KazTransOil JSC

Consolidated Financial Statements

For the year ended December 31, 2012
with Independent Auditors' Report

Ernst & Young

Ernst & Young LLP
Esentai Tower
Al-Farabi Ave., 77/7
Almaty, Kazakhstan
Tel: +7 (727) 258 5960
Fax: +7 (727) 258 5961
www.ey.com/kazakhstan

ТОО «Эрнст энд Янг»
Казахстан, Алматы
пр. Аль-Фараби, 77/7
Здание «Есентай Тауэр»
Тел.: +7 (727) 258 5960
Факс: +7 (727) 258 5961

Independent auditors' report

To the shareholders of KazTransOil JSC:

We have audited the accompanying consolidated financial statements of KazTransOil JSC and its subsidiaries ("the Group"), 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 cash flow statement 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 financial statements.

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KazTransOil JSC as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Gulmira Turmagambetova Auditor	Evgeny Zhemaletdinov General Director Ernst & Young LLP
Auditor Qualification Certificate No. 0000374 dated 21 February 1998	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 February 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	Note	31 December 2012	31 December 2011*
ASSETS			
Non-current assets			
Property, plant and equipment	7	**362,869,105**	330,514,478
Intangible assets	8	**6,233,226**	6,229,037
Investments in joint ventures	10	**40,815,549**	32,418,904
Advances to suppliers for property, plant and equipment	11	**524,274**	638,912
Bank deposits	17	**–**	6,000,000
Other non-current assets		**130,805**	351,086
		410,572,959	376,152,417
Current assets			
Inventories	12	**2,599,941**	2,784,431
Trade and other accounts receivable	13	**2,527,881**	3,054,223
Advances to suppliers	14	**603,109**	744,898
Prepayment for corporate income tax	35	**1,580,756**	1,756,038
VAT recoverable and other prepaid taxes	15	**2,092,013**	3,633,715
Other current assets	16	**4,405,862**	4,897,493
Bank deposits	17	**53,084,676**	35,123,823
Cash and cash equivalents	18	**18,954,044**	21,852,387
		85,848,282	73,847,008
Assets classified as held for sale		**29,299**	29,502
		85,877,581	73,876,510
TOTAL ASSETS		**496,450,540**	450,028,927

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Note	31 December 2012	31 December 2011*
EQUITY AND LIABILITIES			
Equity			
Share capital	19	**61,937,567**	34,617,204
Asset revaluation reserve		**144,421,031**	138,056,828
Other capital reserves		**17,104**	17,104
Foreign currency translation reserve		**9,875,876**	9,334,129
Retained earnings		**176,062,485**	189,472,821
Total equity		**392,314,063**	371,498,086
Non-current liabilities			
Financial guarantee issued on behalf of related party	37	**199,654**	338,919
Employee benefit liability	21	**6,562,263**	5,909,892
Deferred tax liabilities	35	**39,406,770**	34,201,711
Provision on asset retirement obligation	26	**15,531,037**	–
Deferred income	22	**4,412,922**	4,756,050
		66,112,646	45,206,572
Current liabilities			
Loans and borrowings	20	–	303,181
Employee benefit liability	21	**238,000**	226,000
Income tax payable	35	**919,213**	1,156,184
Trade and other accounts payable	23	**6,771,926**	6,545,623
Advances received	24	**15,970,695**	11,226,796
Other taxes payable	25	**1,639,801**	1,269,317
Provisions	26	**353,697**	287,727
Other current liabilities	27	**12,130,499**	12,309,441
		38,023,831	33,324,269
Total liabilities		**104,136,477**	78,530,841
TOTAL EQUITY AND LIABILITIES		**496,450,540**	450,028,927
Book value of ordinary shares *(in Tenge)*	6	**1,004**	1,055

** Certain amounts shown here differ from the amount shown in 2011 consolidated financial statements and reflect adjustments made as detailed in Note 5*

General Director ____________ *Kabyldin K.M.*

Chief Accountant ____________ *Akhmedina A.S.*

The accounting policy and explanatory notes on pages 8 through 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Note	2012	2011
Revenue	28	**143,061,325**	140,478,092
Cost of sales	29	**(99,603,631)**	(96,298,683)
Gross profit		**43,457,694**	44,179,409
General and administrative expenses	30	**(10,977,575)**	(6,730,370)
Other operating income	31	**1,658,170**	1,645,165
Other operating expenses	32	**(620,970)**	(2,766,295)
Impairment of property, plant and equipment and intangible assets	7,8	**(766,227)**	(7,409,186)
Gain on disposal of subsidiary	9	**309,675**	–
Operating profit		**33,060,767**	28,918,723
Net foreign exchange loss		**(220,281)**	(434,972)
Finance income	33	**1,950,357**	2,895,026
Finance costs	34	**(847,531)**	(308,356)
Share in income of joint ventures	10	**8,107,979**	1,602,528
Profit before tax		**42,051,291**	32,672,949
Income tax expense	35	**(8,550,163)**	(6,727,552)
Profit for the year less income tax		**33,501,128**	25,945,397
Earnings per share *(in Tenge)*	6	**96**	77

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of Tenge	Note	2012	2011
Other comprehensive income of the Group			
Foreign currency translation		**537,833**	742,221
Revaluation of property, plant and equipment	7	**23,982,196**	13,582,220
Income tax effect	35	**(4,796,439)**	(2,716,444)
		19,185,757	10,865,776
Impairment of property, plant and equipment	7	**(19,713)**	(8,791,902)
Income tax effect	35	**3,943**	1,353,218
		(15,770)	(7,438,684)
Other comprehensive income for the year of the Group net of tax		**19,707,820**	4,169,313
Share of the other comprehensive income of joint ventures accounted for using the equity method			
Foreign currency translation		**3,914**	1,673
Revaluation of property, plant and equipment		**–**	27,120,693
Income taxe effect		**–**	(5,424,139)
		–	21,696,554
Provision on asset retirement obligation		**312,361**	–
		312,361	–
Impairment of property, plant and equipment		**(27,609)**	–
		(27,609)	–
Share of the other comprehensive income of joint ventures accounted for using the equity method, net of tax	10	**288,666**	21,698,227
Total other comprehensive income for the year, net of tax		**19,996,486**	25,867,540
Total comprehensive income for the year, net of tax		**53,497,614**	51,812,937

General Director _Kabyldin K.M._

Chief Accountant _Akhmedina A.S._

The accounting policy and explanatory notes on pages 8 through 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Tenge	Note	For the years ended 31 December 2012	2011*
Cash flows from operating activities:			
Profit before tax		**42,051,291**	32,672,949
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and amortization	29,30	**27,663,345**	27,715,962
Gain on disposal of subsidiary	9	**(309,675)**	–
Allowance on doubtful debts	30	**119,756**	41,582
Share in income of joint ventures	10	**(8,107,979)**	(1,602,529)
Finance costs	34	**847,531**	308,356
Finance income	33	**(1,950,357)**	(2,895,026)
Actuarial losses	32	**153,000**	1,540,000
Employee benefits	21	**460,000**	1,934,000
Charge / (reversal) of environmental provisions	26	**305,542**	(3,657,377)
Loss on disposal of property, plant and equipment and intangible assets	32	**46,050**	523,329
Gain on disposal of long-term assets classified as held for sale	31,32	**–**	(13,749)
Impairment of property plant and equipment and intangible assets	7,8	**766,227**	7,409,186
Income from write-off of payables	31	**(11,222)**	(9,930)
Amortization of deferred income	31	**(312,365)**	(312,365)
Write-off of VAT recoverable	30	**309,957**	316,627
Amortization of financial guarantee issued on behalf of related party	31	**(138,570)**	(136,070)
Unrealized foreign exchange (gain) / loss		**(94,322)**	576,333
Provision for slow-moving and obsolete inventory	30	**12,973**	2,892
Operating cash flows before working capital changes:		**61,811,182**	64,414,170
Changes in inventories		**191,142**	403,765
Changes in trade and other accounts receivable		**311,800**	(515,536)
Changes in advances to suppliers		**52,754**	(5,317)
Changes in taxes recoverable and other current assets		**917,746**	(261,996)
Changes in trade and other accounts payable		**(32,026)**	(18,909)
Changes in advances received		**4,765,455**	340,386
Changes in taxes payable		**381,972**	(179,786)
Changes in other current and non-current liabilities and employee benefit liabilities		**(714,433)**	(504,024)
Cash generated from operations:		**67,685,592**	63,672,753
Income taxes paid		**(7,488,276)**	(7,910,075)
Interest received		**2,738,100**	2,311,977
Interest paid		**(27,960)**	(66,272)
Net cash flow from operating activities		**62,907,456**	58,008,383

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge		For the years ended 31 December	
	Note	2012	2011*
Cash flows from investing activities:			
Withdrawal of term deposits		**49,811,934**	51,483,846
Placement of term deposits		**(62,600,000)**	(51,145,698)
Purchase of property, plant and equipment		**(26,010,001)**	(33,775,309)
Purchase of intangible assets		**(287,119)**	(289,221)
Proceeds from disposal of property, plant and equipment and intangible assets		**317,409**	27,096
Monetory proceeds from sale of subsidiary	9	**5,671,856**	
Repayment of loans provided to related parties			–
Proceeds from disposal of assets classified as held for sale		–	229,461
Dividends received		–	17,608
Net cash flow used in investing activities		**(33,095,921)**	(33,452,217)
Cash flows from financing activities:			
Proceeds from share issue	19	**27,886,080**	–
Payments for consulting serviced related to the issuance of shares	19	**(289,774)**	–
Proceeds from loans and borrowings		**690,000**	299,105
Repayment of loans and borrowings		**(994,184)**	(586,480)
Dividends paid	19	**(60,002,000)**	(19,330,798)
Net cash flow used in financing activities		**(32,709,878)**	(19,618,173)
Net change in cash and cash equivalents		**(2,898,343)**	4,937,993
Cash and cash equivalents at the beginning of the year	18	**21,852,387**	16,914,394
Cash and cash equivalents at the end of the year	18	**18,954,044**	21,852,387

** Certain amounts shown here differ from the amounts shown in 2011 consolidated financial statements and reflect adjustments made as detailed in Note 5*

NON-CASH TRANSACTIONS

The following non-cash transactions have been excluded from the consolidated statement of cash flows:

Depreciation included in cost of construction in progress

The amount of depreciation for 2012 included in cost of construction in progress was 22,996 thousand Tenge (2011: 11,054 thousand Tenge).

General Director ______ *Kabyldin K.M.*

Chief Accountant ______ *Akhmedina A.S.*

The accounting policy and explanatory notes on pages 8 through 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Note	Share capital	Asset revaluation reserve	Other capital reserves	Foreign currency translation reserve	Retained earnings	Total
As at 1 January 2011		**32,916,055**	**124,828,954**	**17,104**	**8,590,235**	**171,962,450**	**338,314,798**
Profit for the year		–	–	–	–	25,945,397	**25,945,397**
Other comprehensive income		–	25,123,646	–	743,894	–	**25,867,540**
Total other comprehensive income for the year		**–**	**25,123,646**	**–**	**743,894**	**25,945,397**	**51,812,937**
Depreciation transfer of revalued property, plant and equipment		–	(12,424,089)	–	–	12,424,089	**–**
Shares issuance	19	1,701,149	–	–	–	–	**1,701,149**
Dividends	19	–	–	–	–	(19,330,798)	**(19,330,798)**
Other distributions	19	–	–	–	–	(1,000,000)	**(1,000,000)**
Foreign currency translation		–	528,317	–	–	(528,317)	**–**
As at 31 December 2011		**34,617,204**	**138,056,828**	**17,104**	**9,334,129**	**189,472,821**	**371,498,086**
Profit for the year		–	–	–	–	33,501,128	**33,501,128**
Other comprehensive income		–	19,454,739	–	541,747	–	**19,996,486**
Total other comprehensive income for the year		–	**19,454,739**	–	**541,747**	**33,501,128**	**53,497,614**
Depreciation transfer of revalued property, plant and equipment		–	(13,090,536)	–	–	13,090,536	–
Shares issuance	19	27,886,080	–	–	–	–	**27,886,080**
Consulting services expense related to the issuance of shares	19	(565,717)	–	–	–	–	**(565,717)**
Dividends	19	–	–	–	–	(60,002,000)	**(60,002,000)**
As at 31 December 2012		**61,937,567**	**144,421,031**	**17,104**	**9,875,876**	**176,062,485**	**392,314,063**

General Director *Kabyldin K.M.*

Chief Accountant *Akhmedina A.S.*

The accounting policy and explanatory notes on pages 8 through 57 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

On 2 May 2001, the Government of the Republic of Kazakhstan issued a resolution to create a new closed joint stock company National Company "Transportation of Oil and Gas" ("TNG") owned by the Government. Based on that resolution, the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan transferred the KazTransOil NOTC CJSC shares to TNG, and, as a result, KazTransOil NOTC CJSC was re-registered and renamed KazTransOil Closed Joint Stock Company.

On 31 May 2004, in accordance with the requirements of Kazakhstani legislation, Closed Joint Stock Company "KazTransOil" was re-registered as "KazTransOil" Joint Stock Company (the "Company").

As of 31 December 2012, National Company KazMunayGas JSC ("KMG" or the "Parent Company") is a major shareholder of the Company (90 percent). KMG is owned by "Sovereign Wealth Fund Samruk-Kazyna" JSC ("Samruk-Kazyna"), which is controlled by the Government of the Republic of Kazakhstan.

In 2012 the Company performed a share split in proportion 1:10, as a result of which the number of authorized shares has increased from 34,617,204 to 346,172,040, however, share capital has not changed (34,617,204 thousand Tenge). Thereafter, the Company increased the number of authorized shares by 38,463,560 (10% from total amount of 384,635,600 shares), with a purpose to place them on the Kazakhstan Stock Exchange under the "People's IPO" programme. Trades in the shares of JSC "KazTransOil" on the Kazakhstan Stock Exchange were opened on December 25, 2012. As a result, 38,463,559 common shares at 725 Tenge per share were sold for 27,886,080 thousand Tenge *(Note 19)*.

As at December 31, the Company had interest ownership in the following companies:

	Place of incorporation	Principal activities	Ownership 31 December 2012	 31 December 2011
"KTO–Service" JSC ("KTO–Service")	Kazakhstan	Management of non-production assets	–*	100%
"SZTK MunaiTas" JSC ("MunaiTas")	Kazakhstan	Oil transportation	51%	51%
"Kazakhstan–China Pipeline" LLP ("KCP")	Kazakhstan	Oil transportation	50%	50%
"Batumi Capital Partners Limited" ("BCPL")	Cyprus**	Forwarding, transhipment and storage of oil and oil products	50%**	50%**
"Batumi Industrial Holdings Limited" ("BIHL")	Cyprus**	Forwarding, transhipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	100%**	100%**

* On 21 September 2012, the Company sold 100% of common shares of "KTO-Service" JSC to "KazMunayGas-Service" JSC (related party) *(Note 9)*.

** Main activities of BCPL and BIHL are carried out by their subsidiaries located in Georgia. BIHL directly owns 50% of BCPL. Accordingly, the Company directly and indirectly, through its subsidiary BIHL, owns 100% of BCPL.

The Company and its subsidiaries are hereafter referred to as the "Group".

The Company's head office is located in Astana, Kazakhstan, at 19 Kabanbay Batyr Avenue. The Company has 4 branches, which are located in Atyrau (Western branch), Pavlodar (Eastern branch), Almaty (Research and Development Centre), and Astana (Computing Centre), and representative offices in the Russian Federation (Moscow, Omsk and Samara) and Ukraine (Kiev).

The Group operates network of main oil pipelines of 5,503 km and water pipelines of 2,148 km within the Republic of Kazakhstan. Also the Group is engaged in storage, loading, transshipment or transfer of crude oil to other related pipeline systems. Group's joint ventures MunaiTas and KCP own Kenkiyak-Atyrau, Kenkiyak-Kumkol, and Atasu-Alashankou pipelines used for transportation of Kazakhstani crude oil to China. Group's subsidiary BIHL owns Batumi Oil Terminal and has controlling interest of Batumi Sea Port, main activity of which is storage and transshipment of oil cargoes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

The company is a natural monopolist and, accordingly, is subject to regulation of the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies ("NMRA"). This agency is responsible for approving the methodology for calculating the tariff and tariff rates, which serves as a base for receiving major part of Group's revenue. In general, rates are based on the cost of capital return on operating assets. In accordance with the legislation of the Republic of Kazakhstan on regulation of natural monopolies, rates can not be lower than the cost of the expenditure required to provide services, and to consider the possibility of making a profit, providing the effective functioning of a natural monopoly.

On December 1, 2012 NMRA increased tariffs for oil transportation on domestic and export markets: the tariff for the domestic market for the transportation of one ton of oil per 1,000 km has been increased from 1,303 Tenge to 1,954.5 Tenge; tariff of oil transportation on export has been increased from 3,331 Tenge to 4,732.6 Tenge for 1 ton of oil per 1,000 km.

These consolidated financial statements were approved for issue by the General Director and the Chief Accountant of the Company on 26 February 2013.

2. BASIS OF PREPARATION

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

These consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment which are stated at revalued amounts and financial assets that have been measured at fair value. The consolidated financial statements are presented in Tenge and all values are rounded to the nearest thousand, except when otherwise indicated.

3. BASIS OF CONSOLIDATION

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company 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 Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is 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:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, in accordance with the requirement of IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1. 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 Group decides whether to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Costs related to the acquisition are expensed and included in administrative expenses at the moment when they are incurred.

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 recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 "Financial Instruments: Recognition and Measurement", is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 the 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.

4.2. Interest in a joint venture

The Group has interests in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of these entities. Arrangements require participants to have agreed votes in regards, to financial and operational policies. The Group's investment in its joint ventures is accounted for using the equity method.

Under the equity method, the investments in joint ventures are 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 ventures, that arise after the acquision date. Goodwill relating to joint ventures is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

The Group share of profit or loss of joint ventures is shown on the face of the statement of comprehensive income. This is the profit or loss after tax.

The financial statements of joint ventures are prepared for the same reporting period as for the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Interest in a joint venture (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on own investments in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in a joint venture 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 and its carrying value and recognises the amount in statement of comprehensive income under "Share of profit or loss of joint ventures".

Upon loss of joint control over joint ventures and provided the former jointly controlled entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any differences between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in statement of comprehensive income. In case the Group retains significant influence over its investments, remaining investments are accounted for as investments in an associate using the equity method.

4.3. Foreign currency translation

The Group's consolidated financial statements are presented in Tenge, which is also the Company's functional currency and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date of the transaction first qualified for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange the reporting date.

All differences are taken to 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. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Group companies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Foreign currency translation (continued)

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.

As at 31 December, the currency exchange rates of KASE were:

Tenge	**2012**	2011
US dollar	**150.74**	148.40
Russian ruble	**4.96**	4.61
Euro	**199.22**	191.72
Georgian Lari	**90.99**	88.63

4.4 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing usage. 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. The criteria for held for sale classification 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 committ to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of comprehensive income.

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

4.5 Property, plant and equipment

Property, plant and equipment are measured at fair value less accumulated depreciation (except for land, technological oil and construction in process) and impairment losses recognised after the date of the revaluation. The Group periodically engages independent appraisers to revalue property, plant and equipment to their depreciated replacement cost. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recorded in other comprehensive income and, have credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as expense in the statement of comprehensive income, in this case the increase is recognised through profit in the statement of comprehensive income. A revaluation deficit is recognised as expense in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation, as at the revaluation date, is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions and provisions for further information about the recorded decommissioning provision *(Notes 5, 7 and 26).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings	5 - 50
Machinery and equipment	3 - 30
Pipelines and transportation assets	5 - 30
Other	2 - 10

According to the Group's accounting policy, technological oil and land are not subject to depreciation.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in the statement of comprehensive income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

4.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets except for goodwill are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is provided on a straight-line basis over the estimated useful economic life of the assets. Intangible assets are generally amortized over five years. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

4.7 Impairment of non-financial assets

The Group assesses whether there is an indication that an asset may be impaired at each reporting date. 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, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices or other available fair value indicators.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Impairment of non-financial assets (continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering 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.

Impairment losses of continuing operations. including impairment on inventories, are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

At each reporting date the Group makes an assessment as to whether there is any indication that previously recognised 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 recognised 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 recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised through profit in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill

Goodwill is tested for impairment annually (as at 30 September) 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 recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

4.8 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, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. 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 recognised 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 short-term deposits, trade and other receivables.

Subsequent measurement

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

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 amortised cost using the effective interest rate method (EIR), less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the income statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8. Financial assets (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 them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs. The Group had deposits during the years ended 31 December 2012 and 2011.

Derecognition

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

- the rights to receive cash flows from the asset have expired;
- the 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, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises 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.

4.9 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 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 reorganisation 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 amortised cost

For financial assets carried at amortised cost, the Group first assesses 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, recognised are not included in a collective assessment of impairment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets 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 effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. 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 in the comprehensive statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised 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 recognised, the previously recognised 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 in the statement of comprehensive income.

4.10 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, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, financial guarantee contracts.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities, recognized at fair value through profit or loss, are classified to this category at the date of initial recognition, solely when it meets criteria of IAS 39. The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Financial liabilities (continued)

Derecognition

A financial liability is derecognised 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 recognised in the statement of comprehensive income as income or expense.

4.11 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position 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.

4.12 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 39.*

4.13 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.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

4.14 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

4.15 Provisions

Provisions are recognised 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 some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Provisions (continued)

The Group records a provision asset retirement obligation. Asset retirement obligation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset *(Note 5).*

4.16 Employment benefits

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the Collective agreement between the Company 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 labor 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.

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.

4.17 Revenue and other income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements, except for transportation expedition contract where the Group is acting as an agent. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of transportation services

Revenue from rendering of transportation and transhipment services is recognized on the basis of actual volumes of oil and water transported during the reporting period.

Rendering of other services

Revenue from rendering of other services is recognized as services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Revenue and other income recognition (continued)

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Dividends

Dividend income is recognised when the Group's right to receive the payment is established.

Property, plant and equipment received from customers

The Group assesses whether the transferred item meets the definition of an asset, and if so, recognises the transferred asset as property, plant and equipment. At initial recognition, its cost is measured at fair value, and a corresponding amount is recognised as deffered income as the Company has future performance obligations related to future periods or as a component of other income from operations when the Group has no such liabilities.

4.18 Taxes

Current income tax

Current income tax assets and liabilities for the current period 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, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised in other comprehensive income is recognised in equity and not in the statement of comprehensive income. The Group management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

- Where the deferred 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;
- 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 tax assets are recognised for all deductible temporary differences, carry forward 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 carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred 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;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised 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 utilised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18. Taxes (continued)

Deferred tax (continued)

The carrying amount of deferred 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction recognized in other comprehensive income or in equity.

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

Value Added Tax (VAT)

VAT related to sales is payable to the Kazakhstani budget when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier.

Revenue, expenses and assets are recognized after deduction of value added tax, except for instances, where amount of value added tax is recognized as a part of costs for asset acquisitions or as a part of expenses.

Tax legislation allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the balance sheet date is stated in the statement of financial position on a net basis.

Due to specifics of tax legislation and the Group's operations a certain part of input VAT can be carried over into subsequent years. Such portion of VAT is classified as long-term asset and assessed for impairment and considered as a corporate asset allocated to existing CGU.

4.19 Equity

Share capital

External costs directly attributable to the issue of new shares, excluding business combinations are shown as a deduction from the proceeds in equity.

Dividends

Dividends payable 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.

4.20 Changes in Accounting policies and disclosures

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 1 January 2012:

New and amended standards and interpretations

- *IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
- *IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The adoption of the standards or interpretations is described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in Accounting policies and disclosures (continued)

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified 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.

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 the entity's continuing involvement in derecognised 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.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed 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, if applicable, 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, 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) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). 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.

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 affects only the presentation and does not affect the financial position or performance of the Group. The amendment is effective for annual periods beginning on or after January 1, 2013 or after that date and, therefore, will be used after its entry into force.

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. This ammendment will not impact the financial position or financial performance of the Group. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in Accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

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. 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 evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *"Financial Instruments: Presentation"*.

The disclosures also apply to recognised 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. 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 not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in Accounting policies and disclosures (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 application of this new standard will not impact the financial position of the Group, because the Group uses the equity method in accounting joint ventures.

IFRS 12 Disclosure of Interests in 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.

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*".

These improvements are effective for annual periods beginning on or after 1 January 2013.

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. 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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment

Property, plant and equipment (except for technological oil, which is revalued annually as of September 30) were revalued to fair value as of 30 June 2010 (previous revaluation was performed as of 30 June, 2007) except for the property, plant and equipement of BIHL, that were revalued as of 31 December 2010. The revaluation was performed on the basis of an appraisal performed by an independent professional real estate appraisal company operating in the Republic of Kazakhstan under an appropriate license. The methods used to fair value property, plant and equipment were the cost (for specialised assets – depreciated replacement cost approach), the comparative (using comparative sales method) and the income approaches.

The Company assesses at each reporting date whether the carrying amount of its property, plant and equipment does not differ materially from that, which would be determined using estimated fair value at the balance sheet date. For the Company's business environment, a period of "sufficient regularity" is usually assumed to be three years for the purpose of determination of fair value of property, plant and equipment. On December 31, 2012 the management of the Company re-visited its assessments with respect to the fair value of its property, plant and equipment. As a result, management concluded that there were no significant changes in the fair value of the Company's property, plant and equipment as of December 31, 2012 from the date of last revaluation on June 30, 2010. As a result, the fair value of the Group's property, plant and equipment approximated their carrying amount.

Revaluation of technological oil

Technological oil is annually revalued as of 30 September, due to the fact that fluctuations are quite frequent and significant. Technological oil was revalued on 30 September 2012.

The following judgments were taken into account by the Group's management when determining fair value of technological oil:

- technological oil is an integral part of the process of operating the pipeline without which the transportation is not possible;
- technological oil cannot be sold or otherwise disposed due to regulations imposed by Antimonopoly Committee;
- tariffs are being closely monitored by Antimonopoly Committee and Government to ensure they will not adversely affect general price index in the country, and thus may be set at the level which will not allow to recover cost of oil, if it was valued at international market price;
- the Group is affected by regulations set by KMG and, should there be a decision to sell some part of oil, subject for approval of Antimonopoly Committee, it would be sold only to the KMG -group's trading division at internal price;
- and should the Group need to buy additional oil to fill in new parts of pipeline, it would buy from the KMG - group entities at the same internal price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Revaluation of technological oil (continued)

Taking into account all these factors, the management concluded that the most appropriate price to reflect fair value for the technological oil in pipeline that would be determined by informed market participant would be 252 US Dollars per tonne as of September 30, 2012 (38,000 Tenge) (30 September 2011: 184 US Dollars (27,290 Tenge) per tonne). As a result of test on adequate profitability in terms of revaluation of technological oil by using income approach no economical deterioration was revealed.

As of 30 September 2012, the amount of oil in the pipeline included as part of property, plant and equipment was 2,151,546 tonne (2011: 2,136,158 tonne). According to the results of inventory stock count held on December 31, 2012, the oil surplus in the amount of 29,951 tonne (2011: 20,832 tonne) was identified. The volume of oil in the pipeline as of 31 December 2012 amounted to 2,181,377 tonne (31 December 2011: 2,156,653 tonne). The Group recognizes the excess oil as an asset (property, plant and equipment) by changing a revaluation of assets in equity.

Impairment of property, plant and equipment

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, conducted at arm's length, for 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 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 2012 the Group recognized an impairment of 785,940 thousand Tenge (2011: 15,666,218 thousand Tenge) where the impairment of 766,227 thousand Tenge (2011: 6,874,316 thousand Tenge) was recognized in profit and losses and 19,713 thousand Tenge (2011: 8,791,902 thousand Tenge) was recognized in other comprehensive income *(Note 7)*.

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*".

Asset retirement obligation

According to the Law of the Republic of Kazakhstan "About the main pipeline", which came into force on July 4 2012, the Group 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, are fully depleted.

Asset retirement obligation is estimated based on the value of the work to decommission and rehabiliate 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 are presented below:

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

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

As at December 31, 2012 the carrying amount of the asset retirement obligation was 15,531,037 thousand Tenge (December 31, 2011: nil Tenge) *(Notes 7 and 26)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

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.

If the estimated discount rate before tax used in the calculation was 1% higher than management's estimates, the carrying amount of the provision would have been by 2,354,717 thousand Tenge less than recognized amount.

Allowances for doubdful debts

The Group accrues allowances for doubtful accounts receivable, advances to suppliers and other assets. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at 31 December 2012 and 2011 allowances for doubtful accounts have been created for the amount of 681,617 thousand Tenge and 115,747 thousand Tenge, respectively (*Notes 11, 13, 14 and 16*).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.The amount of recognized deferred tax assets as of 31 December 2012 was 5,021,726 thousand Tenge (2011: 2,913,773 thousand Tenge) (*Note 35*).

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.

As there is no active market for corporate securities in Kazakhstan, in determining the appropriate discount rate, management considers the interest rates of government securities (MEOKAM) with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying securities are further reviewed for quality on a timely basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Employee benefits (continued)

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

Further details about the assumptions used are given in *Note 21.*

Reclassifications

The consolidated financial statements as at December 31, 2011 and for the year then ended contain reclassifications to be consistent with the presentation of the consolidated financial statements as at December 31, 2012 and for the year then ended due to the fact that the presentation of this year consolidated financial statements give a clearer representation of the financial position of the Group. Reclassification does not affect the financial indicators of the Group.

	31 December 2011			
In thousands of Tenge	Initial presentation	Reclassification amount	Note	Adjusted presentation
Statement of financial position				
Trade and other accounts receivable	7,689,387	(4,635,164)	[1]	3,054,223
Other current assets	262,329	4,635,164	[1]	4,897,493
	7,951,716			**7,951,716**
Trade and other accounts payable	15,149,470	(8,603,847)	[2]	6,545,623
Other current liabilities	3,705,594	8,603,847	[2]	12,309,441
	18,855,064			**18,855,064**

[1] amounts, which were transferred to transport companies of other countries for the upcoming oil transportation of Kazakhstani shippers via related pipeline systems, have been reclassified from trade and other receivables to other current assets.

[2] amounts, which were received from Kazakhstani shippers for the upcoming oil transportation via related pipeline systems of other states, have been reclassified from trade and other payables to other current liabilities.

6. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Increase in the number of share as a result of share split is applied retrospectively from the beginning of the reporting period and for previous periods.

As the parent Company of the Group does not issue convertible financial instruments, basic earnings per share of the Group is equal to diluted earnings per share.

The following reflects the income and share data used in the basic earnings per share computations:

In thousands Tenge	**2012**	2011
Net profit attributable to ordinary equity holders of the parent for basic earnings	**33,501,128**	25,945,397
Weighted average number of ordinary shares for basic earnings per share	**349,130,775**	338,320,583
Basic earnings per share,in relation to profit for the year attributable to ordinary equity holders of the company, as a parent company of the Group *(in Tenge)*	**96**	77

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. EARNINGS PER SHARE AND BOOK VALUE PER SHARE (continued)

Book value of the ordinary shares in accordance with requirements of KASE of the Parent company of the Group is as follows:

In thousands Tenge	**31 December 2012**	31 December 2011
Total Assets	**496,450,540**	450,028,927
Less: Intangible assets	**(6,233,226)**	(6,229,037)
Less: Total Liabilities	**(104,136,477)**	(78,530,841)
Net assets for calculation of book value of ordinary shares	**386,080,837**	365,269,049
Number of ordinary shares	**384,635,599**	346,172,040
Book value per ordinary share *(in Tenge)*	**1,004**	1,055

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
Net book value as at 1 January 2011	**15,944,625**	**90,937,665**	**6,796,872**	**73,078,571**	**75,020,891**	**45,090,713**	**11,085,672**	**7,567,550**	**325,522,559**
Foreign currency translation	32,977	–	359,123	792,840	(903,405)		(18,505)	113,176	**376,206**
Additions	192,386	765,482	616,071	1,766,247	2,010,881	6,945	997,231	28,515,312	**34,870,555**
Disposals	(3,581)	(186,521)	(41,196)	(745,484)	(172,285)	(1,728)	(172,452)	(320,670)	**(1,643,917)**
Depreciation charge	–	(9,320,851)	(1,094,561)	(6,313,079)	(8,181,093)	–	(1,928,669)	–	**(26,838,253)**
Accumulated depreciation on disposal	–	161,344	36,832	47,033	95,796	–	121,666	–	**462,671**
Impairment (included in net profit)	(5,320,693)	(73,367)	(124,319)	(858,623)	(654,279)	–	(19,181)	–	**(7,050,462)**
Impairment (revaluation reserve)	(136,943)	(244,996)	(142,275)	(5,931,915)	(2,301,384)	–	(34,389)	–	**(8,791,902)**
Revaluation (revaluation reserve)	–	–	–	–	–	13,582,220	–	–	**13,582,220**
Recovery of impairment reserve (included in net profit)	–	–	–	–	–	175,822	–	324	**176,146**
Transfer from construction-in-progress	17,197	2,896,812	133,304	3,035,890	6,230,224	–	1,474,425	(13,787,852)	**–**
Transfer to Intangible assets	–	–	–	–	(4,347)	–	(3,279)	(143,719)	**(151,345)**
Transfers and reclassifications	–	(13,002)	(137,151)	6,702,971	(4,585,667)	–	(1,862,025)	(105,126)	**–**
Net book value as at 31 December 2011	**10,725,968**	**84,922,566**	**6,402,700**	**71,574,451**	**66,555,332**	**58,853,972**	**9,640,494**	**21,838,995**	**330,514,478**
Foreign currency translation	127,675	–	38,713	179,353	72,790	–	24,926	50,645	**494,102**
Additions	36,444	1,339	426,863	184,318	1,547,242	2,622	774,205	23,332,530	**26,305,563**
Disposals	(26,442)	(26,078)	(7,321)	(231,653)	(117,953)	(89,182)	(195,720)	(128,190)	**(822,539)**
Depreciation charge	–	(9,254,120)	(1,020,554)	(5,972,179)	(8,617,312)	–	(2,262,125)	–	**(27,126,290)**
Accumulated depreciation on disposal	–	9,729	5,134	167,919	80,614	–	181,315	–	**444,711**
Disposal of subsidiary *(Note 9)*	(423,021)	–	(15,099)	(3,813,876)	(773,623)	–	(246,353)	(325,360)	**(5,597,332)**
Accumulated depreciation related to the disposal of subsidiary *(Note 9)*	–	–	2,468	383,117	200,676	–	58,714	–	**644,975**
Impairment (included in net profit)	–	(244)	(1,388)	(683,880)	(88,863)	(57,574)	(36,387)	(98,288)	**(966,624)**
Impairment (revaluation reserve)	–	(1,510)	(24)	(3,831)	(1,565)	–	(94)	(12,689)	**(19,713)**
Revaluation (revaluation reserve)	–	–	–	–	–	23,982,196	–	–	**23,982,196**
Recovery of impairment reserve (included in net profit)	–	–	–	–	106	200,291	–	–	**200,397**
Provision on asset retirement obligation *(Note 26)*	–	15,084,384	–	–	–	–	–	–	**15,084,384**
Transfer from construction-in-progress	22,597	3,107,388	75,255	5,416,807	7,797,758	–	2,165,244	(18,585,049)	**–**
Transfer to and from Intangible assets	–	–	–	–	(39,794)	–	(16,942)	(212,467)	**(269,203)**
Transfers and reclassifications	(1,404)	344,263	(121,015)	(434,115)	56,328	–	155,943	–	**–**
Net book value as at 31 December 2012	**10,461,817**	**94,187,717**	**5,785,732**	**66,766,431**	**66,671,736**	**82,892,325**	**10,243,220**	**25,860,127**	**362,869,105**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transporta-tion assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2012									
At fair value	10,461,817	117,778,752	8,395,851	81,619,611	86,669,540	82,892,325	14,654,033	25,860,127	428,332,056
Accumulated depreciation	–	(23,591,035)	(2,610,119)	(14,853,180)	(19,997,804)	–	(4,410,813)	–	(65,462,951)
Net book value	**10,461,817**	**94,187,717**	**5,785,732**	**66,766,431**	**66,671,736**	**82,892,325**	**10,243,220**	**25,860,127**	**362,869,105**
As at 31 December 2011									
At fair value	10,725,968	99,225,404	7,999,909	80,953,314	78,079,881	58,853,972	12,111,553	21,838,995	**369,788,996**
Accumulated depreciation	–	(14,302,838)	(1,597,209)	(9,378,863)	(11,524,549)	–	(2,471,059)	–	**(39,274,518)**
Net book value	**10,725,968**	**84,922,566**	**6,402,700**	**71,574,451**	**66,555,332**	**58,853,972**	**9,640,494**	**21,838,995**	**330,514,478**

Property, plant and equipment are revalued, depending on changes in fair value of property, plant and equipment. The Group generally revalues property, plant and equipment once in three years, except for technological oil, which is revalued annually as at 30 September, as fluctuations in fair value of technological oil are quite often and significant. Property, plant and equipment have been revalued to fair value at 30 June 2010, except for property, plant and equipment of BIHL, revalued at 31 December 2010. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and experience *(Note 5)*.

Accumulated depreciation has been eliminated against carrying value of property, plant and equipment and net amount has been reflected to revalued value of property, plant and equipment.

2012 increase of property, plant and equipment in the group pipelines mainly includes provisions related to the asset retirement obligation in the amount of 15,084,384 thousand Tenge (2011: nil) *(Notes 5, 26)*.

2011 additions of property, plant and equipment include Kazakhstani part of "Tuimazy-Omsk-Novosibirsk 2" oil pipeline and corresponding infrastructure objects and land plots, for the total amount of 1,701,149 thousand Tenge for the contribution paid for shares issued by the Group *(Note 19)*.

As at 31 December 2012 and 2011, construction in progress ("CIP") mainly includes production projects under construction, main oil pipelines, (including construction of main oil pipeline Kumkol-Karakoin, realized as a part of interstate Kazakhstan-China oil pipeline construction project), reconstruction of oil pumping station "Kenkiyak" and reconstruction of fire fighting system, reconstruction of electricity supply systems.

As at 31 December 2012 construction-in-progress includes materials and spare parts in the amount of 12,836,006 thousand Tenge (2011: 10,664,024 thousand Tenge), which were purchased for construction purposes.

As at 31 December 2012 the carrying value of fully depreciated but still in use property, plant and equipment were 5,743,628 thousand Tenge (2011: 1,792,193 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2012 carrying value of property, plant and equipment which temporarily are not in use is 1,609,715 thousand Tenge (2011: 1,521,241 thousand Tenge).

As at 31 December 2012 the amount of oil in the pipeline included as a part of property, plant and equipment was 2,181 thousand tons (2011: 2,157 thousand tons).

As at December 31, 2012 there was created a provision for impairment of the complex of kindergartens in Atasu village of Karaganda region amounted to 768,463 thousand Tenge and playground in Usharal city of Almaty region amounted to 37,800 thousand Tenge. A provision was created due to the fact these objects are for the social purpose and they will not bring economic benefits in the future. Also, in year 2012, impairment of other assets including project and development works, in the amount of 160,361 thousand Tenge was recognized through profit or loss.

In the year 2011, the Group recognized the impairment of property, plant and equipment in the amount of 15,666,218 thousand tenge. Impairment of property, plant and equipment in the amount of 7,050,462 thousand tenge was recognised through profit and loss. This amount mainly consists of the impairment of the property, plant and equipment of BIHL in the amount of 6,935,566 thousand tenge and property, plant and equipment of the Company in the amount of 114,896 thousand tenge. In addition, Group recognized reversal of the impairment of property, plant and equipment of the Company in the amount of 176,146 thousand tenge.The Group recognized impairment of property, plant and equipment in the amount of 8,791,902 thousand Tenge through revaluation provision of property, plant and equipment, including property, plant and equipment of BIHL in the amount of 8,103,246 thousand Tenge and property, plant and equipment of the Company in the amount of 688,656 thousand Tenge. Most of this property, plant and equipment was idle and subject for disposal, such as tanks, pumping station Peterfeld and 26 km second line of the Atyrau-Samara.

Impairment Testing of Georgian property, plant and equipment

BIHL includes two cash generating units:

- Batumi Oil Terminal LLC ("BOT")
- Batumi Sea Port LLC ("BSP")

The Group reviews its Cash Generating Units ("CGUs") for indicators of impairment on an annual basis and considers both internal and external sources of information for assessing if the CGUs are impaired. As a result of assessment made in 2012 indicators of impairment were not identified (2011: the Group identified indicators of impairment in its two CGUs: BSP and BOT, significant impairment was caused due to decrease of projected revenue).

BSP CGU:

The recoverable amount of the BSP CGU as of 30 September 2011, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a 10-year period. The projected cash flows have been updated to reflect the decreased level of transshipments. The pre-tax discount rate applied to cash flow projections is 16.53% in 2011 and cash flows beyond the 10-year period are extrapolated using at 1.77% growth rate that is the same as the long-term average inflation rate in 2011. As a result of the analysis in 2011, the Management identified an impairment loss of this CGU in the amount of 1,517,224 thousand Tenge. 982,354 thousand Tenge were allocated to property plant and equipment and 534,870 were allocated to right for land use.

BOT CGU:

The recoverable amount of the BOT CGU as of 30 September 2011, is also determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a ten-year period. The projected cash flows have been updated to reflect the decreased transshipment level. The pre-tax discount rate applied to the cash flow projections is 16.19% in 2011. The growth rate used to extrapolate the cash flows of the CGU after the ten-year period is 1.77%, a long-term inflation rate in 2011. As a result of the analysis in 2011, the Management identified an impairment loss of this CGU in the amount of 14,056,458 thousand Tenge, whole amount was allocated to property, plant and equipment.

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment Testing of Georgian property, plant and equipment (continued)

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 during the budget period; and
- 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 for BIHL.

Tariffs during the budget period. 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. These assumptions are important because, as well as using industry data for growth rates management assesses how future changes of oil and cargo shipment volumes through Black Sea ports will affect BIHL's operations.

Sensitivity of changes in assumptions

With regard to the assessment of value-in-use possible change in any of the above key assumptions would result in a further impairment loss. The implications of the key assumptions for the recoverable amount are discussed below:

Discount rate: Management has considered the possibility of greater than determined weighted-average cost of capital. Any increase in discount rate would result in a further impairment.

Long-term growth rate: Management has considered the possibility of greater than determined long-term growth rate. Any increase in long-term growth rate would result in a further impairment.

Tariffs during the budget period: Increase of tariff projected by the management for the purposes of goodwill impairment testing are indexed to underlying costs. Should the Group be unable to keep tariffs at such a level that covers related costs, a further impairment may result.

The carrying value of each revalued class of property, plant and equipment that would have been recognized in the consolidated financial statements had the assets been carried at cost less any accumulated depreciation and any accumulated impairment loss was as follows:

	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At 31 December 2012	**12,301,711**	**55,640,022**	**4,968,375**	**35,448,469**	**55,695,049**	**1,171,845**	**8,557,559**	**25,541,269**	**199,324,299**
At 31 December 2011	12,120,206	42,228,209	5,213,019	35,772,599	53,908,121	1,172,541	7,737,682	21,740,845	179,893,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INTANGIBLE ASSETS

In thousands of Tenge	Licenses	Software	Right for land use	Other	Total
Net book value at 1 January 2011	**260,225**	**1,007,092**	**5,508,045**	**414,594**	**7,189,956**
Additions	22,908	265,790	–	523	289,221
Disposals	(1,118)	(14,110)	–	–	(15,228)
Amortization charge	(67,986)	(443,905)	(321,978)	(54,894)	(888,763)
Accumulated amortization on disposals	1,118	10,933	–	–	12,051
Impairment (included in net profit)	–	–	(534,870)	–	(534,870)
Transfers from property, plant and equipment	9,056	142,289	–	–	151,345
Foreign currency translation	(294)	639	23,203	1,777	25,325
Transfers and reclassifications	28,564	(32,354)	–	3,790	–
Net book value at 31 December 2011	**252,473**	**936,374**	**4,674,400**	**365,790**	**6,229,037**
Additions	42,734	201,780	–	4,363	248,877
Disposals	(2)	(8,887)	–	(471)	(9,360)
Amortization charge	(68,266)	(324,687)	(107,807)	(59,291)	(560,051)
Accumulated amortization on disposals	2	8,887	–	441	9,330
Disposal of subsidiary *(Note 9)*	(181)	(5,363)	–	(48,221)	(53,765)
Accumulated depreciation related to the disposal of subsidiary*(Note 9)*	–	2,842	–	19,866	22,708
Transfers from property, plant and equipment	23,008	245,726	–	469	269,203
Foreign currency translation	679	(120)	72,570	4,118	77,247
Transfers and reclassifications	4,473	3,824	–	(8,297)	–
Net book value at 31 December 2012	**254,920**	**1,060,376**	**4,639,163**	**278,767**	**6,233,226**
As at 31 December 2012					
At cost	447,373	3,996,520	5,953,009	704,353	**11,101,255**
Accumulated Impairment	–	–	(549,969)	–	**(549,969)**
Accumulated amortization	(192,453)	(2,936,144)	(763,877)	(425,586)	**(4,318,060)**
Net book value	**254,920**	**1,060,376**	**4,639,163**	**278,767**	**6,233,226**
As at 31 December 2011					
At cost	377,246	3,555,659	5,860,598	742,115	**10,535,618**
Accumulated Impairment	–	–	(534,870)	–	**(534,870)**
Accumulated amortization	(124,773)	(2,619,285)	(651,328)	(376,325)	**(3,771,711)**
Net book value	**252,473**	**936,374**	**4,674,400**	**365,790**	**6,229,037**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. DISPOSAL OF A SUBSIDIARY

On 18th of September 2012 the Group entered into an agreement to sell 100% of the common shares of "KazTransOil-Service" to "KazMunaiGas-Service". The amount of contract was equal to 11,647,889 thousand Tenge and was paid on 20 September 2012. According to the contract terms, ownership rights were transferred to "KazMunaiGas-Service" JSC on 21 September 2012.

The carrying value of identifiable assets, liabilities and contingent liabilities of "KTO-Service" sold to "KazMunaiGas-Service" at the date of disposal were as follows:

In thousands of Tenge	Carrying value at disposal date
Property, plant and equipment	4,952,357
Intangible assets	31,057
Bank deposits	531
Inventory	195,678
Trade and other accounts receivables	100,249
Advances to suppliers	86,818
Prepayment for corporate income tax	516
VAT recoverable and other prepaid taxes	53,340
Other current assets	36,543
Cash and cash equivalents	5,976,033
Total assets	**11,433,122**
Trade and other accounts payable	6,392
Advances received	21,556
Other tax payables	11,488
Other current liabilities	55,472
Total liabilities	**94,908**
Total net assets disposed	**11,338,214**
Consideration received in cash	**11,647,889**
Gain on disposal of subsidiary	**309,675**

The amount of consideration received in the consolidated statement of cash flows is shown net of cash and cash equivalents of "KTO Service" JSC at the date of disposal for the amount of 5,671,856 thousand Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INVESTMENTS IN JOINT VENTURES

In thousands of Tenge	**31 December 2012**	31 December 2011
KCP	**30,188,246**	22,879,691
MunaiTas	**10,627,303**	9,539,213
	40,815,549	32,418,904

During 2012, the Group has recognized its share in income of KCP in the amount of 7,019,889 thousand Tenge (2011: 9,241,644 thousand Tenge), and share in other comprehensive income 288,666 thousand Tenge (2011: 21,698,227 thousand Tenge). As of 1 January 2011 the Group's share in unrecognized losses in KCP amounted to 8,060,180 thousand Tenge.

During 2012, the Group has recognized its share in income of MunaiTas in the amount of 1,088,090 thousand Tenge (2011: 421,065 thousand Tenge). In 2012 and 2011 MunaiTas did not pay dividends.

The tables below present generalized financial information relating to joint ventures (the Group's proportional share):

In thousands of Tenge	**31 December 2012**	31 December 2011
Share in total assets and liabilities of joint ventures		
Current assets	**23,918,509**	17,317,510
Non-current assets	**136,049,737**	136,015,551
Current liabilities	**(15,339,074)**	(8,759,544)
Non-current liabilities	**(103,813,623)**	(112,154,613)
Share in net assets	**40,815,549**	32,418,904

In thousands of Tenge	**2012**	2011
Total revenue and net income of joint ventures for the year		
Revenue	**31,336,421**	30,312,259
Net income	**8,107,979**	9,662,709
Other comprehensive income	**288,666**	21,698,227

11. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	**31 December 2012**	31 December 2011
Advances to third parties for property, plant and equipment	**623,604**	638,912
Less: allowance for doubtful debts	**(99,330)**	–
	524,274	638,912

Movement in allowance for doubtful debts related to the advances given to suppliers for property, plant and equipment was as follows:

In thousands of Tenge	**2012**	2011
As at 1 January	–	99,330
Write-off of advances	–	(99,330)
Reinstatement of advances with related provision	**99,330**	–
As at 31 December	**99,330**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVENTORIES

In thousands of Tenge	**31 December 2012**	31 December 2011
Spare parts	**962,951**	962,954
Fuel	**770,441**	710,189
Construction materials	**154,549**	155,431
Chemical reagents	**89,053**	126,207
Goods	**76,248**	82,744
Other	**612,112**	801,184
Less: provision for slow-moving and obsolete inventory	**(65,413)**	(54,278)
	2,599,941	2,784,431

Movements in the provision for slow-moving and obsolete inventory were as follows:

In thousands of Tenge	**2012**	2011
As at 1 January	**54,278**	56,764
Charge for the year	**17,148**	3,512
Write-off of inventories	**(106)**	(5,243)
Disposal of subsidiary	**(1,648)**	–
Reversal of provision	**(4,175)**	(620)
Currency translation difference	**(84)**	(135)
As at 31 December	**65,413**	54,278

13. TRADE AND OTHER ACCOUNTS RECEIVABLE

In thousands of Tenge	**31 December 2012**	31 December 2011
Trade accounts receivable from third parties	**1,049,790**	917,274
Trade accounts receivable from related parties (*Note 37*)	**1,031,480**	1,969,984
Other accounts receivable from third parties	**825,882**	218,168
Other accounts receivable from related parties (*Note 37*)	**198,918**	58,485
Less: allowance for doubtful debts	**(578,189)**	(109,688)
	2,527,881	3,054,223

Movement in allowance for doubtful accounts in regards trade and other receivables was as follows:

In thousands of Tenge	**2012**	2011
As at 1 January	**109,688**	498,177
Reinstatement of accounts receivable with related provision	**409,688**	–
Charge for the year	**136,104**	61,037
Write-off of receivable	**(42,266)**	(425,841)
Reversal of allowance	**(23,112)**	(24,498)
Disposal of subsidiary	**(11,961)**	–
Currency translation	**48**	813
As at 31 December	**578,189**	109,688

Trade and other accounts receivable are denominated as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Tenge	**2,052,571**	2,650,306
US Dollars	**429,910**	371,583
Russian rubles	**780**	724
Other currency	**44,620**	31,610
	2,527,881	3,054,223

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

As at 31 December the ageing analysis of trade and other receivables 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	**2,527,881**	**1,984,584**	**405,000**	**53,068**	**1,725**	**32,516**	**50,988**
2011	3,054,223	2,777,892	30,421	144,360	10,976	24,672	65,902

14. ADVANCES TO SUPPLIERS

In thousands of Tenge	**31 December 2012**	31 December 2011
Advances to related parties (*Note 37*)	**420,284**	233,277
Advances to third parties	**184,307**	515,064
Less: allowance for doubtful debts	**(1,482)**	(3,443)
	603,109	744,898

Movement in allowance for doubtful debts in regards advances given to suppliers was as follows:

In thousands of Tenge	**2012**	2011
As at 1 January	**3,443**	2,063
Charge for the year	**11,249**	6,899
Reinstatement of advances with related provision	**847**	–
Write-off of advances	**(5,025)**	(1,047)
Reversal of provision	**(9,032)**	(4,472)
As at 31 December	**1,482**	3,443

15. VAT RECOVERABLE AND OTHER PREPAID TAXES

In thousands of Tenge	**31 December 2012**	31 December 2011
VAT recoverable	**1,974,968**	3,337,369
Other taxes prepaid	**117,045**	296,346
	2,092,013	3,633,715

During 2011, there were significant accrual of output VAT, that was partially offset using accumulated input VAT.

16. OTHER CURRENT ASSETS

In thousands of Tenge	**31 December 2012**	31 December 2011
Due for oil transportation coordination services	**4,284,419**	4,637,780
Due from employees	**41,315**	49,669
Prepaid insurance	**34,635**	8,645
Deferred expenses to third parties	**7,409**	15,652
Deferred expenses to related parties (*Note 37*)	**–**	149,104
Other	**40,700**	39,259
Less: allowance	**(2,616)**	(2,616)
	4,405,862	4,897,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. BANK DEPOSITS

In thousands of Tenge	**31 December 2012**	31 December 2011
Short-term bank deposits	**53,000,000**	34,155,205
Long-term bank deposit	–	6,000,000
Accrued interest on deposits	**84,676**	968,618
	53,084,676	41,123,823

As at 31 December 2012 short-term bank deposits comprised of Tenge denominated deposits placed with Kazakhstani banks with maturity from 3 to 12 months, which earn interest of from 3% to 7% per annum (2011: from 3.75% to 9% per annum), maturing in December 2013, (2011: December 2012).

As at 31 December 2011 long-term bank deposits comprised of Tenge denominated deposits placed with Kazakhstani banks with maturity date 13 April 2013, which earn interest of 6% per annum. However, due to the need to pay the dividends for the year 2011, contributions were prematurely withdrawn before the end of 2012.

18. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**31 December 2012**	31 December 2011
Time deposits with banks – Tenge	**10,000,000**	12,000,000
Current accounts with banks – Tenge	**8,114,269**	7,628,046
Current accounts with banks – Lari	**475,434**	459,743
Current accounts with banks – US Dollars	**332,576**	1,316,131
Current accounts with banks – Euro	**11,908**	184,906
Current accounts with banks – Russian Ruble	**9,306**	16,090
Current accounts with banks – Other currencies	**152**	228,833
Other current accounts with banks	**12,365**	10,240
Cash on hand	**2,581**	8,398
Less: allowance for impairment	**(4,547)**	–
	18,954,044	21,852,387

At 31 December 2012 most current accounts and time deposits placed with Kazakhstani banks carried interest ranging from 1.65% to 4% per annum (2011: from 1% to 3.25% per annum).

19. EQUITY

Share capital

On June 22, 2011, the Company issued 1,701,149 common shares with the price of 1,000 Tenge per share, which were acquired by the Parent Company. In return for the shares the Parent Company contributed Kazakhstani section of the pipeline Tuimazy-Omsk-Novosibirsk 2 with associated infrastructure facilities and land plots *(Note 7).*

On June 26, 2012 the Company increased the number of authorized shares (certificate of state registration of the securities, the issue number A2995 dated May 26, 2012). As a result of a share split at a ratio 1:10 shares, the number of authorized shares increased from 34,617,204 shares to 346,172,040 shares, with the share capital remaining unchanged (34,617,204 thousand Tenge). In addition, the Company increased the number of authorized shares by 38,463,560 shares. The total number of shares as of 31 December 2012 amounted to 384,635,600 shares.

Trades in the shares of JSC "KazTransOil" on the Kazakhstan Stock Exchange were opened on December 25, 2012. As a result, 38,463,559 common shares at 725 Tenge per share were sold for 27,886,080 thousand Tenge. As at 31 December 2012, the Company's share capital was comprised of 384,635,600 common shares (31 December 2011: 34,617,204 common shares) authorized, issued and fully paid in the amount of 62,503,284 thousand Tenge, except for 1 share which was authorized but not issued and not paid (31 December 2011: 34,617,204 thousand Tenge). As of 31 December 2012 the share capital amounting to 61,937,567 thousand Tenge net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge (of which 289,774 thousand Tenge was paid as of 31 December 2012).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. EQUITY (continued)

Distributions to the shareholder

Dividends

During 2012, the Group declared and paid dividends for 2011, totaling 60,002,000 thousand Tenge from 2011 income (2011: 19,330,798 thousand Tenge from 2010 income). The dividend amounted to 173.33 Tenge per common share according to the total number of shares equaling to 346,172,040 (2011: 55.8 Tenge according to the total number of shares equaling to 346,172,040).

Other distributions

In accordance with the regulations of the Government of the Republic of Kazakhstan No. 411 dated April 13, 2011, and No. 420 dated April 18, 2011, during twelve months ended 31 December 2011, the Group distributed Tenge 1,000,000 thousand in order to construct housing for residents of West Kazakhstan region affected by the flood.

Asset revaluation reserve

Revaluation reserve was formed based on a revaluation of property, plant and equipment which is performed every 3 years in accordance with the accounting policy of the Group (except for technological oil, which is revalued annually as of 30 September).

20. LOANS AND BORROWINGS

	Currency	Maturity	Effective Interest rate	31December 2012	31December 2011
Halyk Bank Georgia	US dollars	27 October 2012	11%	–	303,181
				–	303,181
Less: amounts due for settlement within 12 monts				–	303,181
Total long–term portion of interest bearing loans and borrowings				–	–

21. EMPLOYEE BENEFIT LIABILITY

Employee benefits other than one–off retirement payments are considered as other long–term employee benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected cost of these benefits is accrued over the service period, using methodology similar to that used for the defined benefit plan. The Group did not create any funds to cover these future benefit payments.

On May 20, 2011, the Company approved Collective agreement on social support of employees of the Group ("Agreement"). In Agreement the Group increased amount of post retirement benefits to pensioners and also clarified most of its payments to pensioners, which caused substantial increase of long term obligations as of December 31, 2012. The contract is valid until 31 December 2013 and there were no additions to the contract during the year 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. EMPLOYEE BENEFIT LIABILITY (continued)

Changes in defined benefit obligations are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Present value of defined benefits obligation at the beginning of the year	**6,135,892**	2,721,804
Past services cost	**–**	1,638,000
Current services cost	**460,000**	296,000
Unwinding of discount (*Note 34*)	**372,000**	163,000
Actuarial losses (*Note 32*)	**153,000**	1,540,000
Benefits paid	**(320,629)**	(222,912)
Present value of defined benefit obligation at the end of the year	**6,800,263**	6,135,892
Less: current portion of present value of defined benefit obligation	**(238,000)**	(226,000)
Non-current portion of present value of defined benefit obligation	**6,562,263**	5,909,892

Amounts recognized in the consolidated statement of financial position and consolidated statement of comprehensive income for the current year is as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Present value of defined benefit obligation at end of the year	**6,800,263**	6,135,892
Net liability	**6,800,263**	6,135,892
Past service cost	**–**	1,638,000
Current service cost	**460,000**	296,000
Actuarial losses (*Note 32*)	**153,000**	1,540,000
Unwinding of discount (*Note 34*)	**372,000**	163,000
Expenses recognized in the current period	**985,000**	3,637,000

Current and past services costs are included in the consolidated statement of comprehensive income as part of 'cost of sales' and 'general and administrative expenses *(Notes 29, 30)*.

Principal actuarial assumptions used for valuation of employee benefit obligation at 31 December 2012 and 2011 were as follows:

	2012	2011
Discount rate	**6.0%**	6.0%
Future salary increases	**6.0%**	6.0%
Mortality rate	**12.0%**	12.0%

22. DEFERRED INCOME

In thousands of Tenge	**31 December 2012**	31 December 2011
Deferred income from third parties	**3,840,252**	3,871,014
Deferred income from related parties (*Note 37*)	**572,670**	885,036
	4,412,922	4,756,050

23. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**31 December 2012**	31 December 2011
Accounts payable to third parties for goods and services	**5,905,433**	5,498,346
Accounts payable to related parties for goods and services (*Note 37*)	**596,783**	531,875
Other payables to third parties	**269,141**	513,642
Other payables to related parties (*Note 37*)	**569**	1,760
	6,771,926	6,545,623

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. TRADE AND OTHER ACCOUNTS PAYABLE (continued)

Trade and other accounts payables are denominated as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Tenge	**6,274,570**	4,587,084
US Dollars	**223,020**	1,497,885
Russian roubles	**58,192**	291,158
Euro	**12,289**	10,191
Other currency	**203,855**	159,305
	6,771,926	6,545,623

24. ADVANCES RECEIVED

In thousands of Tenge	**31 December 2012**	31 December 2011
Advances received from related parties *(Note 37)*	**10,426,287**	7,021,835
Advances received from third parties	**5,544,408**	4,204,961
	15,970,695	11,226,796

25. OTHER TAXES PAYABLE

In thousands of Tenge	**31 December 2012**	31 December 2011
Personal income tax	**432,489**	566,590
Social tax	**309,878**	339,974
VAT payable	**297,528**	–
Property tax	**79,651**	49,437
Other taxes	**520,255**	313,316
	1,639,801	1,269,317

26. PROVISIONS

Movements in provision were represented as follows:

In thousands of Tenge	**KazTransOil (tax provisions)**	**BIHL (tax provisions)**	**Others**	**Total**
As at 1 January 2011	**3,718,848**	**226,112**	**1,700**	**3,946,660**
Charged for the year	–	–	61,471	61,471
Use of provision	–	–	(3,090)	(3,090)
Reversal of provision	(3,718,848)	–	–	(3,718,848)
Foreign currency translation	–	1,534	–	1,534
As at 31 December 2011	**–**	**227,646**	**60,081**	**287,727**
Charged for the year	**–**		306,318	**306,318**
Use of provision	**–**	(56,214)	(186,332)	**(242,546)**
Reversal of provision	**–**	–	(776)	**(776)**
Foreign currency translation	**–**	2,974	–	**2,974**
As at 31 December 2012	**–**	**174,406**	**179,291**	**353,697**

26. PROVISIONS (continued)

KazTransOil Tax Provisions

According to the tax audit results related to the period 2003-2006 the Tax Committee of Astana City ("Tax Authority") proposed an additional assessment of withholding tax payable in the amount of 3,221,780 thousand Tenge and corporate income tax in the amount of 1,267,101 thousand Tenge. On 13 February 2009 the Group made an appeal to the Ministry of Finance and the Tax Committee of the Republic of Kazakhstan. On 23 February 2010 the Group received a reply from the Tax Committee, which satisfied an appeal only partially. The management of the Group believed that the Group might be found liable to the Tax Authority. In 2008, the management has therefore made a provision in the amount of 3,718,848 thousand Tenge, which it believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour.

Based on results of the legal proceedings the resolution of the supervisory Board of the Supreme Court dated May 25, 2011 did not satisfy the claim of the Tax Committee. Accordingly, the Group reversed a tax provision of 3,718,848 thousand Tenge and as of 31 December 2012 and 2011 there was no tax provision.

BIHL Tax Provisions

As of 31 December 2011, the Group was involved in tax disputes with Georgian Tax Authorities in respect of additional accruals of withholding tax of 1,534 thousand US Dollars (equivalent of 227,646 thousand Tenge), and in consolidated financial statement provision an appropriate amount was reflected. During 2012 the Group has used part of the provision in the amount of 377 thousand US dollars and as of 31 December 2012 the amount of tax provision of BIHL amounted to 1,157 thousand US dollars, which is equivalent to 174,406 thousand Tenge (2011: 1,534 thousand US dollars, which is equivalent to 227,646 thousand Tenge).

Other Provisions

Other provisions include provisions related to environmental pollution and other. During 2012 the management of the Company made a provision in the amount of 306,318 thousand Tenge for environmental pollution due to oil spill as a result of unauthorized penetration of Pavlodar-Shymkent pipeline.

During 2011 the management of the Group made a provision in the amount of 49,657 thousand Tenge for environmental pollution due to oil spill as result of Tuimazy-Omsk-Novosibirsk 2 pipeline system and other provision in the amount of 11,814 thousand Tenge.

Asset retirement obligation

According to the Law of the Republic of Kazakhstan "About the main pipeline", which became effective on July 4 2012, the Group has a legal obligation to decommission the main pipeline (oil pipeline) after the operation and obligation to perform further work to restore the environment, including land rehabilitation.

During 2012, the Company's management accrued provision for asset retirement obligation in the amount of 15,084,384 thousand Tenge. Unwinding of discount amounted to 446,653 thousand Tenge. As at 31 December 2012, the carrying value of asset retirement obligation was 15,531,037 thousand Tenge (31 December 2011: nil Tenge).

In thousand of Tenge	**Asset retirement obligation**
As at 31 December 2011	–
Accrued for the year	15,084,384
Unwinding of discount on asset retirement obligation *(Note 34)*	446,653
As at 31 December 2012	**15,531,037**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2012**	31 December 2011
Accounts payable for oil transportation coordination services to related parties (*Note 37*)	**4,839,624**	3,915,508
Accounts payable for oil transportation coordination services to third parties	**3,190,974**	4,688,339
Salaries and wages	**2,941,700**	2,620,037
Current portion of deferred income from third parties	**444,532**	353,010
Payable to pension funds	**338,898**	382,588
Current portion of deferred income from related parties (*Note 37*)	**312,365**	312,365
Other accruals	**62,406**	37,594
	12,130,499	12,309,441

28. REVENUE

In thousands of Tenge	**2012**	2011
Crude oil transportation	**110,260,550**	109,585,457
Oil reloading and railway shipment	**14,880,582**	13,795,329
Water transportation	**6,431,874**	6,119,862
Pipeline operation services	**5,968,264**	5,227,305
Oil transportation coordination services and seaport	**3,853,047**	3,764,703
Oil storage services	**235,996**	282,259
Other	**1,431,012**	1,703,177
	143,061,325	140,478,092

29. COST OF SALES

In thousands of Tenge	**2012**	2011
Personnel cost	**29,063,058**	26,621,785
Depreciation and amortization	**26,976,466**	26,685,966
Railway services	**9,229,798**	8,726,951
Materials and fuel	**5,831,571**	5,727,463
Electric energy	**5,355,092**	4,933,238
Repair and maintenance costs	**4,994,652**	4,737,422
Taxes other than corporate income tax	**4,324,473**	4,079,963
Security services	**3,587,876**	3,403,589
Gas expense	**2,206,043**	1,966,908
Air services	**1,931,505**	1,942,330
Environmental protection	**888,008**	954,634
Rent expense	**744,589**	750,735
Business trip expenses	**706,013**	567,982
Insurance	**476,373**	480,034
Post-employment benefits	**431,867**	1,820,207
Communication services	**214,538**	213,967
Diagnostics of pipelines	**194,260**	419,693
Other	**2,447,449**	2,265,816
	99,603,631	96,298,683

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	2012	2011
Personnel costs	**5,447,561**	5,190,023
Charity expenses	**1,079,886**	329,503
Consulting	**767,630**	703,429
Depreciation and amortization	**686,879**	1,029,996
Taxes other than corporate income tax	**361,723**	446,316
Expenses on VAT	**309,957**	316,627
Insurance and security	**232,607**	256,020
Repair and technical maintenance	**218,156**	239,297
Business trip expenses	**215,928**	180,017
Advertising expense	**186,903**	84,835
Social sphere expenses	**172,820**	378,841
Rent expense	**149,098**	198,919
Materials and fuel	**140,532**	164,879
Training	**132,182**	157,450
Communication services	**124,219**	98,699
Office maintenance	**121,661**	34,956
Provision for allowance for doubtful debts	**119,756**	41,582
Bank costs	**102,622**	98,192
Information expenses	**77,118**	76,182
Post-employment benefits	**28,133**	113,793
Transportation expenses	**14,366**	79,271
Provision allowance for obsolete and slow-moving inventories	**12,973**	2,892
Reversal of tax provisions *(Note 26)*	–	(3,718,848)
Other	**274,865**	227,499
	10,977,575	6,730,370

In 2012 the Company has provided a financial aid in the amount of 1,000,000 thousand Tenge to the public association "Pavlodar-our common home" for the construction of multifunctional sport complex in Pavlodar city.

31. OTHER OPERATING INCOME

In thousands of Tenge	2012	2011
Income from fines and penalties	**928,945**	786,025
Amortization of deferred income *(Note 37)*	**312,365**	312,365
Amortization of financial guarantee issued to related party	**138,570**	136,070
Income from write-off of payables	**11,222**	9,930
Gain on disposal of inventory	**–**	56,998
Gain on disposal of other non-current assets	**–**	229,465
Other income	**267,068**	114,312
	1,658,170	1,645,165

Income from fines and penalties are mainly presented by amounts for nominated and non-delivered crude oil volumes under oil transportation contracts on "ship or pay" terms.

32. OTHER OPERATING EXPENSES

In thousands of Tenge	2012	2011
Actuarial losses (*Note 21)*	**153,000**	1,540,000
Loss on disposal of property, plant and equipment and intangible assets	**46,050**	523,329
Loss on disposal of other non-current assets	–	215,716
Loss on disposal of inventory	–	51,482
Other expenses	**421,920**	435,768
	620,970	2,766,295

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. FINANCE INCOME

In thousands of Tenge	**2012**	2011
Interest income on bank deposits	**1,851,365**	2,816,026
Income from guarantees	–	17,741
Dividends income (*Note 37*)	–	17,608
Other finance income	**98,992**	43,651
	1,950,357	2,895,026

34. FINANCE COSTS

In thousands of Tenge	**2012**	2011
Unwinding of discount on asset retirement obligation *(Note 26)*	**446,653**	–
Employee benefits: unwinding of discount *(Note 21)*	**372,000**	163,000
Interest on loans and borrowings	**27,436**	139,297
Other	**1,442**	6,059
	847,531	308,356

35. INCOME TAX EXPENSE

As at 31 December 2012 prepayment for income tax in the amount of 1,580,756 thousand Tenge (2011: 1,756,038 thousand Tenge) represents corporate income tax.

As at 31 December 2012 income tax liabilities in the amount of 919,213 thousand Tenge (2011: 1,156,184 thousand Tenge) represents corporate income tax.

Income tax expenses for the years ended 31 December comprise:

In thousands of Tenge	**2012**	2011
Current income tax expense	**8,172,066**	9,473,951
Deferred income tax (benefit) / expense	**378,097**	(2,746,399)
Income tax expense	**8,550,163**	6,727,552

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate (20%) to current income tax expense for the years ended 31 December, is as follows:

In thousands of Tenge	**2012**	2011
Profit before income tax	**42,051,291**	32,672,949
Statutory rate	**20%**	20%
Income tax expense on accounting profit	**8,410,258**	6,534,590
Tax effect of permanent differences		
Reversal of provisions for taxes	**–**	(743,770)
Other non deductible expenses	**612,375**	1,294,111
Tax effect of other adjustments		
Adjustment of tax return for prior years	**–**	259,935
Derecognition of deferred taxes on income of foreign subsidiaries	**1,110,119**	–
Income from joint ventures recognized according to equity method	**(1,621,596)**	(320,506)
Effect of difference in tax rates	**39,007**	(296,808)
Corporate income tax expense reported in the statement of comprehensive income	**8,550,163**	6,727,552

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. INCOME TAX EXPENSE (continued)

Deferred income tax balances, calculated by applying the statutory income tax rates in effect at the respective balance sheet 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 31 December:

In thousands of Tenge	31 December 2012	Charged to profit and loss	Foreign currency translation	Charged to revaluation reserve	31 December 2011	Charged to profit and loss	Foreign currency translation	Charged to revaluation reserve	1 January 2011
Deferred tax assets									
Bonuses and other employee compensation and related costs	**1,565,969**	152,212	–	–	**1,413,757**	409,354	–	–	**1,004,403**
Financial guarantee issued on behalf of related party	**39,931**	(27,853)	–	–	**67,784**	21,371	–	–	**46,413**
Allowance for doubtful debts	**34,350**	18,506	–	–	**15,844**	(96,154)	–	–	**111,998**
Provision for slow-moving and obsolete inventory	**13,083**	2,943	–	–	**10,140**	(883)	–	–	**11,023**
Provision on environmental protection	**70,739**	70,739	–	–	–	–	–	–	–
Provision on asset retirement obligation	**3,106,207**	3,106,207	–	–	–	–	–	–	–
Taxes payable	–	(50,997)	–	–	**50,997**	29,728	–	–	**21,269**
Financial aid to related parties and loans to employees	**14,440**	8,787	–	–	**5,653**	(8,404)	–	–	**14,057**
Deferred Income from related party	**177,007**	(62,473)	–	–	**239,480**	(62,473)	–	–	**301,953**
Income of foreign entities under control	–	(1,110,118)	–	–	**1,110,118**	79,571	–	–	**1,030,547**
	5,021,726	**2,107,953**	–	–	**2,913,773**	**372,110**	–	–	**2,541,663**
Deferred tax liabilities									
Taxes payable	**(33,759)**	(33,759)	–	–	–	–	–	–	–
Investments in joint ventures	–	–	–	–	–	176,032	–	–	**(176,032)**
Property, plant and equipment	**(44,394,737)**	(2,452,291)	(34,466)	(4,792,496)	**(37,115,484)**	2,198,257	459,378	(1,363,226)	**(38,409,893)**
	(44,428,496)	**(2,486,050)**	**(34,466)**	**(4,792,496)**	**(37,115,484)**	**2,374,289**	**459,378**	**(1,363,226)**	**(38,585,925)**
Net deferred income tax liabilities	**(39,406,770)**	**(378,097)**	**(34,466)**	**(4,792,496)**	**(34,201,711)**	**2,746,399**	**459,378**	**(1,363,226)**	**(36,044,262)**

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 and impairment of property, plant and equipment.

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.

In 2012 the Group has changed its assessment in regards the recoverability of deferred tax asset on income from foreign companies under control, which were received in countries with preferential tax rules under the Tax code of the Republic of Kazakhstan. Accordingly, as of 31 December 2012 the Group has ceased the recognition of relevant deferred tax asset in the amount of 1,110,118 thousand Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its services and has three reportable segments, as follows:

- Oil transportation and related services;
- Oil transshipment;
- Other segments.

Segments that are identified, but do not separately exceed quantitative limits (amount of separate segment revenue composes less than 10% of combined revenue) are combined in "Other segments". Such services include services provided by subsidiary KTO-Service, and also transshipment of dry cargo (sugar-airbrick, ammonium nitrate, cement, grain, sunflower and oil cake) in Batumi sea port with operation of dry-cargo, ferry and container terminal, and also passenger terminal services.

Oil transportation and related services provided by the Company, which do not exceed quantitative limits and are intimately connected with the Group's main operating activities, or with main asset of the Group – pipelines, such as: water transportation, oil storage, expedition services, services on support and maintenance of pipelines, are included into service related to oil transportation. Separate management report is not provided to the Management of the Group on some types of these services and accordingly they cannot be identified as a separate segments. Services on transshipment of oil and oil-products through Batumi sea port with operation of Batumi oil terminal are included in "Oil transshipment" segment.

Revenue from oil terminal is generated through storage, transshipment of oil and oil-products and expedition. Expedition services represent transshipment of oil and oil-products services through railway from Azerbaijanian-Georgian border to terminal in Batumi. This type of activity is directly related to oil transshipment, and therefore is not shown as a separate segment.

Management analyses its operating segments by segment profit.

	31 December 2012						31 December 2011					
In thousands Tenge	Oil Transportation and related services	Oil transshipment	Other	Total segments	Adjustments and eliminations	Consolidated	Oil Transportation and related services	Oil transshipment	Other	Total segments	Adjustments and eliminations	Consolidated
Revenue												
External customers	123,931,842	14,880,582	4,248,901	**143,061,325**	–	**143,061,325**	122,258,114	14,296,770	3,923,208	**140,478,092**	–	**140,478,092**
Inter-segment	–	–	394,544	**394,544**	(394,544)	–	–	–	537,747	**537,747**	(537,747)	–
Total revenue	**123,931,842**	**14,880,582**	**4,643,445**	**143,455,869**	**(394,544)**	**143,061,325**	**122,258,114**	**14,296,770**	**4,460,955**	**141,015,839**	**(537,747)**	**140,478,092**
Results												
Impairment of property, plant and equipment (included in net profit)	(766,227)	–	–	**(766,227)**	–	**(766,227)**	61,250	(5,953,279)	(982,287)	**(6,874,316)**	–	**(6,874,316)**
Impairment of Intangible assets	–	–	–	–	–	–	–	–	(534,870)	**(534,870)**	–	**(534,870)**
Depreciation and amortization	(26,184,824)	(1,021,851)	(456,670)	**(27,663,345)**	–	**(27,663,345)**	(25,508,041)	(1,580,270)	(627,651)	**(27,715,962)**	–	**(27,715,962)**
Interest income	1,783,562	21,770	60,198	**1,865,530**	–	**1,865,530**	2,741,951	43,400	37,859	**2,823,210**	–	**2,823,210**
Interest expenses	–	(27,436)	–	**(27,436)**	–	**(27,436)**	(74,638)	(70,524)	(14,122)	**(159,284)**	14,122	**(145,162)**
CIT expense	(8,432,962)	53,680	(170,880)	(7,379,444)	–	**(8,550,162)**	(7,869,141)	1,091,879	(201,456)	**(6,978,718)**	251,166	**(6,727,552)**
Segment profit	**24,164,234**	**1,472,012**	**(262,312))**	**25,373,934**	**8,127,194**	**33,501,128**	**29,463,371**	**(4,965,724)**	**(1,934,668)**	**22,562,979**	**3,382,418**	**25,945,397**

36. SEGMENT INFORMATION (continued)

Inter-segment revenues are eliminated upon consolidation and reflected in the adjustments and eliminations'column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

In thousands of Tenge	**31 December 2012**	31 December 2011
Reconciliation of profit		
Segment profit	**25,373,934**	22,562,979
Adjustments and eliminations	**19,215**	1,779,890
Recognition of share in income of joint ventures	**8,107,979**	1,602,528
Group profit	**33,501,128**	25,945,397

37. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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 tables provides the total amount of transactions, which have been entered into with related parties during 2012 and 2011 and the related balances as at 31 December 2012 and 2011:

Other non-current assets include long term trade accounts receivables from related parties are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Long-term trade accounts receivable from related parties		
Long-term trade accounts receivable from entities under common control of KMG	–	202,705
Total long-term trade accounts receivable from related parties	–	202,705

Trade and other accounts receivables from related parties are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Trade and other accounts receivable from related parties		
Trade accounts receivable from joint ventures	**471,451**	1,396,428
Trade accounts receivable from entities under common control of KMG	**559,841**	573,349
Trade accounts receivable from entities under common control of Samruk-Kazyna Group	**188**	207
	1,031,480	1,969,984
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	**198,918**	58,485
Total trade and other accounts receivable from related parties	**1,230,398**	2,028,469

Advances provided to related parties are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Advances given to related parties		
Advances given to entities under common control of KMG	**219,298**	170,207
Advances given to entities under common control of Samruk-Kazyna Group	**2,612**	63,070
Advances given to other related parties	**198,374**	–
Total advances paid to related parties	**420,284**	233,277

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. RELATED PARTY TRANSACTIONS (continued)

JSC "Halyk bank Kazakhstan" and its subsidiaries which are included in "Halyk Group" were excluded from the list of related parties of the Company from January 6, 2012 as it is not controlled by a member of key management personnel of the KMG and Samruk Kazyna. Thus transactions in cash, bank deposits, deferred expense, interest receivable as of 31 December 2012 and interest income for the year 2012 related to JSC "Halyk Bank Kazakhstan" are not disclosed in the information with related parties.

Deferred expenses to related parties are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Deferred expenses		
Halyk Bank Kazakhstan JSC – other affiliate	–	149,104
Total deferred expenses to related parties	–	149,104

Cash and cash equivalents placed in banks which are related parties are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Current accounts		
Halyk Bank Kazakhstan JSC – other affiliate	–	14,917,426
Total current accounts placed in banks which are related parties	–	14,917,426

As at 31 December 2011current accounts comprised of Tenge denominated deposits placed in Halyk Bank in amount of 12,000,000 Tenge with maturity less than 3 months, which earn interest 2% per annum and of other current accounts with interest rate from 0.1% to 3% per annum.

In thousands of Tenge	**31 December 2012**	31 December 2011
Bank deposits		
Halyk Bank Kazakhstan JSC – other affiliate	–	5,000,000
Total bank deposits placed in banks which are related parties	–	5,000,000

As at 31 December 2011 bank deposits comprised of Tenge denominated deposits placed in Halyk Bank Kazakhstan, which earn interest from 3.5% to 6%per annum.

In thousands of Tenge	**31 December 2012**	31 December 2011
Interest receivable on bank deposits		
Halyk Bank Kazakhstan JSC – other affiliate	–	195,528
Total interest receivable on bank deposits	–	195,528

Trade and other accounts payable to related parties are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Accounts payables to related parties for goods and services		
Accounts payables to entities under common control of KMG	**567,859**	454,221
Accounts payables to entities under common control of Samruk-Kazyna Group	**28,924**	77,654
	596,783	531,875
Other payables to related parties		
Other payables to entities under common control of Samruk-Kazyna Group	**569**	1,760
	569	1,760
Total trade and other accounts payable to related parties	**597,352**	533,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. RELATED PARTY TRANSACTIONS (continued)

Financial guarantee issued on behalf of related parties:

In thousands of Tenge	**31 December 2012**	31 December 2011
Financial guarantee issued on behalf of MunaiTas JSC	**199,654**	338,919
Total financial guarantee issued on behalf of related parties	**199,654**	338,919

Advances received from related parties are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Advances received from related parties		
Advances from entities under common control of KMG	**9,143,441**	6,111,963
Advances from entities under common control of Samruk-Kazyna Group	**1,282,846**	909,872
Total advances received from related parties	**10,426,287**	7,021,835

Loans and borrowings to related parties are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Loans received from related parties		
Halyk Bank Kazakhstan JSC – other affiliate	**–**	303,181
Total loans received from related parties	**–**	303,181

Other current liabilities to related parties are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Accounts payable for oil transportation expedition for related parties		
Accounts payable for oil transportation expedition for entities under common control of KMG	**4,839,624**	3,915,508
	4,839,624	3,915,508
Employee benefits		
Employee benefits of key management personnel	**19,940**	4,943
	19,940	4,943
Current portion of deferred income from related parties		
Current portion of deferred income from entities under common control of KMG	**312,365**	312,365
	312,365	312,365
Total other current liabilities to related parties	**5,171,929**	4,232,816

Non-current deferred income to related parties are as follows:

In thousands of Tenge	**31 December 2012**	31 December 2011
Non-current deferred income from related parties		
Non-current deferred income from entities under common control of KMG	**572,670**	885,036
Total other non-current deffered income from related parties	**572,670**	885,036

37. RELATED PARTY TRANSACTIONS (continued)

During years ended 31 December the Group had the following transactions with the related parties:

In thousands of Tenge	**2012**	2011
Sales to related parties:		
Income from main acitivties with entities under common control of KMG	**68,484,274**	66,603,554
Income from main activities with entities under common control of Samruk-Kazyna Group	**7,505,538**	9,155,985
Income from other activities with related parties	**16,104**	–
Income from main activities with joint ventures	**4,937,616**	4,372,631
Income from other activities with entities under common control of KMG	**209,442**	373,899
Income from other activities with joint ventures	**4,209**	1,060
Income from other activities with entities under common control of Samruk-Kazyna Group	**–**	425
Sale of property, plant and equipment to other entities under common control of KMG	**–**	240,093
Income from sale of subsidiary	**11,647,889**	–
	92,805,072	80,747,647
Purchases from related parties:		
Purchases of services from entities under common control of KMG	**7,222,887**	6,812,352
Purchases of services from entities under common control of Samruk-Kazyna Group	**932,503**	1,759,717
Purchases of services from other related parties	**9,015,787**	–
Purchases of inventory from entities under common control of Samruk-Kazyna Group	**12,837**	5,354
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	**–**	19,205
	17,184,014	8,596,628
Interest income on bank deposits		
Halyk Bank Kazakhstan JSC – other affiliate	**–**	866,619
	–	866,619

In thousands of Tenge	**2012**	2011
Dividend income		
Other dividend income	**–**	17,608
	–	17,608
Other operating income from related parties		
Amortization of deferred income from related parties	**312,365**	312,365
Amortization of financial guarantee issued to related party	**138,570**	136,070
	450,935	448,435
Interest expenses on loans from related parties		
Halyk Bank Kazakhstan JSC – other affiliate	**–**	6,011
	–	6,011
Financial income from related parties		
Income on discounting of debts from related parties	**65,199**	9,439
Other financial income from related party	**8,499**	–
	73,698	9,439
Financial expenses from related parties		
Expenses on discounting of debts from related parties	**–**	74,638
	–	74,638

37. RELATED PARTY TRANSACTIONS (continued)

The total remuneration of members of the key management personnel comprised:

In thousands of Tenge	**31 December 2012**	31 December 2011
Salary	**126,329**	98,997
Bonuses	**26,508**	37,430
Benefits based on the results of the year 2011	**101,002**	–
Post–employment benefits	**451**	1,908
	254,290	138,335
Number of persons	**8**	7

38. CONTINGENT LIABILITIES AND COMMITMENTS

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 usual. 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 as at 31 December 2012.

As at 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Groups'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 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 as 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 commitments of Georgian entities

According to the Tax Code of Georgia ("TCG"), tax administration is authorized to make motivated written 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 sophisticated 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 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.

38. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Taxation (continued)

VAT taxation of import and export cargo trasshipment services of Georgian entities

On 28 October 2011 BIHL applied to the Georgian Tax Authorities ("GTA") with request to issue advance tax ruling in relation to certain matters related to VAT taxation of port operations in Georgia. In particular, the Management has requested the official position of the GTA on VAT taxation of import and export cargo transshipment services since the provisions of the Tax Code of Georgia ("TCG") in this respect are ambiguous. During discussions with GTA held in December 2011, GTA expressed the position that according to the provisions of the TCG transshipment services in relation to the cargo declared in export regime are exempted from VAT taxation. The Management believes that whether the cargo is declared in export regime or not and, therefore, whether VAT exemption applies, should be assessed upon completion of transshipment operations and issuance of relevant invoice for the rendered services.

However, the GTA's current position is that transshipment operation should be broken down into unloading, storage and loading operations and whether VAT exemption applies to the particular component shall be assessed on the basis of whether cargo was declared in export regime before commencement of that particular component. If, for example, cargo was not yet declared in export regime upon commencement of unloading, this component of cargo transshipment service should be taxed with VAT.

GTA have already issued the final signed advance tax ruling, however as of the reporting date the ruling has not been delivered to the Management. The Management strongly opposes the position by GTA and intends to initiate formal appeal process against the ruling. As of the reporting date the management is not able to calculate the exact exposure in monetary terms due to impracticability of determining it since the accounting records do not contain sufficient information to make this assessment as detailed check of supporting documents is required.

Based on approximate calculations the Management assess maximum amount of tax exposure for US Dollars 3,928 thousand (equivalent to 582,915 thousand Tenge).

Environmental matters

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Group's financial position or results of operations.

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 has insurance coverage over property, third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to Group's operations.

Covenants

Guarantees

As at 31 December 2012, the Company has guaranteed to EBRD in respect of the obligations of MunaiTas under the loan agreement with EBRD. According to the Guarantee Agreement concluded between the Company and EBRD, the Company has to comply with the following covenants:

- Current ratio of not less than 1:1;
- Ratio of earnings before interest, income tax, depreciation and amortization to Interest of not less than 2:1; and
- Ratio of debt to equity of not more than 2:1;

The Guarantor shall not enter into any transactions that are not based on arm's-length arrangements unless transaction is approved by regulatory bodies. The Guarantor shall not sell, lease or dispose its assets in excess of 30% of total assets or undertake any merger or reorganization. As of 31 December 2012 and 2011, the Company fully complied with covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Contractual commitments

As at 31 December 2012, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 5,607,369 thousand Tenge (2011: 10,267,168). In addition, as at 31 December 2012, the Group has committed to purchase inventory (materials and spare parts) and services for the amount of 1,948,794 thousand Tenge (2011: 2,002,637 thousand Tenge).

Share of the Group as at 31 December 2012 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services for the amount of 11,623,922 thousand Tenge (2011: 141,092 thousand Tenge) and has commitments to purchase inventory (materials and spare parts) and services for the amount of 986,037 thousand Tenge (2011: 169,364 thousand Tenge).

Expropriation of the Batumi Sea Port (BSP) assets

In accordance with BSP Management Right agreement between BIHL and Georgia Government, Georgian Government has the right for expropriation of the BSP's assets, in case the BSP will not meet its obligations on minimum volume of transshipment, which is 6 mln tone per year. As at 31 December 2012, BSP was not exposed to risk of asset expropriation from the Government of Georgia, as actual volumes of transshipment were 6.750 mln tonne.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has trade receivables and cash and cash equivalents that arrive directly from its operations.

The Group is exposed to market risk that comprises: interest rate risk, credit risk, currency risk and liquidity risk.

The management of the Group reviews and agrees policies for managing each of these risks which are summarized below.

Interest Rate Risk

The Group is not exposed to risks associated with interest rates, because there are no loans with floating or fixed rate in the years 2012 and 2011.

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. Maximum exposure is the carrying amount. There are no significant concentrations of credit risk within the Group.

The Group places deposits with Kazakhstani banks *(Notes 17 and 18)*. The Group's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Group's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits is required.

The table below shows the balances of bank accounts and deposits at the balance sheet date using the "Moody's" "Fitch" and "Standard & Poors" credit ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Bank	Location	Rating 2012	Rating 2011	2012	2011
Halyk Bank Kazakhstan JSC	Kazakhstan	Ba2/Stable	Ba2/Stable	**34,783,201**	20,112,954
KazKommerstBank JSC	Kazakhstan	Ba2/Negative	Ba3/Negative	**28,543,632**	8,253,742
JSC Cesna Bank	Kazakhstan	B/Stable	–	**7,005,347**	–
JSC Bank Kassa Nova	Kazakhstan	B/Stable	–	**1,000,542**	–
TBC Bank	Georgia	B1/Stable	B	**258,519**	264,597
BNP Paribas	Cyprus	–	AA-	**142,449**	38,881
Bank of Georgia	Georgia	B1/Stable	BB-	**106,573**	99,131
Bank of Cyprus	Georgia	Caa2/Negative	Ba2/Negative	**74,164**	195,146
Basis Bank	Georgia	B-	B-	**55,171**	33,093
Republic Bank	Georgia	–	A+	**16,883**	15,878
Berenberg Bank	Cyprus	–	–	**14,773**	870,663
SberBank of Russia JSC	Kazakhstan	Ba2/Stable	Ba2/Stable	**4,690**	19,562,153
Cartu Bank	Georgia	–	–	**1,960**	5,046
RBS Bank Kazakhstan JSC	Kazakhstan	A3/Negative	A2/Negative	**350**	6,059
CITI Bank Kazakhstan JSC	Kazakhstan	A3/Negative	A1/Negative	**269**	669
ATF Bank JSC	Kazakhstan	B1/Stable	Ba3/Negative	**7**	13,321,930
HSBC Bank Kazakhstan JSC	Kazakhstan	–	–	**6**	–
Procredit Bank	Georgia	BB	BB	–	14,840
AMT Bank LLC	Russia	–	–	–	4,622
VTB Bank	Georgia	BB	BB-	–	148
Other	Kazakhstan	–	–	**27,603**	168,260
				72,036,139	62,967,812

Liquidity Risks

The Group monitors its risk to a shortage of funds using a current liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

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

In thousands of Tenge	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	Total
As at 31 December 2012						
Trade and other payable	–	**6,500,714**	**92,453**	**178,759**	–	**6,771,926**
Other liabilities	–	**2,941,700**	–	–	–	**2,941,700**
		9,442,414	**92,453**	**178,759**		**9,713,626**
As at 31 December 2011						
Loans and borrowings	–	303,181	–	–	–	303,181
Trade and other payable	–	5,288,216	1,257,407	–	–	6,545,623
Other liabilities	–	2,620,037	–	–	–	2,620,037
	–	**8,211,434**	**1,257,407**	**–**	**–**	**9,468,841**

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency Risk

The table below shows the total amount of foreign currency denominated assets and liabilities that give rise to foreign exchange exposure.

In thousands of Tenge	*US Dollar*	*Russian Ruble*	*Euro*	*Other curren-cies*	*Total*
At 31 December 2012					
Assets	**762,486**	**10,086**	**11,908**	**520,206**	**1,304,686**
Liabilities	**948,682**	**77,546**	**30,076**	**227,458**	**1,283,762**
At 31 December 2011					
Assets	1,687,714	16,814	184,906	720,186	2,609,620
Liabilities	440,595	310,262	30,967	290,700	1,072,524

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The Group also has transactional currency exposures. Such exposure arises from revenues in US Dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and Russian ruble exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

In thousands of Tenge	Increase / decrease in US dollar rate	Effect on profit before tax
2012	**+1.57%**	**(2,923)**
US Dollar	**-1.57%**	**2,923**
2012	**+10,74%**	**(7,245)**
Rissian ruble	**-10,74%**	**7,245**
2011	+ 10.72%	133,691
US Dollar	-10.72%	(133,691)
2011	+16,01%	(46,981)
Rissian ruble	-16,01%	46,981

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy equity ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

The Group monitors equity using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's net debt includes interest bearing loans and borrowings and trade and other payables, less cash and cash equivalents.

As of December 31, 2012 and 2011 the Group does not have significant debts. The Group has sufficient cash, exceeding its debt as of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value 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**	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
Financial Assets				
Cash and cash equivalents	**18,954,044**	21,852,387	**18,954,044**	21,852,387
Bank deposits	**53,084,676**	41,123,823	**53,084,676**	41,123,823
Trade and other receivables	**2,527,881**	3,054,223	**2,527,881**	3,054,223
Financial liabilities				
Fixed rate borrowings	–	303,181	–	303,181
Trade and other payables	**6,771,926**	6,545,623	**6,771,926**	6,545,623
Other financial liabilities	**3,480,252**	3,345,708	**3,480,252**	3,345,708

The carrying amount of cash, bank deposits, trade and other accounts receivable, loans, trade and other accounts payable and other current liabilities approximates their fair value due to the short-term maturity of these financial instruments.

40. EVENTS AFTER THE REPORTING PERIOD

There were no significant events in the Company after the reporting date.