 December 2008. The PSA Law ceased to have effect from 1 January 2009. There were no legislative acts introduced to replace the PSA Law. According to the New Subsoil Law (as defined above) production sharing agreements are not a specified form of permitted Subsoil Use Agreement. Therefore, the New Subsoil Law does not permit the State to enter into new production sharing agreements with contractors, though PSAs concluded before the enactment of the New Subsoil Law remain effective.

The PSA Law was Kazakhstan's only law dedicated exclusively to production sharing agreements, and applied to oil operations in Kazakhstan's sector of the Caspian Sea and the Aral Sea.

Under the PSA Law, the principal method of obtaining oil blocks was through open or closed tenders, unless otherwise prescribed in international treaties or contracts the Government is a party to. The Company was given the right of share participation as a contractor in the amount of not less than 50% in all new offshore production sharing agreements concluded by the Government. In addition the PSAs could be concluded by way of direct negotiations between the Company, as an authorised agent of the Government, and MEMR on the one side, and the investor, on the other side. Further, the PSA Law set forth the procedure and general terms of the production sharing agreement tenders. Basic tender terms included a requirement that offshore oil operators purchase goods and services from Kazakhstan producers, including but not limited to refining services, and obligations to develop technologies and infrastructure in Kazakhstan.

In accordance with the PSA Law, the production sharing agreements could only be for exploration and production or production, with a general term of up to 35 years and 25 years, respectively. The PSA Law also referred to "unique" deposits in respect of which the term of the production sharing agreement might have been extended up to 45 years, however "unique" was not defined by the law.

Pursuant to the PSA Law, a contractor was allowed to, fully or partially, transfer its rights and obligations under the production sharing agreement in the manner generally provided in the Petroleum Law, which required prior competent body approval (MEMR). While the PSA Law did not contain the State's Pre-Emptive Right to acquire any interest in an existing production sharing agreement from a selling contractor, the Government could execute the State's Pre-Emptive Right in accordance with the Subsoil Law.

Licensing of Refining, Pipeline Transportation, Storage and Subsoil Services

In Kazakhstan, oil refining, oil and gas pipeline transportation and subsoil services (such as drilling of oil and gas wells and other related services) are licenced activities.

On 9 August 2007, the Law of the Republic of Kazakhstan "On Licensing" came into force (the "**Licensing Law**"). The Licensing Law does not require oil refineries to hold licences for production of petroleum products and instead requires oil refineries to obtain licences for exploitation of oil processing plants.

A licence is not transferable from an existing facility to another. The licence is granted for an unlimited period of time. The licence is granted by the relevant Competent Authority after submission of the required documentation and the payment of a fee.

A licence can be suspended or terminated in case a licencee fails to comply with qualification requirements, including but not limited to lack of qualified personnel or proper equipment.

If a legal entity conducts activities without the relevant licence, as required by the Licensing Law, such entity and its managers are subject to administrative and criminal liability.

The Competent Authority and Other Regulatory Authorities

General

The State plays a role in four areas of subsoil management. Firstly, the Government is responsible, among other things, for organising and managing state-owned reserves, outlining deposits available for a tender, imposing restrictions on subsoil use for the purposes of national security, environmental security and the protection of life and health of the population, defining the procedures for the conclusion of contracts, approving model contracts, appointing the Competent Authority and other bodies, regulating oil and gas export by imposing customs, protection, antidumping and compensation duties and quotes, establishing quotes for transportation of oil by various transport, appointing Interdepartmental Commission members to exercise the State's Pre-Emptive Rights and approving a number of normative legal acts in the sphere of oil and gas. Secondly, the State executes, implements and monitors Subsoil Use Agreements through the Competent Authority, which has the power to execute and implement oil and gas contracts, and through a number of other State's agencies. Thirdly, the State's Pre-Emptive Rights are exercised through Samruk-Kazyna, the Company, and, if needed, through authorised state agencies. Finally, local executive authorities (known as *akimats*) have responsibility for, among other things, granting land to subsoil users, supervising the protection of the land and participating in negotiations with subsoil users for environmental and social protection.

In addition to regulation relating to subsoil management, there are a number of regulatory authorities that regulates other aspects of hydrocarbon extraction, transportation and refining.

Under the Old Subsoil Law, the Company, in its status as a "national company," worked with the Competent Authority (to develop State policies in the oil and gas industry and in the provision of efficient and rational development of oil and gas resources of Kazakhstan. According to the New Subsoil Law, the Company should:

- participate in the implementation of the unified State policy in the area of subsoil use;
- represent the State in Subsoil Use Agreements providing for the Company to have a participatory interest in such Subsoil Use Agreements in accordance with the procedure established by the Government and within the authority set forth in such Subsoil Use Agreements;
- conduct subsoil operations together with tender winners by means of a participatory interest in Subsoil Use Agreements;
- conduct subsoil operations in subsoil areas allocated to it on the basis of direct negotiations;
- participate in international and domestic subsoil operations and hydrocarbons transportation projects of Kazakhstan;
- participate in the preparation of annual reports on Subsoil Use Agreement implementation to the President of the Republic of Kazakhstan and the Government;

- conduct corporate management and monitoring of exploration, development, production, processing, and marketing of minerals as well as transportation of hydrocarbons and design, construction and operation of oil and gas pipelines and oil and gas field infrastructure; and

- in instances when the State makes a decision to exercise its Pre-Emptive Right, conduct negotiations and enter into contracts with the Seller for acquisition of the alienated subsoil use right or the Object.

Based upon the above-referred scope of the Company's functions, the former regulatory functions of the Company in the sphere of oil and gas have been fully transferred to the Competent authority and other State bodies.

The MOG

According to resolutions of the Government adopted in 2010, the MOG is the Competent Authority. According to the New Subsoil Law and other effective legislation, the MOG, among other things, is responsible for:

- implementing the State's policy in oil and gas, petrochemical and hydrocarbons transportation industries;

- representing the State's interests in production sharing agreements;

- organising tenders for grants of subsoil use rights for oil and gas exploration and production and preparing for lists of blocks for tenders for consideration and approval by the Government;

- executing and registering oil and gas contracts;

- approving working programmes related to oil and gas contracts;

- monitoring compliance with the terms of oil and gas contracts;

- issuing permits for the transfer of subsoil use rights and registration of transactions involving pledges of subsoil use rights, as applicable to oil and gas projects;

- suspending and terminating Subsoil Use Agreements in oil and gas in accordance with the procedures set forth in the New Subsoil Law;

- jointly with the Natural Monopolies Agency, approving investment programmes and investment projects;

- determining the amounts of oil and gas to be supplied by subsoil users to the domestic market;

- undertaking actions for equal access by subsoil users to the main pipelines;

- monitoring compliance of oil and gas subsoil users with requirements to purchase certain amounts of goods and services from local providers;

- approving gas utilisation programs; and

- issuing permits for using money in the liquidation fund.

Other Regulatory Authorities

Other governmental ministries and authorities which regulate aspects of hydrocarbon extraction in Kazakhstan include:

- the MEP, which is responsible for environmental protection and preservation of mineral resources;

- the MINT, whose Committee for Geology and Resource Exploitation is the competent state body for geological study and use of the subsoil, and whose Committee for Technical Regulation and Metrology supervises compliance of oil and gas equipment with Kazakhstan quality and safety standards, and which exercises State control over the quality of construction and construction materials;

- the Ministry of Emergency Situations, which, among other things, supervises safety in mining operations, and whose Committee on State Control of Emergency Situations and Industry Safety (the "**CSCES**"), among other things, supervises health and safety matters;

- various governmental authorities responsible for the approval of construction projects and the use of water and land resources, including the Agency for Construction, Housing and Utilities;
- the Committee for State Sanitary and Epidemiological Supervision under the Ministry of Health, which is responsible for monitoring compliance with health standards;
- the Ministry of Labour and Social Protection of the Population (the "**MLSPP**"), which is responsible for investigating labour disputes and complaints from individual employees and which monitors compliance with the obligations of subsoil users to give preference in hiring, including to employ a certain minimum percentage of Kazakhstan nationals, and which issues work permits for foreign workers;
- regional and municipal regulatory authorities, which are responsible for registering properties, pledges and mortgages; and
- national and regional tax authorities.

Social Contributions and Commitments

Contracts for subsoil use are required to identify the subsoil user's obligation to ensure equal conditions and fair pay for Kazakhstan personnel in comparison to foreign personnel, including personnel employed at the subcontractor level. A subsoil user is also obligated to give priority to hire Kazakhstan nationals to work and be trained.

In addition, Subsoil Use Agreements might contain other social commitments and contributions to be undertaken by subsoil users.

Environmental Compliance

The Company is subject to a variety of Kazakhstan's environmental laws, regulations and requirements that govern air emissions, water use and disposal, waste management, impacts on wildlife, as well as land use and reclamation. The Environmental Code dated 9 January 2007 № 212 (the "**Environmental Code**") is the main Kazakhstan law governing nature use-related activities of Kazakhstan subsoil users.

Subsoil Use Agreements typically impose environmental obligations in addition to that required by the law. The penalties for failing to comply with these obligations can be substantial, including fines or even suspension or termination of the Subsoil Use Agreement.

Under Kazakhstan law, companies are obligated to obtain permits (as described below) for the contamination of the environment and must observe all requirements set out in such permits.

Ecological Permits

The concept of an ecological permit (the "**EP**") was developed as a means for the Government to regulate pollution. An EP is a special permit that grants a subsoil user a temporary right to emit or disperse emissions into the atmosphere and the discharge of waste substances into surface and underground waters. EPs contain the conditions governing the user's impact on the environment. The obligation to obtain an EP arises not only as a matter of law, but also under Subsoil Use Agreements. Companies whose operations impact the environment are required to obtain an EP. Depending on the quantity of pollutants emitted into the environment, an EP is to be issued for up to five years either by a regional department of environmental protection or by the MEP. Fees for pollution of the environment are established by the Tax Code of Kazakhstan and may be increased (within certain limits) by local representative bodies (Maslikhat). The holding of an EP shall not exempt a subsoil user from liability to pay compensation for damage to the environment caused by its activities, or exempt the subsoil user from administrative or criminal liability.

In March 2009, the President of Kazakhstan signed the law on the ratification of the Kyoto Protocol. Ratification of the Kyoto Protocol, which is intended to limit or discourage emissions of greenhouse gases such as carbon dioxide, is expected to have an impact on environmental regulation in Kazakhstan. The effect of such ratification in other countries is still unclear; accordingly, potential compliance costs associated with the Kyoto Protocol are unknown. The Environmental Code already requires that legal entities which discharge greenhouse gases into the atmosphere and use ozone depleting substances are subject to state sanction. Nonetheless, the likely effect will be not only increased costs for electricity and transportation, restrictions on emissions levels, the imposition of additional costs for emissions in excess of permitted levels, and increased costs in respect of monitoring, reporting and financial accounting, but may also involve changes to policies and procedures regarding the issuance of EPs.

Water Permits

The Water Code dated 9 July 2003 № 481 (the "**Water Code**") aims at implementing governmental policy in relation to the utilisation and protection of water resources. The Water Code sets out obligations for the use of water and discharge of certain materials into the water, on the basis of Water Use Permits (the "**WUP**"). WUP can be withdrawn if the terms as specified in the relevant WUP are breached. Such terms include monitoring the quality of undergrounds water, submitting statistical reports and monitoring reports, complying with requirements relating to water pollution during mining operations and regular checking of equipment. If any circumstances relating to its water use change a WUP holder is obliged to agree to such changes with the relevant governmental agencies, such as regional department of environmental protection, the regional sanitary and epidemiological service. The term of a WUP may be extended subject to compliance with requirements specified within the WUP.

Recordkeeping

Under the New Subsoil Law and Kazakhstan environmental legislation, a subsoil user is required to keep an adequate record of extracted minerals and reserves, including processing by-products and residual waste. The State monitors the records of extracted minerals and reserves. A subsoil user is also required to provide geological reports on its activities in the contract territory relating to exploration and use of the subsoil.

Enforcement

Article 116 of the Environmental Code specifies which authorised bodies are responsible for monitoring environmental compliance and enforcing environmental requirements. These officials include the Chief State Ecological Inspector, the Deputy State Ecological Inspector and Senior State Ecological Inspectors representing the heads and deputy heads of departments and divisions of the MEP. In addition, regional prosecutors have the authority to supervise environmental compliance and initiate judicial proceedings.

Article 117 of the Environmental Code authorises the relevant Government officials, in their enforcement of environmental protection measures, to:

- inspect facilities and take measurements and samples for analysis;
- request and receive documentation, results of analysis and other materials;
- initiate procedures relating to the (i) suspension of licences; (ii) termination of contracts for the use and taking of natural resources; and (iii) suspension and annulment of ecological and other permits in the event of violation;
- issue orders for individuals and legal entities to eliminate violations of Kazakhstan's environmental laws;
- file claims with courts with respect to violations of Kazakhstan laws; and
- file requests to terminate Subsoil Use Agreements for reported violations.

Environmental and Other Mandatory Insurance

Kazakhstan law establishes a number of mandatory insurances to be obtained by any entity in the event that the entity conducts certain types of activities.

Environmental Insurance

Environmental insurance is an obligatory type of insurance envisaged by the New Subsoil Law (and, formerly, by the Old Subsoil Law) and by the Environmental Code and is regulated by the Law of the Republic of Kazakhstan "On Obligatory Environmental Insurance" dated 13 December 2005 № 93-III. Pursuant to this law, any entity carrying out environmentally hazardous activities should insure against the risks associated with such respective activities. An agreement of mandatory environmental insurance should cover damages to life, health, property of third parties and the environment caused as a result of an environmentally hazardous activity and other activities (except for payments for moral damage, loss of profit and payment of penalty interest).

According to Article 7 of the List of Environmentally Hazardous and Other Activities, approved by the Governmental Resolution "On Approval of the List of Environmentally Hazardous and Other Activities" (№ 543, dated 27 June 2007), environmentally hazardous type of activities include: (i) the commercial production of oil and gas; (ii) the storage of oil,

oil products and chemicals; (iii) the refining of oil (other than the production of lubricants from crude oil); and (iv) the operation of oil and gas pipelines.

A subsoil user cannot carry out its activities without obtaining environmental insurance.

Other lines of mandatory insurance, which are required by Kazakhstan laws and applicable to the Company's activities, are as follows:

Insurance of Civil Liability of Danger Units Owners

According to the Kazakhstan Law "On Industrial Security on the Hazardous Manufacturing Units" (dated 3 April 2002, № 314-II) and the Kazakhstan Law "On Mandatory Insurance of Civil Liability of Owners of Units Associated with Danger of Damage to Third Parties" (№ 580-II, dated 7 July 2004, as amended), companies must insure against risks associated with the functioning of their hazardous manufacturing units. A hazardous manufacturing unit is a unit that produces, uses, processes, generates, stores, transposes or destroys at least one of the following substances: inflammable substances, explosives, fuels, oxidizing agents, toxic agents, high-toxic substances and other hazardous substances according to the laws.

Insurance of the Civil Liability of an Employer

According to the Kazakhstan Law "On Mandatory Insurance of the Civil Liability of an Employer for Damage to Health and Life of Employees when Carrying Out Their Labour Duties" (№ 30-III, dated 7 February 2005, as amended), since 1 July 2005 all employers must be insured against liability for damage to employee health or employee fatalities when carrying out their employment duties.

Insurance of the Civil Liability of Transport Vehicles Owners

According to the Kazakhstan Law "On Mandatory Insurance of the Civil Liability of Transport Vehicle Owners" (№ 446-II, dated 1 July 2003, as amended), civil liability of owners of *inter alia* cars, trucks, buses, microbuses, and transport vehicles, motor-transport and trailers (semi-trailers) are subject to mandatory insurance, and the use of vehicles without insurance is prohibited.

Statute of Limitations on Proceedings

The statute of limitation for bringing proceedings for breach of environmental requirements is governed by the general statute of limitation provisions under Article 178 of the Civil Code which provides for a three year limitation period. This limitation does not apply to criminal prosecutions in connection with breaches of environmental requirements.

Health and Safety Compliance

The Company's activities are subject to laws and regulations of Kazakhstan relating to safety and health matters and are regulated by various State bodies, including the MLSPP. Such laws and regulations include the Environmental Code, the New Subsoil Law and the Labour Code dated 15 May 2007, № 251-III. The Company's oil and gas operations within Kazakhstan are also governed by the CSCES with respect to industry specific health and safety requirements.

The laws and regulations require an employer to provide its employees with properly functioning and safe equipment, to train its employees on health and safety requirements, to adopt corporate health and safety regulations, to provide special uniform and shoe wear, special nutrition, to perform periodic medical examinations of its employees, to obtain periodic third party attestation for equipment and worksites, to provide adequate insurance to its employees, to maintain third party liability insurance and to comply with fire safety, sanitary and hygienic regulations.

Price Regulation

The Government can regulate prices with respect to Company members that are Kazakhstan companies if such companies have the status of a natural monopoly or hold a dominant position in the relevant market. KTO is a natural monopoly, and subject to price regulation by the Natural Monopolies Agency.

In 2011 and 2012, the Government introduced a number of laws and resolutions regulating the price of certain types of petroleum products, including introducing a maximum retail price for certain petroleum products based on global oil prices.

Kazakhstan-based Goods and Services

The Government is promoting the development of related domestic industries and as at the date of this Base Prospectus, is actively adopting new policies in the oil and gas sector to accomplish this goal.

An example of these policies is the greater emphasis on the use of Kazakhstan based goods and services providers. Pursuant to this policy, subsoil users are required to use equipment, materials and products manufactured in Kazakhstan and to retain Kazakhstan producers for the provisions of works and services, provided they meet the necessary standards and requirements. Furthermore, subsoil users are required to give preference to Kazakhstan personnel while conducting subsurface use operations. Investors are also frequently required to contribute certain amounts of funds to social projects and benefits.

S-K Rules

Pursuant to the Sovereign Wealth Fund Law, the Company is not subject to the general procurement rule (established by the Law of the Republic of Kazakhstan "On State Procurement" № 303 III ZRK dated 21 July 2007) and conducts its procurements in accordance with the S-K Rules.

The S-K Rules are generally similar to the procurement rules and provide for mandatory procedures for the procurement of goods and services by Samruk-Kazyna and companies in which Samruk-Kazyna has a 50% or more direct or indirect ownership. The S-K Rules require such companies to conduct formal public tenders in order to procure most types of goods and services, subject to certain limited exceptions. The procurement of certain limited categories of goods and services, as well as goods and services provided by companies that are subject to the anti-monopoly laws of Kazakhstan, are conducted by way of direct trades without involving the tendering procedures. Samruk-Kazyna exercises overall supervision over compliance with the S-K Rules.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisors as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

United States Federal Income Taxation

The following is a summary of material U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a holder thereof. This summary does not address the U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note may be provided, as appropriate. This summary only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax exempt organisations, dealers or traders in securities or currencies, persons that mark their securities to market, holders that will hold Notes through a partnership or other pass through entity, holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes, controlled foreign corporations, passive foreign investment companies, U.S. Holders (as defined below) that have a functional currency other than the U.S. Dollar, or certain expatriates and long-term residents of the United States, or U.S. Holders subject to the tax on "net investment income" imposed under Section 1411 of the Code. Moreover, this summary does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not include any description of the tax laws of any U.S. State or local governments. This summary only addresses the U.S. federal income tax treatment of holders that acquire Notes as part of the initial distribution at their initial issue price.

This summary is based on the Internal Revenue Code of 1986, as amended, existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein. Any special U.S. federal income tax considerations relevant to a particular issue of the Notes will be provided in a supplement to this Base Prospectus.

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes who for U.S. federal income tax purposes is (i) a citizen or resident of the United States; (ii) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States or any State thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor concerning the U.S. federal income tax consequences of the acquisition, ownership or disposition of Notes by the partnership.

A Non-U.S. Holder is a beneficial owner of Notes that is neither a U.S. Holder nor a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes).

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Internal Revenue Service Circular 230 Disclosure

Pursuant to Treasury Department Circular 230, investors are hereby informed that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the promotion or marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

U.S. Holders

Classification of the Notes

This summary is based upon the assumption that the Notes are characterised as indebtedness for U.S. federal income tax purposes. The determination of whether an obligation represents debt, equity or some other instrument or interest is based on all the relevant facts and circumstances. There may be no statutory, judicial or administrative authority directly addressing the appropriate characterisation of the Notes, and no rulings have been or will be sought from the Internal Revenue Service ("**IRS**") with respect to the appropriate characterisation of the Notes for U.S. federal income tax purposes. It is possible that the IRS might contend that the Notes issued by KMG Finance should be treated not as indebtedness of KMG Finance but either as equity of KMG Finance, or as indebtedness of the Company. Additional alternative characterisations may also be possible. Further possible characterisations, if applicable, may be discussed in any supplemental prospectus or series prospectus. Prospective purchasers of the Notes should consult their own tax advisers about the consequences in the event the Notes are treated as indebtedness of the Company or as equity of KMG Finance, or any other characterisation for U.S. federal income tax purposes and the consequences of acquiring, owning or disposing of Notes.

Interest

Except as set forth below, interest paid on a Note, whether payable in U.S. Dollars or a currency, composite currency or basket of currencies other than U.S. Dollars (a "**foreign currency**"), including any additional amounts, will be includible in a U.S. Holder's gross income as ordinary interest income at the time it is received or accrued, in accordance with the U.S. Holder's usual method of tax accounting. In addition, interest on the Notes will generally be treated as foreign source income for U.S. federal income tax purposes. For purposes of calculating the U.S. Holder's foreign tax credit limitation, interest on the Notes should generally constitute "passive category income" or, in the case of certain U.S. Holders, "general category income". The U.S. federal income tax rules relating to foreign tax credits and limitations thereof are complex and may vary depending on the facts and circumstances of each U.S. Holder. Accordingly, U.S. Holders should consult their own tax advisers regarding the availability of a foreign tax credit for foreign taxes withheld under such U.S. Holder's particular situation.

Foreign Currency Denominated Interest

Except as set forth below, if any interest payment, including any additional amounts, is denominated in, or determined by reference to, a foreign currency (a "Foreign Currency Note"), the amount of income recognised by a U.S. Holder will be the U.S. Dollar value of the foreign currency, including the amount of any applicable withholding tax thereon, regardless of whether the foreign currency is converted into U.S. Dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. Dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. Dollar value of accrued interest income using the average rate of exchange for the accrual period or, at the U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period or the spot rate on the date of receipt, if that date is within five days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date of payment is received differs from the rate applicable to an accrual of that interest.

Original Issue Discount

U.S. Holders of Notes issued with original issue discount ("**OID**"), including zero coupon notes, will be subject to special tax accounting rules, as described in greater detail below. Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. Dollar are described under Foreign Currency Discount Notes below.

The following discussion does not address the application of the U.S. Treasury Regulations addressing OID to, or address the U.S. federal income tax consequences of, an investment in contingent payment debt instruments. In the event the

Issuer issues contingent payment debt instruments the relevant supplemental prospectus will describe the principal U.S. federal income tax consequences thereof.

For U.S. federal income tax purposes, a Note (including a zero coupon note), other than a Note with a term of one year or less (a "**Short term Note**"), will be treated as issued with OID if the excess of the Note's stated redemption price at maturity over its issue price equals or exceeds a *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of a Note that provides for payments other than qualified stated interest before maturity, its weighted average maturity)). The "issue price" of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, agent or wholesaler). The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice will be given if it is determined that a particular Note will bear interest that is not qualified stated interest. In the case of a Note issued with *de minimis* OID, a U.S. Holder of such Note will recognize capital gain with respect to any *de miminis* OID as stated principal payments on the Note are made. The Amount of such gain with respect to each principal payment will equal the product of the total amount of the Note's *de minimis* OID and a fraction, the numerator of which is the amount of the principal payment made and the denominator of which is the stated principal amount of the Note.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. The "accrual period" for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "adjusted issue price" of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortisation of any acquisition or bond premium, as described below) and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will have to include in income increasingly greater amounts of OID in successive accrual periods.

Certain of the Notes may be redeemed prior to their maturity at the Issuer's option and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the relevant Final Terms and should consult their own tax advisors with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the Notes.

In the case of an Original Issue Discount Note that is a Floating Rate Note, both the "yield to maturity" and "qualified stated interest" will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Note is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the relevant supplemental prospectus and should consult their own tax advisors regarding the U.S. federal income tax consequences of the holding and disposition of such Notes.

U.S. Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. U.S. Holders should consult their own tax advisors about this election.

Variable Rate Debt Instruments

Generally, a Floating Rate Note will qualify as a "variable rate debt instrument" if: (a) its issue price does not exceed the total noncontingent principal payments due under the Floating Rate Note by more than an amount equal to the lesser of (i) 0.015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date or (ii) 15 percent of the total noncontingent principal payments; (b) it does not provide for stated interest other than stated interest that pays or compounds at least annually at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) a qualified floating rate or objective rate in effect at any time during the term of the Note is set at a current value of that rate (i.e., the value of the rate on any day that is no earlier than three months prior to the first day on which the value is in effect and no later than one year following that first day).

A "qualified floating rate" is any variable rate where: (a) variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Floating Rate Notes are denominated; or (b) the rate is equal to such a rate multiplied by either a fixed multiple that is greater than 0.65 but not more than 1.35, or a fixed multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, and, in each case, the value of the rate on any date during the term of such Floating Rate Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Floating Rate Notes together will constitute a single qualified floating rate. Two or more qualified floating rates will be presumed to meet the requirements of the previous sentence if the values of all rates on the issue date are within 25 basis points of each other. A variable rate is not a qualified floating rate if it is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are fixed throughout the term of the Note or are not reasonably expected to significantly affect the yield on the Note.

An "objective rate" is a rate that: (a) is not a qualified floating rate; (b) the rate is determined using a single fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of the issuer or a related party; and (c) value of the rate on any date during the term of such Floating Rate Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day. Despite the foregoing, a variable rate of interest on Floating Rate Notes will not constitute an objective rate if it is reasonably expected that the average value of such rate during the first half of the Floating Rate Notes' term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Floating Rate Notes' term. A "qualified inverse floating rate," is any objective rate where such rate is equal to a fixed rate minus a qualified floating rate, and the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds.

Generally, if a Floating Rate Note provides for stated interest (payable unconditionally at least annually) at a single qualified floating rate or an objective rate, or one of those rates after a single fixed rate for an initial period, and the value of the variable rate on the Floating Rate Notes' issue date is intended to approximate the fixed rate, then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be. In this case, the amount of original issue discount, if any, is determined by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date, of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate, a fixed rate that reflects the yield reasonably expected for such Floating Rate Note.

If a Floating Rate Note that is a variable rate debt instrument does not provide for stated interest at a single qualified floating rate or objective rate, or at a single fixed rate (other than at a single fixed rate for an initial period), the amount of qualified stated interest and original issue discount on the Note are generally determined by: (a) determining a fixed rate substitute for each variable rate provided under the Floating Rate Note (generally, the value of each variable rate as of the issue date or, in the case of an objective rate that is not a qualified inverse floating rate, a rate that reflects the yield that is reasonably expected for the Note); (b) constructing the equivalent fixed rate debt instrument (using the fixed rate substitutes described above); (c) determining the amount of qualified stated interest and original issue discount with respect to the equivalent fixed rate debt instrument (by applying the general original issue discount rules as described in "—*Original Issue Discount*"); and (d) making the appropriate adjustment for actual variable rates during the applicable accrual period.

If a Floating Rate Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate and in addition provides for stated interest at a single fixed rate (other than a single fixed rate for an initial period), a U.S. Holder generally must determine the amount of interest and original issue discount accruals by using the method described in the preceding paragraph with the modification that the Floating Rate Note is treated, for purposes of the first three steps of the determination, as if it provided for a qualified floating rate (or qualified inverse floating rate, if the Note provides for a qualified inverse floating rate) rather than the fixed rate. The qualified floating rate (or qualified inverse floating rate) replacing the fixed rate must be such that the fair market value of the Note as of the issue date would

be approximately the same as the fair market value of an otherwise identical debt instrument that provides for a qualified floating rate (or qualified inverse floating rate) rather than a fixed rate.

Short Term Notes

In the case of Short term Notes, under the OID regulations, in general, individuals and certain other cash method U.S. Holders of a Short term Note are not required to include accrued discount in their income currently unless the U.S. Holder elects to do so (but may be required to include any stated interest in income as it is received). U.S. Holders that report income for U.S. federal income tax purposes on the accrual method and certain other U.S. Holders are required to accrue discount on such Short term Notes (as ordinary income) on a straight line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder that is not required, and does not elect, to include discount in income currently, any gain realised on the sale, exchange or retirement of the Short term Note will generally be ordinary income to the extent of the discount accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale, exchange or retirement. In addition, a U.S. Holder that does not elect to include currently accrued discount in income may be required to defer deductions for a portion of the U.S. Holder's interest expense with respect to any indebtedness incurred or continued to purchase or carry such Notes.

Foreign Currency Discount Notes

OID for any accrual period on an Original Issue Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined for any accrual period in the foreign currency and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under "Foreign Currency Denominated Interest" above. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder will recognise foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. Dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note with "amortisable bond premium" equal to such excess. A U.S. Holder generally may elect to amortise the premium over the remaining term of the Note on a constant yield method. If a U.S. Holder makes this election, it will be reduce the amount required to be included in income each year with respect to interest on the Note by an amount of the amortisable bond premium allocable to that year, and the U.S. Holder must reduce its tax basis in the Note by the amount of the premium used to offset qualified stated interest. In the case of a Note that is denominated in, or determined by reference to, a foreign currency, bond premium will be computed in units of foreign currency, and amortisable bond premium will reduce interest income in units of the foreign currency. At the time amortised bond premium offsets interest income, exchange gain or loss (taxable as ordinary income or loss) is realised measured by the difference between exchange rates at that time and at the time of the acquisition of the Notes. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. Special rules limit the amortisation of premium in the case of convertible debt. Bond premium on a Note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognised on disposition of the Note.

Sale, Exchange or Retirement

A U.S. Holder's tax basis in a Note generally will be its U.S. Dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The U.S. Dollar cost of a Note purchased with a foreign currency generally will be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. The amount realised on a sale, exchange or retirement for an amount in foreign currency will be the U.S. Dollar value of such amount on the date of sale or retirement or, in the case of Notes traded on an established securities

market, within the meaning of the applicable U.S. Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale.

Gain or loss recognised on the sale, exchange or retirement of a Note (other than gain or loss that is attributable to OID, or to changes in exchange rates, which will be treated as ordinary income or loss) will be capital gain or loss and will be long-term capital gain or loss if the Note was held for more than one year at the time of such sale. However, exchange gain or loss is taken into account only to the extent of total gain or loss realised on the transaction. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income or loss. Prospective investors should consult their tax advisors as to the foreign tax credit implications of such sale, exchange or retirement of Notes.

Sale, Exchange or Retirement of Foreign Currency

A U.S. Holder will have a tax basis in any foreign currency received as interest on a Note or on the sale, exchange or retirement of a Note equal to its U.S. Dollar value at the time such interest is received or at the time of such sale or retirement. A cash method U.S. Holder who buys or sells a Foreign Currency Note is required to translate units of Foreign Currency paid or received into U.S. Dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale. An accrual method U.S. Holder may elect the same treatment for all purchases or sales of Foreign Currency Notes provided that the Foreign Currency Notes are traded on an established securities market. This election cannot be changed without the consent of the IRS. Any gain or loss realised by a U.S. Holder on a sale or other disposition of foreign currency (including its exchange for U.S. Dollars or its use to purchase Notes) generally will be ordinary income or loss.

Other Notes

A description of the principal U.S. federal income tax considerations relevant to holders of high interest Notes, low interest Notes, step up Notes, step down Notes, reverse dual currency Notes, optional dual currency Notes, partly-paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set forth, if required, in the relevant supplemental prospectus.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amount for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S. $10,000 in the case of a natural person and U.S.$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. U.S. Holders should consult their own tax advisors as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any foreign currency received as interest or as proceeds from the sale, exchange or retirement of the Notes.

Foreign Asset Reporting

Certain U.S. Holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of the Notes.

Non U.S. Holders

Under U.S. federal income tax law currently in effect, subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," payments of interest (including OID) on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," any gain realised by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non U.S. Holder, such Non-U.S. Holder is present

in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of Notes that are U.S. persons. Information reporting generally will apply to payments of principal of, and interest on, an obligation, and to proceeds from the sale or redemption of, an obligation made within the United States, or by a U.S. payor or U.S. middleman, to a holder (other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a U.S. person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Note that is not a U.S. person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is currently 28%.

Backup withholding is not an additional tax. Holders generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

Kazakhstan Taxation

In Respect of Notes issued by KMG Finance

Interest

Under Kazakhstan law as presently in effect, payments of principal or interest on the Notes by KMG Finance to an individual who is a tax non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, "**Non-Kazakhstan Holders**") will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. Interest payable by KMG Finance to residents of Kazakhstan or to tax non-residents who maintain a permanent establishment in Kazakhstan (together, "**Kazakhstan Holders**"), other than to individuals, will be subject to Kazakhstan income tax unless the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE).

Payments of interest from the Company to KMG Finance to fund the KMG Finance's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax at a rate of 15% (unless a double tax treaty provides otherwise).

Gains

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income tax. Any gains derived by Kazakhstan Holders in relation to Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE) and sold through open trades on such stock exchange are not subject to Kazakhstan income tax.

Payments under the Guarantee

Payments of interest by the Company to Non-Kazakhstan Holders under the Guarantee will be subject to withholding tax at a rate of 15%. Payments of interest under such Guarantee to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba and others) will be subject to withholding of Kazakhstan tax at a rate of 20%.

Payments of interest by the Company to Kazakhstan Holders under the Guarantee, other than to Kazakhstan investment funds and certain other entities, will be subject to withholding tax at a rate of 15% (10% for individuals).

The Company will agree under its Guarantee in the Trust Deed to pay additional amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in Condition 8 (Taxation). Payments of

interest by the Company under the Guarantee to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax.

In Respect of Notes issued by KMG

Interest

Payments of interest on the Notes issued by the Company to Non-Kazakhstan Holders will be subject to withholding tax of Kazakhstan at a rate of 15% unless reduced by an applicable double taxation treaty. Payments of interest on the Notes to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba and others) will be subject to withholding of Kazakhstan tax at a rate of 20% unless reduced by an applicable double taxation treaty.

The withholding tax on interest will not apply in either case if the Notes are, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE).

Payments of interest by the Company to Kazakhstan Holders, other than to individuals (who are exempt) and Kazakhstan investment funds and certain other entities, will be subject to Kazakhstan withholding tax at a rate of 15% unless the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE).

Gains

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15%. Kazakhstan tax legislation defines a legal entity, which is not resident of Kazakhstan and purchasing securities, as a tax agent for withholding tax purposes. However, it is not clear as to how Kazakhstan tax authorities would assess such tax where payment is made by a non-resident without taxable presence in Kazakhstan as well as how they would impose any taxes and/or sanctions on such non-resident. While Kazakhstan tax legislation did not define procedures to collect withholding tax where payment is made by an individual non-resident without taxable presence in Kazakhstan, and it was otherwise not clear if such non-resident may be treated as a tax agent for Kazakhstan tax purposes. If the disposal of the Notes is made to a Kazakhstan Holder and the transferor is registered in a country with a favourable tax regime, gains derived from such a disposal are subject to withholding tax in Kazakhstan at the rate of 20%.

Any gains realised by Non-Kazakhstan Holders in relation to the Notes which are listed as of the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan or a foreign stock exchange and sold through open trades on such stock exchanges are not subject to withholding tax. Also, the withholding tax on the gains may be eliminated under an applicable double taxation treaty.

Any gains derived by Kazakhstan Holders in relation to the Notes which are listed as of the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan and sold through open trades on such stock exchange are not subject to Kazakhstan income tax.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The Netherlands Taxation

General

The following is a general summary of the Dutch tax consequences as at the date of this Base Prospectus in relation to payments made under Notes and in relation to the acquisition, holding or disposal of Notes. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder of a Note or a prospective holder and in view of its general nature, it should be treated with corresponding caution. Holders should

consult their tax advisers with regard to the tax consequences of investing in the Notes. Except as otherwise indicated, this summary only addresses the Netherlands tax legislation as in effect at the date of this Base Prospectus and as interpreted in published case law until this date.

This summary does not describe the Netherlands tax considerations for holders, who have a substantial interest ("**aanmerkelijk belang**") in Issuer. In general, a holder of a Note is considered to have a substantial interest in Issuer, if he, alone or together with his partner (a statutorily defined term) or certain other related persons, directly or indirectly, has (i) an interest of 5% or more of the total issued capital of Issuer or of 5% or more of the issued capital of a certain class of shares of Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in Issuer.

Withholding Tax

All payments made by KMG Finance under Notes issued by it can be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, provided that none of the payments under the Notes will depend on or will be deemed to depend on the profits or distribution of the profits by KMG Finance or an affiliated party.

Corporate Income Tax and Individual Income Tax

Residents of the Netherlands

If the holder of a Note is a resident or deemed to be a resident of the Netherlands for Dutch corporate income tax purposes, income derived from Notes held by it and gains realised upon the disposal of Notes held by it are subject to Dutch corporate income tax (2013 rates of 20.0% on profits up to and including €200,000; 25% on profits in excess of €200,000).

If the holder of a Note is an individual, resident or deemed to be a resident of the Netherlands for Dutch income tax purposes (including the non-resident individual holder who has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of the Netherlands), the income derived from Notes held by it and the gains realised upon the disposal or deemed disposal of Notes held by it are taxable at the progressive income tax rates (with a maximum of 52.0%), if:

(i) the holder has an enterprise or an interest in an enterprise, to which enterprise the Notes are attributable; or

(ii) the holder is considered to perform activities with respect to the Notes that exceed regular asset management ("**normaal vermogensbeheer**").

If both aforementioned conditions do not apply to the individual holder of a Note, such holder will be taxed annually on a notional income of 4.0% of the value of the Notes held by it at the beginning of the calendar year at a flat rate of 30.0% (effective rate of 1.2%), regardless of whether any interest is received or any capital gains are actually realised. The individual holder of a Note will only be subject to the above notional income tax in so far as certain thresholds are exceeded.

Non-residents of the Netherlands

A holder of a Note who derives income from a Note or who realises a gain on the disposal or deemed disposal of a Note will not be subject to Dutch taxation on income or capital gains, provided that:

- such holder is neither resident nor deemed to be resident in the Netherlands nor, in case of an individual, has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of the Netherlands; and
- such holder does not have an interest in an enterprise or deemed enterprise (statutorily defined term) which is, in whole or in part either effectively managed in the Netherlands or, carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise the Notes are attributable; and
- in the event the holder is an individual, such holder does not carry out any other activities in the Netherlands that exceed regular asset management; and
- such holder does not have an interest in an enterprise in the Netherlands other than by way of securities.

A holder of a Note will not become subject to taxation in the Netherlands by reason only of the execution, delivery or enforcement of the Notes or the performance by the relevant Issuer or, if applicable, KMG of its obligations under the Notes.

Gift, Estate or Inheritance Taxes

Dutch gift, estate or inheritance taxes will not be levied on the occasion of the acquisition of a Note by way of gift by, or on the death of, a holder of a Note, unless:

- the holder is, or is deemed to be, resident in the Netherlands; or
- in the case of a gift of a Note by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands.

For purposes of Dutch gift and inheritance tax, an individual who holds Dutch nationality will be deemed to be resident in the Netherlands, if he/she has been resident in the Netherlands at any time during the 10 years preceding the date of the gift or his/her death.

For purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in the Netherlands, if he/she has been resident in the Netherlands at any time during the twelve months preceding the date of the gift.

Other Taxes and Duties

There is no Dutch registration tax, capital tax, stamp duty or any other similar tax or duty other than court fees and contributions for the registration with the Trade Register of the Chamber of Commerce, payable by a holder of a Note in the Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of the Netherlands) of the Notes or the performance of Issuer's obligations under the Notes. There is no Dutch value added tax payable in respect of payments in consideration for the issue of the Notes, in respect of the payment of interest or principal under the Notes or the transfer of the Notes.

Certain ERISA Considerations

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") imposes certain requirements on "employee benefit plans" (as defined in ERISA) subject to Title I of ERISA ("**ERISA Plans**"), and on those persons who are fiduciaries with respect to ERISA Plans. For example, Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") prohibit certain transactions involving the assets of an ERISA Plan (Section 4975 of the Code also imposes prohibitions for certain plans that are not subject to Title I of ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans and entities whose underlying assets include assets of ERISA Plans or plans subject to Section 4975 of the Code, "**Plans**")) and certain persons having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction.

Each purchaser of the Notes or any beneficial interest therein, and each transferee thereof, will be deemed to have represented and agreed that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein it is not and will not be a Plan.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN ERISA IMPLICATIONS OF AN INVESTMENT IN THE NOTES AND DOES NOT PURPORT TO BE COMPLETE. PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN LEGAL, TAX, FINANCIAL AND OTHER ADVISORS PRIOR TO INVESTING IN THE NOTES TO REVIEW THESE IMPLICATIONS IN LIGHT OF SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

OVERVIEW OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, one or more Rule 144A Global Notes deposited with a custodian for, and registered in the name of Cede & Co., as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the relevant Dealers (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all relevant Dealers have so certified (the "**distribution compliance period**"), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Transfer Restrictions*". Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See "*—Book Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to the Rule 144A Global Note(s), as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*".

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Notes**"). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- ***Payments***. Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

- ***Notices***. So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of the Notes provided that for so long as the Notes are listed on the Regulated Market of the London Stock Exchange and the rules of the Regulated Market of the London Stock Exchange so require, notices will also be

published in a leading newspaper having general circulation in London (which is expected to be the Financial Times).

- ***Meetings***. The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.

- ***Trustee's Powers***. In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

- ***Cancellation***. Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

- ***Redemption at the Option of the Issuer***. Any Call Option provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.

- ***Redemption at the Option of Noteholders***. Any Put Option provided for in the Conditions may be exercised by the holder of the Global Note (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Conditions substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent (except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Note with the Registrar or any Transfer Agent at its specified office.

Exchange for Definitive Notes

Exchange

Registration of title to Notes initially represented by a Rule 144A Global Note in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless such depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Rule 144A Global Note or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary and the Registrar has received a notice from the registered holder of a Rule 144A Global Note requesting an exchange of a specified amount of the Rule 144A Global Note for Definitive Notes.

Registration of title to Notes initially represented by a Regulation S Global Note in a name other than the nominee of the common depositary for Euroclear and Clearstream, Luxembourg will only be permitted (i) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, or (ii) following the failure to pay principal in respect of any Note at maturity or upon acceleration of any Note and the Registrar has received a notice from the registered holder (*i.e.* common depositary) of the relevant Regulation S Global Note requesting an exchange of the Regulation S Global Note for Definitive Notes.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Company (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer, the Guarantor (if any) and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Company, KMG Finance and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Company or KMG Finance that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See "*—Book Entry Ownership — Settlement and Transfer of Interests in Notes held in the Clearing Systems*".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "—*Exchange for Definitive Notes*", DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Notes representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Notes representing Rule 144A Notes of any Series will have a CUSIP number, unless otherwise agreed, and will be deposited with a custodian for, and registered in the name of Cede & Co., as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the relevant Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The relevant Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The relevant Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the relevant Issuer or, if applicable, the Company in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the relevant Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of KMG Finance or the Company, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Interests in Notes held in the Clearing Systems

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual beneficial owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf

of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading Between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading Between DTC Participants

Secondary market sales of book entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement system in same day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading Between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading Between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note, and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the relevant Issuer, the Trustee or any Agent will have the

responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that the delivery of Notes will be made against payment therefor on the closing date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6 l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisors.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of a beneficial interest in the Rule 144A Global Note, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a QIB that is also a QP, (b) not a broker dealer which owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers, (c) not a participant directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes of the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(2) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Note in a principal amount that is not less than U.S.$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book entry depositaries.

(3) It understands that Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred, except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs each of which is also a QP, each of which is purchasing not less than U.S.$200,000 in principal amount of the Rule 144A Notes, or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(4) It understands that the relevant Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The relevant Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to any person who it reasonably believes is a U.S. person who is not a QIB and a QP.

(5) It understands that its purchase and holding of Rule 144A Notes constitute a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein it is not and will not be (and is not and will not be deemed, for purposes of ERISA or Section 4975 of the Code, to be) an employee benefit plan subject to ERISA or other plan subject to Section 4975 of the Code.

(6) It understands that Rule 144A Notes (and any individual Note Certificates issued in respect thereof), unless otherwise agreed between the relevant Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE [AND THE GUARANTEE IN RESPECT HEREOF] [HAS] [HAVE] NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER ("**QUALIFIED PURCHASER**") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QUALIFIED PURCHASER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.$200,000 PRINCIPAL AMOUNT OF NOTES, OR (2) TO NON U.S. PERSONS IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE

SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

EACH BENEFICIAL OWNER HEREOF REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QUALIFIED PURCHASER; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A "401(k)" PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS ALSO A QUALIFIED PURCHASER; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS RULE 144A NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.$200,000 IN PRINCIPAL AMOUNT OF RULE 144A NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES, AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES. THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT, IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A PERSON WHO IS NOT A QIB THAT IS ALSO A QUALIFIED PURCHASER, THE ISSUER MAY (A) REQUIRE IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON (I) WHO IS A QIB WHO IS ALSO A QUALIFIED PURCHASER AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) TO A NON U.S. PERSON PURCHASING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATION S OR (B) REQUIRE THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100% OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO ANY PERSON WHO IT REASONABLY BELIEVES IS A U.S. PERSON WHO IS NOT A QIB AND A QUALIFIED PURCHASER. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND AGREES THAT AT THE TIME OF PURCHASE AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN IT IS NOT AND WILL NOT BE (AND IS NOT AND WILL NOT BE DEEMED, FOR PURPOSES OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") OR SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), TO BE AN EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE.

THE ISSUER MAY COMPEL EACH BENEFICIAL HOLDER HEREOF TO CERTIFY PERIODICALLY THAT SUCH HOLDER IS A QIB AND A QUALIFIED PURCHASER.

(7) It acknowledges that the Company, KMG Finance, the Registrar, the Dealers and their affiliates, and others will rely upon the trust and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Company, KMG Finance and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts who are QIBs that are also QPs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each such account.

(8) It understands that Rule 144A Notes will be evidenced by one or more Rule 144A Global Notes. Before any interest in a Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

(9) Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States and each subsequent purchaser of Regulation S Notes in resales, throughout the period that it holds such Regulation S Notes, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred, except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIB each of which is also a QP, each of which is purchasing not less than U.S.$200,000 in principal amount of the Rule 144A Notes or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that Regulation S Notes will be evidenced by one or more Regulation S Global Notes. Before any interest in a Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

(4) It acknowledges that the Company, KMG Finance, the Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Company, KMG Finance and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(5) It understands that its purchase and holding of the Regulation S Notes constitute a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein it is not and will not be (and is not and will not be deemed, for purposes of ERISA or Section 4975 of the Code, to be) an employee benefit plan subject to ERISA or other plan subject to Section 4975 of the Code.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the relevant Issuer to any one or more of Barclays Bank PLC, JSC Halyk Finance, Merrill Lynch International, JSC Visor Capital (the "**Joint Arrangers**") and any other Dealers appointed under the terms of the Dealer Agreement (as defined below). The arrangements under which Notes may from time to time be agreed to be sold by the relevant Issuer to, and purchased by, Dealers are set out in an amended and restated dealer agreement dated 1 November 2010 as supplemented by a supplemental dealer agreement dated 15 April 2013, as may be further supplemented, amended or restated from time to time (the "**Dealer Agreement**"), and made among the Company, KMG Finance, the Joint Arrangers and the Dealers. Any such agreement will, inter alia, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Company and KMG Finance in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company, KMG Finance or any of their subsidiaries and affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities or instruments of the Company, KMG Finance or any of their subsidiaries and affiliates. Certain of the Dealers and their affiliates have lending relationships with the Company, KMG Finance and certain of their subsidiaries and affiliates and, in this connection, routinely hedge their credit exposure to these entities consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions, which consist of either the purchase of credit default swaps or the creation of short positions in securities issued by the Company, KMG Finance and certain of their subsidiaries and affiliates, including, potentially, Notes issued under the Programme. Any such short positions could adversely affect future trading prices of the Notes. The Dealers and their affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

United States of America

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree, that it will not offer, sell or deliver any Notes, (a) as part of their distribution at any time, or (b) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the relevant Issuer and, if the relevant Issuer is KMG Finance, the Company by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. The Dealer Agreement provides that the Dealers may, directly or through their respective U.S. broker dealer affiliates only, arrange for the offer and resale of Notes within the United States only to QIBs that are QPs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Dealer has represented and agreed that:

(1) in relation to any Notes which have a maturity of less than a year (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Kazakhstan

Each Dealer has represented and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan except in compliance with the laws of Kazakhstan.

The Netherlands

Zero Coupon Notes in bearer form and other Notes that qualify as savings certificates as defined in the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) may only be transferred or accepted, directly or indirectly, within, from or into the Netherlands through the mediation of either KMG Finance or a member of Euronext Amsterdam with due observance of the Dutch Savings Certificates Act and its implementing regulations (including registration requirements), provided that no such mediation is required in respect of (i) the initial issue of such Notes to the first holders thereof, (ii) any transfer and acceptance by individuals who do not act in the conduct of a business or profession, and (iii) the transfer or acceptance within, from or into the Netherlands of Notes, if such Notes are physically issued outside the Netherlands and are not distributed in the Netherlands in the course of initial distribution or immediately thereafter.

Russian Federation

Each Dealer has represented and agreed that it has not offered or sold or transferred or otherwise disposed of, and will not offer or sell or transfer or otherwise dispose of, any Notes (as part of their initial distribution or at any time thereafter) to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law.

Switzerland

Each Dealer has represented, warranted and agreed that:

This Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Base Prospectus nor any other offering or marketing material relating to the offering nor the Issuer, nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the

supervision by any Swiss regulatory authority, e.g., Swiss Financial Markets Supervisory Authority FINMA, and investors in the Notes will not benefit from protection or supervision by such authority.

General

These selling restrictions may be modified by the agreement of the Company, KMG Finance and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in a supplement to this Base Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Base Prospectus or any other offering material or any set of Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Base Prospectus, any other offering material or any set of Final Terms and neither the Company, KMG Finance nor any other Dealer shall have responsibility therefor.

GENERAL INFORMATION

1. The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted for listing on the Official List and to trading on the Regulated Market will be admitted separately as and when issued, subject only to the issue of the Global Note representing the Notes of that Tranche. The listing of the Programme in respect of Notes to be issued under the Programme during the 12-month period from the date of this Base Prospectus is expected to be granted on or around 17 April 2013.

   In addition, unless otherwise agreed with the relevant Dealer(s) and provided for in the Final Terms, the Company will use its reasonable endeavours to cause all Notes issued by the Company under the Programme to be admitted to the "rated debt securities (highest category)" category of the "debt securities" sector of the official list of the KASE as from (and including) the Issue Date, and the Company will use its reasonable endeavours to cause the Notes issued by KMG Finance to be listed on the KASE. No Notes may be issued or placed without the prior consent of the FMSC.

2. The establishment of the Programme was authorised by a duly adopted resolution of the board of directors of KMG Finance on 25 March 2008 and by a duly adopted resolution of the Board of Directors of the Company on 4 March 2008. An increase in the size of the Programme was authorised by a duly adopted resolution of the board of directors of the KMG Finance on 24 June 2009 and by a duly adopted resolution of the Board of Directors of the Company on 23 June 2009. A subsequent increase in the size of the Programme was authorised by a duly adopted resolution of the board of directors of KMG Finance on 18 February 2010 and by a duly adopted resolution of the Board of Directors of the Company on 14 April 2010. A further increase in the size of the Programme was authorised by a duly adopted resolution of the board of directors of KMG Finance on 11 April 2013 and by a duly adopted resolution of the Board of Directors of the Company on 13 March 2013. The Company and KMG Finance have obtained or will obtain from time to time all necessary consents, approvals and authorisations, if any required of them, respectively, in connection with the issue and performance of the Notes and the granting of guarantees in relation thereto.

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and/or DTC. The appropriate common code and the International Securities Identification Number and (where applicable) the CUSIP number in relation to the Notes of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

4. The issue price and the amount of the relevant Notes will be determined based on the prevailing market conditions. Neither the Company nor KMG Finance intends to provide any post issuance information in relation to any issues of Notes.

5. There has been no material adverse change in the prospects of the Company and its consolidated subsidiaries, joint ventures and associates, taken as a whole, since 31 December 2012, nor has there been any significant change in the financial or trading position of the Company and its consolidated subsidiaries, joint ventures and associates, taken as a whole, since 31 December 2012. There has been no material adverse change in the prospects of KMG Finance since 31 December 2012, nor has there been any significant change in the financial or trading position of KMG Finance since 31 December 2012.

6. The Company's independent auditors are Ernst & Young LLP, acting as auditors under licence № 0000003 dated 15 July 2005 issued by the Ministry of Finance of the Republic of Kazakhstan. Ernst &Young LLP is a member of the Chamber of Auditors of Kazakhstan, the professional body which oversees audit firms in Kazakhstan. The Company's financial statements are prepared in accordance with IFRS. The Company's audited financial statements for each of the financial years ended 31 December 2012 and 31 December 2011 were audited by Ernst & Young LLP, which issued reports thereon without qualification. The business address of Ernst & Young LLP is Esentai Tower, 77/7, Al-Farabi Ave., Almaty 050060, Kazakhstan.

7. For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Paying Agent namely:

- the constitutional documents of the Company and KMG Finance;
- the annual report and accounts of the Company for the financial years ended 31 December 2012 and 2011, including, in each case, the audit report relating to such accounts;
- the most recently publicly available annual report and accounts of the Company prepared in accordance with IFRS (published on an annual basis);
- the Agency Agreement;
- the Trust Deed (which contains the forms of the Notes in global and definitive form);
- the Procedures Memorandum;
- the Dealer Agreement;
- any Final Terms relating to Notes; and
- a copy of this Base Prospectus, together with any supplements to this Base Prospectus or any further base prospectus and any documents incorporated by reference therein.

In addition, this Base Prospectus, together with any supplements to this Base Prospectus, will be published on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

APPENDIX I - GLOSSARY OF FREQUENTLY USED DEFINED TERMS

"**2011 Financial Statements**" means the Company's consolidated financial statements as at and for the year ended 31 December 2011;

"**2012 Financial Statements**" means the Company's consolidated financial statements as at and for the year ended 31 December 2012;

"**A+B+C1 reserves**" means reserves of crude oil and gas classified as category A, B and C1 under Kazakhstan methodology. See "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*".

"**Agency Agreement**" means the agency agreement by and between KMG EP and KMG RM in relation to sales of crude oil by KMG EP (as annually renewed under the Kazakhstan state procurement legislation);

"**AGP**" means Asia Gas Pipeline LLP;

"**Arkagaz**" means JSC Arkagaz;

"**Asia Gas Pipeline**" means the Uzbekistan-China gas pipeline across Kazakhstan, which transmits gas from the other Central Asian Republics to major population centres in Southern Kazakhstan and to China;

" **Authorised Oil and Gas Body**'' means the State's authorised body in the area of oil and gas, acting on instructions of the President of the Republic of Kazakhstan and the Government, which is currently the MOG;

"**Atyrau Refinery**" means the oil refinery at Atyrau, Western Kazakhstan, operated by Atyrau Oil Processing Factory LLP;

"**Aysir**" means Aysir Turizm ve Inshaat AS;

"**BSGP**" means Beineu-Shymkent Gas Pipeline LLP;

"**CAC Pipeline**" means the Central Asia Centre pipeline system, a sub-system of the Central Asia System;

"**CCEL**" means CITIC Canada Energy Limited;

"**CIS**" means the Commonwealth of Independent States

"**CITIC**" means CITIC Resources Holding Limited;

"**CNODC**" means China National Oil and Gas Exploration and Development Corporation; "CNPC" means China National Petroleum Corporation;

"**CNPC E&D**" means CNPC Exploration and Development Company Ltd;

"**Company**" means, as the context requires, KMG itself or KMG together with its subsidiaries and joint ventures or KMG together with its subsidiaries, joint ventures and associates;

"**Company's A+B+C1 reserves**" means the A+B+C1 reserves of crude oil and gas of the Company and its subsidiaries and the Company's and the Company's subsidiaries proportionate share in their respective joint venture's A+B+C1 reserves of crude oil and gas, collectively, but not including CCE (see "*Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates*");

"**Company's production**" means the crude oil and gas production of the Company and its subsidiaries and the Company's and the Company's subsidiaries proportionate share in their respective joint venture's crude oil and gas production, collectively, but not including CCEL.

"**Competent Authority**" means the State's central executive body, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of subsoil use contracts, except for contracts for exploration and production of commonly occurring minerals, which was historically the MEMR, but, from and after

12 March 2010, is the MOG for oil and gas rights and the Ministry of Industry & New Technologies ("**MINT**") for hard minerals; following the reorganisation of the MEMR into the MOG and the MINT;

"**Concession Agreement**" means the agreement between ICA and the Government relating to the operation of the domestic and international gas transportation network in Kazakhstan dated 14 June 1997 as further amended;

"**CPC**" means the Caspian Pipeline Consortium;

"**CPC Pipeline**" means the pipeline owned and operated by the CPC;

"**CPC Protocol**" means the protocol on restructuring signed April 1996 between the CPC members and a group of eight oil companies;

"**EIA**" means the U.S. Energy Information Agency;

"**EMG**" means JSC EmbaMunaiGas;

"**EUR**", **Euro**" or "**€**" means the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community;

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended;

"**FGP**" means TCO's future generation expansion project;

"**Gas Law**" means the Law of the Republic of Kazakhstan "On Gas and Gas Supply" (№ 532-IV) dated 9 January 2012;

"**Government**" means the government of Kazakhstan;

"**Government Pre-Emption Rights**" means the pre-emptive right of the Government to acquire subsoil use rights in subsoil use projects in Kazakhstan;

"**Guarantor**" means, if applicable, Joint Stock Company National Company KazMunayGas;

"**ICA**" means JSC Intergas Central Asia;

"**IFRS**" means International Financial Reporting Standards as promulgated by the International Accounting Standards Board;

"**IMF**" means the International Monetary Fund;

"**ING Facility**" means the U.S.$1.0 billion syndicated loan agreement entered into between KMG Finance and a number of international banks, including ING Bank N.V., as agent;

"**Issuer**" means KMG Finance or, as specified in the relevant Final Terms, JSC National Company KazMunayGas;

"**JSC Law**" means the Kazakhstan Law On Joint Stock Companies dated 13 May 2003, as amended from time to time;

"**Kazakhoi**l" means CJSC "National Oil and Gas Company Kazakhoil";

"**Kazakhoil Aktobe**" means Kazakhoil Aktobe LLP;

"**Kazakhstan**" means the Republic of Kazakhstan;

"**Kazakhstan methodology**" means the method by which the Company estimates its crude oil and natural gas reserves. See "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*".

"**Kazakhstan Pipelines Ventures**" or "**KPV**" means Kazakhstan Pipelines Ventures LLC;

"**Kazgermunai**" means JV Kazgermunai LLP.;

"**KazMunayTeniz**" means JSC Offshore Oil Company KazMunayTeniz;

“**KazRosGas**” means JV KazRosGas LLP;

“**KCP**” means Kazakhstan China Pipeline JV LLP;

“**KC Pipeline**” means a pipeline network under construction that will connect Western Kazakhstan with the Chinese border;

“**KCP**” means JV Kazakhstan—China Pipeline LLP;

“**KMG**” means Joint Stock Company National Company KazMunayGas;

“**KMG EP**” means JSC KazMunaiGas Exploration Production;

“**KMG Kashagan Bridge Facility**” means the U.S.$1,050.0 million loan agreement among KMG Kashagan B.V., BNP Paribas, Citibank N.A. and Societe Generale dated 28 September 2007;

“**KMG PKOP”** means KazMunaiGaz PKOP Investment B.V.;

“**KPO**” means Karachaganak Petroleum Operating B.V.;

“**KMG RM**” means JSC KazMunaiGaz Refining and Marketing;

“**KNOC**” means the Korean National Oil Consortium;

“**KTG**” means JSC KazTransGas;

“**KTO**” means JSC KazTransOil;

“**KZT**” or “**Tenge**”, means the official currency of Kazakhstan;

“**LIBOR**” means the London Inter Bank Offered Rate;

“**LPG**” means liquefied petroleum gas;

“**MEMR**” means the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan;

“**MEP**” means the Ministry of Environmental Protection of the Republic of Kazakhstan;

“**MIBV**” means Mangistau Investments B.V.;

“MINT” means the Ministry of Industry & New Technologies of Kazakhstan, which is currently the transferee of the MEMR’s supervisory authority and, accordingly, the Competent Authority in the mining sector;

“**MMG**” means JSC MangistauMunaiGaz;

“**MOG**” means the Ministry of Oil and Gas of Kazakhstan, the State’s central executive agency, acting based upon its Regulations approved by the Resolution of the Government (№ 254, dated 20 May 2010), which is currently the Competent Authority in oil and gas and the Authorised Oil and Gas Body;

“**Mubadala**” means Mubdala Development Company (Oil and Gas N Block Kazakhstan) GmbH;

“**MunayTas**” means JSC MunayTas North West Pipeline Company JV;

“**Natural Monopolies Agency**” means the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies;

“**NBK**” means the National Bank of Kazakhstan;

“**N Block**” means the Nursultan Block;

“**N Block Project**” means the project for exploration and development in the Nursultan Block;

"**NC PSA**" means the North Caspian Production Sharing Agreement dated 18 November 1997 and a joint operating agreement dated 29 March 2005 among a consortium consisting of AGIP Caspian Sea B.V., ExxonMobil Kazakhstan Inc., Inpex North Caspian Sea Ltd, Phillips Petroleum Kazakhstan Ltd, Shell Kazakhstan Development B.V. and Total EP Kazakhstan;

"**NCPC**" means the North Caspian Project Consortium;

"New Subsoil Law" means the Law of the Republic of Kazakhstan № 291-IV "On Subsoil and Subsoil Use", which was adopted on 24 June2010 and serves as the current legal framework for the regulation of subsoil use rights in Kazakhstan;

"**North Caspian Project**" means the project by NCPC to develop the North Caspian Sea, which include the Kashagan Field;

"**Note**" means notes of the Issuer unconditionally issued under the Programme and irrevocably guaranteed the Guarantor;

"**NSA**" means the National Statistical Agency of Kazakhstan;

"**Old Subsoil Law**" means the Law of the Republic of Kazakhstan № 2828 On Subsoil and Subsoil Use, as amended, which was adopted on 27 January 1996;

"**OMG**" means JSC OzenMunaiGas;

"**OMG fields**" means the fields operated by JSC OzenMunaiGas;

"**OPEC**" means the Organisation of Petroleum Exporting Countries;

"**Parliament**" means the Parliament of Kazakhstan;

"**Pavlodar Refinery**" means the oil refinery in Pavlodar, Kazakhstan;

"**Petroleum Law**" means the Law of the Republic of Kazakhstan On Petroleum dated 28 June 1995 № 2350, as amended;

"**Petromidia Refinery**" means the oil refinery in Navodari, Romania operated by Rompetrol Rafinare;

"**PKI**" means PetroKazakhstan Inc.;

"**PKKR**" means JSC PetroKazakhstan Kumkol Resources;

"**Platts**" means Platts, a division of The McGraw Hill Companies, Inc.;

"**PRMS Standards**" means the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers;

"**Programme**" means the U.S.$10,500,000,000 Global Medium Term Note Programme whereby KMG Finance and KMG may from time to time issue Notes, which in the case of Notes issued by KMG Finance are unconditionally and irrevocably guaranteed by KMG, in an aggregate amount (taken all together) up to U.S.$10,500,000,000;

"**PSAs"** means production sharing agreements;

"**Relationship Agreement**" means the agreement by and between the Company and KMG EP dated 8 September 2006;

"**Rompetrol**" or "**Rompetrol Group**" means The Rompetrol Group N.V.;

"**Samruk-Kazyna**" means JSC "Sovereign Wealth Fund" "Samruk-Kazyna";

"**SBS**" means Sapa Barlau Service LLP;

"**SEC**" means the Securities and Exchange Commission of the United States of America;

"**Securities Act**" means the U.S. Securities Act of 1933, as amended;

"**Services Agreement**" means the agreement entered annually by and between the Company and KMG EP;

"**Shymkent Refinery**" means the oil refinery in Shymkent, Kazakhstan operated by PKOP;

"**S-K Rules**" means the Rules for Conducting of Procurement of Goods, Works and Services by Samruk-Kazyna and Entities 50 and More Percent of Voting Shares (Participatory Interests) in Which are Directly or Indirectly Owned by JSC Samruk-Kazyna on the Basis of a Right of Ownership or Trust Management, adopted by resolution № 80 of the board of directors of Samruk-Kazyna dated 26 May 2012;

"**Southern Pipeline Network**" means the pipeline network running through the southern region of Kazakhstan from the Uzbekistan/Kazakhstan border to Almaty in Kazakhstan;

"**State Procurement Law**" means The Law of the Republic of Kazakhstan "On State Procurement" № 303 III ZRK dated 21 July 2007) adopted on 1 January 2008;

"**Subsoil Use Agreement**" means a production and exploration licence and/or subsoil use contract (after 1999 subsoil operations are based on contracts only), with respect to onshore activity, or a production sharing agreement, with respect to offshore activity;

"**TCO**" means JV Tengizchevroil LLP;

"**Tenge**" means the currency of the Republic of Kazakhstan;

"**Trunk Pipeline Law**" means the Law of the Republic of Kazakhstan "On Trunk Pipeline" (№ 20-V) dated 22 June 2012.

"**UAS pipeline**" means Uzen Atyrau Samara pipeline;

"**UGL**" means Ural Group Limited ;

"**UOG**" means Ural Oil and Gas LLP ;

"**U.S.$** or **U.S. Dollar**" means the currency of the United States of America;

"**Uzen fields**" means the fields operated by JSC EmbaMunaiGas;

"**Western Pipeline Network**" means the pipeline network in Western Kazakhstan that services Central Asia's producing natural gas fields; and

"**WPMP**" means TCO's wellhead pressure management project.

APPENDIX II - GLOSSARY OF MEASUREMENT AND TECHNICAL TERMS

Certain Abbreviations and Related terms

% .... percent

bcm.. billion cubic metres

bopd .... barrels of oil per day

g... gramme

km .... kilometre

km^2 .... square kilometres

m.. metre

mcm... million cubic metres

mm .... millimetres

mPa .... mega Pascal

Certain Terminology

2D seismic .... Geophysical data that depicts the subsurface strata in two dimensions.

3D seismic .... Geophysical data that depict the subsurface strata in three dimensions. 3D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2D seismic.

API gravity .... The industry standard method of expressing specific gravity of crude oils. Higher American Petroleum Institute ("**API**") gravities mean lower specific gravity and lighter oils.

Development well.......................... A well drilled to obtain production from a proven oil or gas field. Development wells may be used either to extract hydrocarbons from a field or to inject water or gas into a reservoir in order to improve production.

Dry gas.. Natural gas that does not contain dissolved liquid hydrocarbons.

Exploration well........................... A well drilled to find hydrocarbons in an unproved area or to extend significantly a known oil or natural gas reservoir.

Formation..................................... A succession of sedimentary beds that were deposited under the same general geologic conditions.

Gas condensate............................. The heavier hydrocarbon fractions in a natural gas reservoir that condense into a liquid as they are produced. They are used as a chemical feedstock or for blending into gasoline.

Hydrocarbons .... Compounds formed from the elements hydrogen (H) and carbon (C) and existing in solid, liquid or gaseous forms.

Natural gas .... Hydrocarbons that are gaseous at one atmosphere of pressure at 20°C. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas,

primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.

Quality bank................................. An arrangement whereby oil companies that supply lower quality (heavy and sour) crude oil to a pipeline system pay more for the use of pipelines than those who supply higher quality crude oil. (Alternatively, suppliers of lower quality crude oil might directly compensate suppliers of higher quality crude oil for the deterioration in crude quality due to blending).

Reservoir .... A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water filled rock layers.

Seismic survey............................... A method by which an image of the earth's subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can he done in two or three dimensional form.

Vacuum distillation....................... Distillation under reduced pressure (less than atmospheric), which lowers the boiling temperature of the liquid being distilled. This technique with its relatively low temperatures prevents cracking or decomposition of the charge stock.

Watercut.. The proportion of water produced, along with crude oil, from extracted reservoir liquids, usually expressed as a percentage.

Workover....................................... A maintenance or repair operation on a well after it has commenced production. Usually undertaken to maintain or increase production from the well.

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JSC "National Company "KazMunayGas"

Consolidated Financial Statements

Year ended December 31, 2012
with Independent Auditors' Report

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.

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Ernst & Young in Kazakhstan:
20 years of commitment

«Эрнст энд Янг»:
20 лет в Казахстане

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

A member firm of Ernst & Young Global Limited

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	Note	For the years ended December 31, 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:

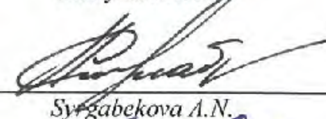
- As of December 31, 2012, the payables for purchases of property, plant and equipment increased by 77,781,745 thousand Tenge (2011: 6,492,797 thousand Tenge).

**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

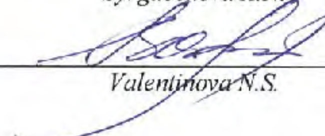
Kassymbek A.M.

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

In thousands of Tenge	Attributable to equity holder of the Company							
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Net book value as at December 31, 2010	**1,339,640,559**	**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

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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.

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 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.

JSC "National Company "KazMunayGas"

Consolidated Financial Statements

Year ended December 31, 2011
with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of joint stock company "National Company "KazMunayGas" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

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

Ernst & Young LLP

Gulmira Turmagambetova
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

26 March 2012

A member firm of Ernst & Young Global Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

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

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

Finance Director *Syrgabekova A.N.*

Chief Accountant *Valentinova N.S.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

Finance Director Syrgabekova A.N.

Chief Accountant Valentinova N.S.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

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

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

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

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

Finance Director ____________ *Syrgabekova A.N.*

Chief Accountant ____________ *Valentinova N.S.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Attributable to equity holder of the Company Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total
Note	16	16		16			16	
As at December 31, 2009	**159,647,488**	**2,248,079**	**4,910,393**	**183,362,434**	**1,530,243,896**	**1,880,412,290**	**476,802,220**	**2,357,214,510**
Profit for the year	–	–	–	–	305,309,217	**305,309,217**	91,725,638	**397,034,855**
Other comprehensive income	–	–	–	(10,031,683)	–	**(10,031,683)**	(481,270)	**(10,512,953)**
Total comprehensive income for the year	–	–	–	**(10,031,683)**	**305,309,217**	**295,277,534**	**91,244,368**	**386,521,902**
Charter contribution (Note 16)	166,788,373	18,501	–	–	–	166,806,874	–	**166,806,874**
Dividends (Note 16)	–	–	–	–	(16,940,104)	(16,940,104)	(20,589,632)	**(37,529,736)**
Distributions to the Parent Company (Note 16)	–	–	–	–	(85,241,402)	(85,241,402)	–	**(85,241,402)**
Recognition of share based payments at subsidiaries	–	–	309,987	–	54,899	364,886	11,359	**376,245**
Forfeiture of share based payments at subsidiaries	–	–	(49,809)	–	–	(49,809)	–	**(49,809)**
Share options exercised at subsidiaries	–	–	5,634	–	–	5,634	–	**5,634**
Acquisition of treasury shares by subsidiary (Note 16)	–	–	–	–	(3,997,157)	(3,997,157)	(20,534,818)	**(24,531,975)**
Change in ownership of subsidiaries – acquisition of non-controlling interest	–	–	–	–	1,513,990	1,513,990	(5,236,944)	**(3,722,954)**
Conversion of convertible debt instrument of Rompetrol Rafinare SA into share capital and shares (Note 17)	–	–	–	–	(113,467,108)	(113,467,108)	103,003,330	**(10,463,778)**
Change in ownership of subsidiaries – acquisition of non-controlling interest in subsidiaries of Rompetrol Group N.V. (Note 5)	–	–	–	–	47,302,003	47,302,003	(65,334,906)	**(18,032,903)**
As at December 31, 2010	**326,435,861**	**2,266,580**	**5,176,205**	**173,330,751**	**1,664,778,234**	**2,171,987,631**	**559,364,977**	**2,731,352,608**

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, 2010	**326,435,861**	**2,266,580**	**5,176,205**	**173,330,751**	**1,664,778,234**	**2,171,987,631**	**559,364,977**	**2,731,352,608**
Profit for the year	–	–	–	–	422,497,982	**422,497,982**	56,292,345	**478,790,327**
Other comprehensive income	–	–	–	15,242,349	–	**15,242,349**	1,167,781	**16,410,130**
Total comprehensive income for the year	–	–	–	**15,242,349**	**422,497,982**	**437,740,331**	**57,460,126**	**495,200,457**
Charter contribution (Note 16)	14,957,903	–	–	–	–	14,957,903	–	**14,957,903**
Dividends (Note 16)	–	–	–	–	(45,796,384)	(45,796,384)	(22,167,123)	**(67,963,507)**
Discount on loans received from Shareholder (Note 16)	–	10,971,414	–	–	–	10,971,414	–	**10,971,414**
Distributions to the Parent Company (Note 16)	–	–	–	–	(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 16)	–	–	–	–	(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. (Note 5)	–	–	–	–	(1,858,084)	(1,858,084)	1,778,407	**(79,677)**
As at December 31, 2011	**341,393,764**	**13,237,994**	**1,966,059**	**188,573,100**	**2,033,329,755**	**2,578,500,672**	**581,657,604**	**3,160,158,276**

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

Finance Director — Syrgabekova A.N.

Chief Accountant — Valentinova N.S.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION

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

Statement of compliance

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Statement of compliance (continued)

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Group Companies

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

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

Exchange rates

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

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

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

The adoption of the standards or interpretations is described below:

IAS 24 Related *Party Transactions* (Amendment)

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

IAS 32 *Financial Instruments: Presentation* (Amendment)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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

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

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

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

Basis of consolidation

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

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

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

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

Business combinations and goodwill

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

Acquisition of subsidiaries from parties under common control

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

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

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

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

Joint ventures

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

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

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

Associates

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

Oil and natural gas exploration and development expenditure

Pre-license costs

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

License and property acquisition costs

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

Exploration and evaluation costs

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

Development costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and gas properties and other property, plant and equipment

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

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

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

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

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

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

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

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

Intangible assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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

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

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

Impairment of non-financial assets

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

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

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

Impairment of exploration and evaluation assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale and discontinued operations

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

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

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

Asset retirement obligation (decommissioning)

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

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

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

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

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

Financial assets

Initial recognition and measurement

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Held-to-maturity investments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments

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

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

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

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

Derecognition

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

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

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

Available-for-sale financial investments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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

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

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

Inventories

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

Value added tax (VAT)

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

Cash and cash equivalents

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

Put-options arising on business combination

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Trade and other payables

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

Loans and borrowings

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

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

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

Derecognition

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

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

Offsetting of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Fair value of financial instruments

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

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

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

Provisions

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

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

Employee benefits

Pension Scheme

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

Revenue recognition

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

Sale of goods

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

Rendering of services

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

Expense recognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

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

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

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

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

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

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity

Non-controlling interest

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

Share based payments

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

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

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

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

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

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

Dividends

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

Subsequent events

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

Standards issued but not yet effective

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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

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

IAS 19 *Employee Benefits* (Amendment)

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

IAS 12 *Income Taxes – Recovery of Underlying Assets*

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

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

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

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

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

IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

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

IFRS 9 *Financial Instruments: Classification and Measurement*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 10 *Consolidated Financial Statements*

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

IFRS 11 *Joint Arrangements*

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

IFRS 12 *Disclosure of Involvement with Other Entities*

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

IFRS 13 *Fair Value Measurement*

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Oil and gas reserves

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Oil and gas reserves (continued)

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

Provision for construction

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

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

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

Movements in this provision are disclosed in Note 19.

Assets retirement obligations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Assets retirement obligations (continued)

Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Group reviews site restoration provisions at each reporting date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice.

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

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

Environmental remediation

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

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan and Europe. The Group has classified this obligation as non-current except for the portion of costs, included in the annual budget for 2012. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Further uncertainties related to environmental remediation obligations are detailed in Note 33. Movements in the provision for environmental remediation obligations are disclosed in Note 19.

Taxation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Taxation (continued)

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

Impairment of non-financial assets

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

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

Impairment of exploration and evaluation assets

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

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

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

Fair value of financial instruments

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

Operating lease commitments – the Group as lessee

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

Useful lives of property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Useful lives of property, plant and equipment (continued)

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

Fair values of assets and liabilities acquired in business combinations

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

5. ACQUISITIONS

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

On April 15, 2011, E&P KMG acquired from Exploration Venture Limited 50% of the common shares of UGL. UGL holds 100% equity interest in Ural Oil and Gas LLP ("UOG"), which has an exploration license for the Fedorovskyi hydrocarbons field located in the Western Kazakhstan region. In May 2010, the exploration license was extended until May 2014.

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

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

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

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

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

In thousands of Tenge	**Provisional 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 exploration license of UOG of 17,459,900 thousand Tenge.

Acquisition of Karpovskyi Savernyi JSC ("KS JSC")

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITIONS (continued)

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

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

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

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

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

Acquisition of AktauNefteService LLP ("ANS")

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

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

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 tax liability	3,812,710
Other non-current liabilities	1,746
Trade accounts payable	645,931
Other taxes payable	303,035
Other current liabilities	5,519,939
Total liabilities	**17,283,422**
Net assets	**36,668,128**
Goodwill arising on acquisition (Note 8)	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)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITIONS (continued)

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

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

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

Acquisition of NBK LLP ("NBK")

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

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

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

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

Acquisitions of SapaBarlau Service LLP ("SBS")

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITIONS (continued)

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

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

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

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

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

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

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

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

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

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

2010 acquisition of non-controlling interests in subsidiaries of TRG

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITIONS (continued)

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

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

As a result of the above-mentioned acquisitions:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

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, 2009	**1,108,416,365**	**203,161,397**	**453,771,202**	**202,376,679**	**177,920,771**	**46,047,588**	**32,061,850**	**73,792,371**	**2,297,548,223**
Foreign currency translation	(8,102,924)	(67,234)	(1,975,619)	(1,594,480)	(313,629)	(190,275)	(129,674)	(214,737)	**(12,588,572)**
Additions	178,152,846	1,549,058	3,858,260	2,785,987	3,510,447	7,256,652	7,729,050	207,582,340	**412,424,640**
Disposals	(7,492,587)	(1,449,843)	(1,789,006)	(2,722,874)	(2,108,248)	(3,544,171)	(1,735,018)	(2,678,956)	**(23,520,703)**
Depreciation charge	(30,005,013)	(10,832,652)	(34,577,427)	(12,458,425)	(22,825,598)	(7,170,591)	(7,375,702)	–	**(125,245,408)**
Accumulated depreciation on disposals	4,046,767	1,380,012	768,264	603,925	854,084	1,954,248	1,401,626	–	**11,008,926**
(Impairment provision) / reversal of impairment provision	(364,183)	8	19,158	(3,485,266)	(4,054,803)	20,953	(520,210)	(1,507,997)	**(9,892,340)**
Transfers to intangible assets	–	–	–	–	–	–	(299,698)	(670,604)	**(970,302)**
Transfers and reclassifications	91,989,288	19,251,490	25,078,486	(354,356)	41,824,041	13,241,849	(1,669,330)	(189,361,468)	–
Net book value as at December 31, 2010	**1,336,640,559**	**212,992,236**	**445,153,318**	**185,151,190**	**194,807,065**	**57,616,253**	**29,462,894**	**86,940,949**	**2,548,764,464**
Foreign currency translation	14,407,453	–	1,860,191	(561,143)	(866,244)	1,071,065	84,676	111,050	**16,107,048**
Additions	154,631,069	4,386,118	4,530,676	4,946,860	5,705,900	22,563,168	6,225,099	224,509,234	**427,498,124**
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)	(3,841,321)	(3,479,878)	(2,623,713)	(3,844,174)	**(39,476,409)**
Depreciation charge	(35,099,010)	(10,315,370)	(38,677,358)	(14,089,594)	(25,519,526)	(8,088,198)	(7,748,278)	–	**(139,537,334)**
Accumulated depreciation on disposals	8,595,453	518,388	754,761	958,200	2,698,591	2,310,108	1,838,778	–	**17,674,279**
Impairment provision	(9,948,186)	(150,497)	(2,722,980)	(9,235,574)	(4,222,873)	(16,524)	(144,335)	(5,274,467)	**(31,715,436)**
Transfers from exploration and evaluation assets	1,407,070	–	–	–	–	–	–	–	**1,407,070**
Transfers to intangible assets	–	–	–	–	(40,798)	–	(3,773)	(496,837)	**(541,408)**
Transfers and reclassifications	72,331,126	11,932,983	22,148,218	15,697,764	12,714,371	1,453,597	2,730,312	(139,008,371)	–
Net book value as at December 31, 2011	**1,524,394,482**	**218,810,533**	**431,506,995**	**191,530,217**	**189,538,440**	**84,814,739**	**30,010,651**	**163,013,174**	**2,833,619,231**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. 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	1,739,895,397	275,472,476	560,244,737	271,392,432	298,653,695	119,795,393	60,212,321	171,486,124	3,497,152,575
Accumulated depreciation and impairment	(215,500,915)	(56,661,943)	(128,737,742)	(79,862,215)	(109,115,255)	(34,980,654)	(30,201,670)	(8,472,950)	(663,533,344)
Net book value as at December 31, 2011	**1,524,394,482**	**218,810,533**	**431,506,995**	**191,530,217**	**189,538,440**	**84,814,739**	**30,010,651**	**163,013,174**	**2,833,619,231**
At cost	1,514,280,997	259,485,550	585,994,559	258,459,330	291,083,484	81,585,712	62,385,647	90,141,350	**3,143,416,629**
Accumulated depreciation and impairment	(177,640,438)	(46,493,314)	(140,841,241)	(73,308,140)	(96,276,419)	(23,969,459)	(32,922,753)	(3,200,401)	**(594,652,165)**
Net book value as at December 31, 2010	**1,336,640,559**	**212,992,236**	**445,153,318**	**185,151,190**	**194,807,065**	**57,616,253**	**29,462,894**	**86,940,949**	**2,548,764,464**

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

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

Impairment of property, plant and equipment

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. EXPLORATION AND EVALUATION ASSETS

In thousands of Tenge	Tangible	Intangible	Total
Net book value as at December 31, 2009	108,241,752	8,364,753	**116,606,505**
Foreign currency translation	(514,318)	–	**(514,318)**
Additions	25,998,484	1,421,159	**27,419,643**
Acquisition of subsidiaries (Note 5)	5,474,983	6,161,767	**11,636,750**
Impairment	(931,317)	–	**(931,317)**
Transfer to non-current assets held-for-sale	(1,261,185)	–	**(1,261,185)**
Disposals	(2,156,925)	–	**(2,156,925)**
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**

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

8. INTANGIBLE ASSETS

In thousands of Tenge	Goodwill	Marketing related intangible assets	Software	Other	Total
Net book value as at December 31, 2009	125,501,777	27,208,272	10,213,363	23,027,827	**185,951,239**
Foreign currency translation	(267,082)	(184,066)	(120,709)	(236,048)	**(807,905)**
Additions	–	–	3,278,586	1,808,749	**5,087,335**
Disposals	–	–	(222,545)	(117,622)	**(340,167)**
Amortization charge		(192,127)	(3,243,468)	(2,840,995)	**(6,276,590)**
Accumulated amortization on disposals	–	–	136,996	82	**137,078**
Transfer from construction in progress	–	–	766,206	204,096	**970,302**
Transfers and adjustments	–	–	233,820	(233,820)	**–**
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INTANGIBLE ASSETS (continued)

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

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

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

Refining, Downstream Romania and Dyneff

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INTANGIBLE ASSETS (continued)

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

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

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

Batumi Oil Terminal and Batumi Sea Port

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

Key assumptions used in value-in-use calculations

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

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

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

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

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

Goodwill on acquisition of Refinery Company RT LLP ("Refinery"), a 100% subsidiary of KMG RM

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

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

Key assumptions used in value-in-use calculations

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INTANGIBLE ASSETS (continued)

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

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

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

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

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

Sensitivity to changes in assumptions

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

9. LONG-TERM BANK DEPOSITS

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

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

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

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

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

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

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

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

The following table summarizes the movements in investments in 2011:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

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

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

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

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

11. NOTE RECEIVABLE FROM A SHAREHOLDER OF A JOINT VENTURE

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

12. INVENTORIES

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

13. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

In thousands of Tenge	Individually impaired
As at December 31, 2009	**15,419,072**
Charge for the year	4,311,239
Written off	(1,786,724)
Foreign currency translation	(1,136,570)
Recovered	(1,097,660)
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**

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
2011	**185,599,946**	**83,211,219**	**63,771,204**	**27,222,029**	**1,578,724**	**1,052,590**	**8,764,180**
2010	164,733,410	94,033,785	47,868,264	6,588,943	5,473,459	1,893,855	8,875,104

14. SHORT-TERM FINANCIAL ASSETS

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

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

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

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

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

Loans due from related parties are stated at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. SHORT-TERM FINANCIAL ASSETS (continued)

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

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

15. CASH AND CASH EQUIVALENTS

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

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

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

16. EQUITY

Share capital

Total number of outstanding, issued and paid shares comprises:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. EQUITY (continued)

Share capital (continued)

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

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

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

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

Currency translation reserves

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

Distributions to shareholder

Transaction with Parent Company

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. EQUITY (continued)

Distributions to shareholder (continued)

Dividends

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

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

Non-controlling interest

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

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

17. BORROWINGS

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

In thousands of Tenge	**2011**	2010
US Dollar - denominated borrowings	**1,631,878,747**	1,712,489,397
Tenge - denominated borrowings	**250,491,821**	216,308,956
Euro - denominated borrowings	**35,263,082**	28,612,420
Other currency - denominated borrowings	**151,264**	156,564
	1,917,784,914	1,957,567,337

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. BORROWINGS (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Convertible debt instrument and related litigations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. BORROWINGS (continued)

Convertible debt instrument and related litigations (continued)

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

19. PROVISIONS

In thousands of Tenge	Asset retirement obligations	Provision for environment-tal liability	Provision for taxes	Other	Total
Provision as at December 31, 2009	**25,164,427**	**30,834,376**	**30,706,425**	**10,986,250**	**97,691,478**
Foreign currency translation	–	(43,306)	(52,897)	(12,550)	**(108,753)**
Change in estimate	(273,489)	21,246	(1,339,612)	183,300	**(1,408,555)**
Unwinding of discount	2,052,767	13,545	859	–	**2,067,171**
Provision for the year	2,478,335	1,005,816	8,414,131	31,761,238	**43,659,520**
Unused amounts reversed	–	(942,085)	(4,835,885)	–	**(5,777,970)**
Use of provision	(1,414,188)	(2,212,171)	(7,959,623)	(1,625,284)	**(13,211,266)**
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**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. PROVISIONS (continued)

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

In thousands of Tenge	Asset retirement obligations	Provision for environmental liability	Provision for taxes	Other	Total
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**
As at December 31, 2010					
Current portion	695,423	3,170,068	23,886,409	28,838,162	**56,590,062**
Long-term portion	27,312,429	25,507,353	1,046,989	12,454,792	**66,321,563**
Provision as at December 31, 2010	**28,007,852**	**28,677,421**	**24,933,398**	**41,292,954**	**122,911,625**

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

20. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

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

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

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

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

21. OTHER TAXES PAYABLE

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. REVENUE

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

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

23. COST OF SALES

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

24. GENERAL AND ADMINISTRATIVE EXPENSES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. TRANSPORTATION AND SELLING EXPENSES

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

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

26. FINANCE INCOME

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

27. FINANCE COSTS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. INCOME TAX EXPENSE

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

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

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

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

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

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

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

In thousands of Tenge	**2011**	2010
Profit before income tax	**631,920,535**	529,710,114
Statutory tax rate	**20%**	20%
Income tax expense on accounting profit	**126,384,107**	105,942,023
Income taxed at different rates	**(61,383,668)**	(41,088,784)
Other non-deductible expenses and non-taxable income	**42,078,812**	24,515,663
Other effects		
Excess profit tax	**20,829,413**	12,119,201
Withholding tax on interest income	**1,432,731**	13,152,776
Effect of different corporate income tax rates	**(763,354)**	(3,480,208)
Effect of change in income tax rates	**(782,029)**	7,419,682
Change in unrecognized deferred tax assets	**25,334,196**	14,094,906
Income tax expense reported in the consolidated statement of comprehensive income	**153,130,208**	132,675,259

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. INCOME TAX EXPENSE (continued)

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

In thousands of Tenge	2011 Corporate Income Tax	2011 Excess Profit Tax	2011 Withholding Tax	2011 Total	2010 Corporate Income Tax	2010 Excess Profit Tax	2010 Withholding Tax	2010 Total
Deferred tax assets								
Property, plant and equipment	–	–	–	–	1,527,850	–	–	1,527,850
Tax loss carryforwards	55,938,591	–	–	55,938,591	30,405,109	–	–	30,405,109
Employee related accruals	2,456,732	646,147	–	3,102,879	3,390,962	547,627	–	3,938,589
Impairment of financial assets	1,044,406	–	–	1,044,406	–	–	–	–
Environmental liability	3,927	–	–	3,927	34,949	3,149	–	38,098
Other	21,578,416	3,033,791	–	24,612,207	16,813,363	2,873,543	–	19,686,906
Less: unrecognized deferred tax assets	(54,385,801)	–	–	(54,385,801)	(29,051,605)	–	–	(29,051,605)
Less: deferred tax assets offset with deferred tax liabilities	(17,887,525)	(1,823,065)	–	(19,710,590)	(14,167,193)	(1,772,287)	–	(15,939,480)
Deferred tax asset	**8,748,746**	**1,856,873**	**–**	**10,605,619**	**8,953,435**	**1,652,032**	**–**	**10,605,467**
Deferred tax liabilities								
Property, plant and equipment	124,995,267	1,823,065	–	126,818,332	119,109,079	3,367,153	–	122,476,232
Undistributed earnings of joint venture	–	–	35,509,962	35,509,962	–	–	35,079,339	35,079,339
Other	4,965,143	2,007,205	–	6,972,348	3,293,565	–	–	3,293,565
Less: deferred tax assets offset with deferred tax liabilities	(17,887,525)	(1,823,065)	–	(19,710,590)	(14,167,193)	(1,772,287)	–	(15,939,480)
Deferred tax liability	**112,072,885**	**2,007,205**	**35,509,962**	**149,590,052**	**108,235,451**	**1,594,866**	**35,079,339**	**144,909,656**
Net deferred tax liability / (asset)	**103,324,139**	**150,332**	**35,509,962**	**138,984,433**	**99,282,016**	**(57,166)**	**35,079,339**	**134,304,189**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. INCOME TAX EXPENSE (continued)

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

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

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

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

In thousands of Tenge	**2011 Corporate Income Tax**	**2011 Excess Profit Tax**	**2011 Withholding Tax**	**2011 Total**	2010 Corporate Income Tax	2010 Excess Profit Tax	2010 Withholding Tax	2010 Total
Net deferred tax liability / (asset) as at January 1,	**99,282,016**	**(57,166)**	**35,079,339**	**134,304,189**	**91,060,241**	**(106,070)**	**34,164,025**	**125,118,196**
Foreign currency translation	(85,860)	–	221,619	135,759	(1,594,977)	–	(221,620)	(1,816,597)
Additions through business combinations (Note 5)	5,133,822	–	–	5,133,822	1,816,597	–	–	1,816,597
Charge to consolidated statement of comprehensive income	(1,005,839)	207,498	209,004	(589,337)	8,000,155	48,904	1,136,934	9,185,993
Net deferred tax liability / (asset) as at December 31,	**103,324,139**	**150,332**	**35,509,962**	**138,984,433**	**99,282,016**	**(57,166)**	**35,079,339**	**134,304,189**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. RELATED PARTY DISCLOSURES

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

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

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

Due from related parties

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

Due to and borrowings payable to related parties

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. RELATED PARTY DISCLOSURES (continued)

Cash and deposits placed with related parties

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

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

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	**2011**	**26,998,656**	**20,898,778**	**23,364,278**	**21,368,299**
	2010	23,796,600	21,802,744	28,421,437	29,053,167
Associates	**2011**	**428,019**	**10,431**	**12,667**	**–**
	2010	–	–	–	–
Joint ventures in which the Group is a venturer	**2011**	**121,980,624**	**172,652,631**	**114,480**	**–**
	2010	62,722,340	35,824,086	376,871	–

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

Key management employee compensation

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

31. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

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

Market risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Market risk (continued)

Currency risk

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

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

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

Interest rate risk

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Credit risk

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

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

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

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

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

[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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Liquidity risk

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

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

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

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, 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	51,234,048	43,284,662	148,117,187	–	–	**242,635,897**
Other liabilities	2,549,125	14,746,572	30,630,623	2,747,520	99,302,602	**149,976,442**
	71,108,945	**152,942,078**	**372,430,870**	**1,189,566,282**	**1,223,166,435**	**3,009,214,610**
As at December 31, 2010						
Borrowings	41,571,373	213,811,529	330,448,706	884,179,427	1,059,931,542	**2,529,942,577**
Payable for the acquisition of additional interest in North Caspian Project and payable for acquisition of subsidiary	–	–	–	352,623,262	–	**352,623,262**
Trade accounts payable	80,550,008	80,093,917	94,948,252	–	–	**255,592,177**
Other liabilities	7,617,879	4,818,952	31,807,637	2,662,391	3,105,611	**50,012,470**
	129,739,260	**298,724,398**	**457,204,595**	**1,239,465,080**	**1,063,037,153**	**3,188,170,486**

Capital management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Capital management (continued)

The ratio at the year-end was as follows:

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

Fair values of financial instruments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. CONSOLIDATION

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

Significant entities	Percentage ownership 2011	2010
Exploration and Production KazMunayGas JSC ("E&P KMG") and subsidiaries	**61.30%**	60.50%
KazTransGas JSC ("KTG") and subsidiaries	**100.00%**	100.00%
KazTransOil JSC ("KTO") and subsidiaries	**100.00%**	100.00%
KazMunayGas Refinery and Marketing JSC ("KMG RM") and subsidiaries	**100.00%**	100.00%
KazMunayTeniz JSC ("KMT") and subsidiaries	**100.00%**	100.00%
KazMunayGas-Service LLP ("KMG-S") and subsidiaries	**100.00%**	100.00%
KMG Kashagan B.V. ("Kashagan")	**100.00%**	100.00%
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 and associate	**100.00%**	100.00%
KazMorTransFlot JSC	**100.00%**	100.00%

33. CONTINGENT LIABILITIES AND COMMITMENTS

Environment

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

Commodity price risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5 As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2011.

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

Transfer pricing control

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

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

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

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

Tax contingencies of Georgian entities (KTO)

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

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

Antitrust legislation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Antitrust legislation (continued)

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

Kazakhstan local market obligation

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

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

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

Commitments under oilfield licenses and contracts

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

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

Other contractual commitments

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

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

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

Royalty (KTG)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Kyrgyz By-Pass

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. SEGMENT REPORTING

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

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

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

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

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

Eliminations represent the exclusion of intra-group turnovers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. SEGMENT REPORTING (continued)

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

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	15,773,230	135,678,670	260,732,627	1,669,846,262	16,911,835	–	**2,098,942,624**
Revenues from sales to other segments	593,469,168	25,401,043	75,663	21,707,076	20,658,713	(661,311,663)	–
Total revenue	**609,242,398**	**161,079,713**	**260,808,290**	**1,691,553,338**	**37,570,548**	**(661,311,663)**	**2,098,942,624**
Gross profit	395,378,062	63,378,141	119,420,538	135,414,441	13,349,100	(36,999,077)	**689,941,205**
Finance income	38,207,891	3,961,595	7,375,010	(6,006,354)	201,889,308	(186,756,076)	**58,671,374**
Finance costs	(20,428,966)	(2,312,341)	(11,371,750)	(40,722,555)	(190,742,019)	113,000,151	**(152,577,480)**
Depreciation, depletion and amortization	(34,597,638)	(19,573,005)	(16,582,554)	(57,108,826)	(3,280,671)	–	**(131,142,694)**
Impairment of property, plant and equipment and exploration and evaluation assets	–	–	(447,632)	(9,782,436)	(593,589)	–	**(10,823,657)**
Share of profit of joint ventures and associates, net	296,758,180	593,890	46,346,496	(1,584,142)	1,061,328	–	**343,175,752**
Income tax expenses	(58,343,384)	(12,672,494)	(21,858,178)	(3,109,368)	(36,691,835)	–	**(132,675,259)**
Net profit for the year	**250,340,498**	**45,093,250**	**103,250,257**	**(80,936,444)**	**156,146,984**	**(76,859,691)**	**397,034,855**
Other segment information							
Investments in joint ventures and associates	514,387,248	21,706,740	130,733,347	25,242,511	4,811,186	–	696,881,032
Capital expenditures	268,321,058	32,265,683	56,669,721	57,510,083	26,835,483	(1,757,745)	439,844,283
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(2,256,939)	(558,023)	(2,919,507)	(15,295,128)	(6,294,616)	–	(27,324,213)
Assets of the segment	**2,131,245,493**	**346,066,138**	**543,212,597**	**644,350,436**	**2,460,973,225**	**(373,448,796)**	**5,752,399,093**
Liabilities of the segment	**753,633,039**	**99,669,508**	**219,393,243**	**737,512,275**	**1,582,437,878**	**(371,599,458)**	**3,021,046,485**

35. SUBSEQUENT EVENTS

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

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

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