KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

ANNUAL REPORT 2011

ҚазМұнайГаз
БАРЛАУ ӨНДІРУ АКЦИОНЕРЛІК ҚОҒАМЫ

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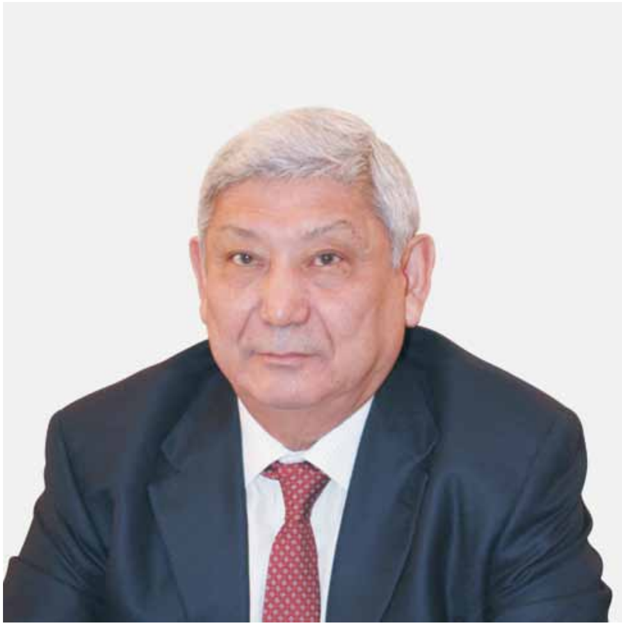

Lyazzat Kiinov
Chairman of the Board of Directors

Alik Aidarbayev
Chief Executive Officer
(Chairman of the Management Board)

Last year was a difficult one for JSC KazMunaiGas Exploration Production. A series of complex events in 2011 led us to make adjustments to the Company's short term operations while remaining true to the previously defined longer term development strategy through to 2020.

In terms of profitability the Company completed 2011 with good results, earning around 1.4 billion U.S. dollars for shareholders. Earnings per share however declined by 9% compared to 2010. The doubling of export customs duty rates from January 2011 was one of the factors which adversely affected the profitability of the Company. The key factor, however, was the decline in oil production and consequently in exports. Consolidated production by KMG EP in 2011 amounted to just over 12.3 million tonnes (250 thousand barrels per day), which was 7% less than in 2010.

The main factor influencing the decline in production was labour unrest at the Uzenmunaigas (UMG) production facility. The protest began in May 2011 with several people going on hunger strike and a few hundred workers stopping work in their support. The strikers' demands for higher wages were not endorsed by the trade union, as they contradicted the Collective Labour Agreement signed in March 2011. Official government and judicial bodies repeatedly confirmed the illegal status of the strike.

This led to a prolonged confrontation between the Company's management and the striking workers, and increased social tensions in the region, especially in the town of Zhanaozen. The situation was complicated by the fact that a similar protest was taking place at JSC Karazhanbasmunai (KBM).

Early in 2012, in response to the government's suggestion to re-employ workers laid-off at UMG and KBM, the Board of Directors of KMG EP decided to create two new service companies – for transportation and drilling - with a total staff of about 2,000 people. These will provide services to KMG EP and other companies operating in the Mangistau region. The two new companies created in January 2012 are «Drilling Operations Management,» based in Zhanaozen and «Managing Technological Ttransport and Wells Maintenance" formed in the city of Aktau.

The new management of the Company has revised its approach to its operating activities in the field to take into account the new circumstances. Recognizing the key role of staff relations, management intends to carry out a systematic awareness-raising programme, and create a system of non-material motivation. The aim is to make the payment system more transparent and to involve employees more actively in the process of improving the Company's performance. In addition, management intends to use a more systematic approach to improving occupational safety, health and environmental protection programmes.

Considerable effort will also be focused on the modernization of production facilities. At Uzenmunaigas, for example, the Company plans to start building a new service center to service 1,000 machines and two new units for preparing the special liquids needed for shutting down wells. It also plans a diagnostics and repair centre for underground equipment.

The new, modern service centers and workshops are expected to improve service quality for the fleet of special vehicles and equipment and improve the quality of well sealing liquid. This should lengthen the operating time between servicing of wells, raise the level of industrial and environmental safety, and help to stabilize and even increase oil production.

In order to give the new production facilities a certain autonomy in the conduct of their industrial and economic activities they have been organized as joint stock companies, 100% owned by KMG. This will provide for the necessary management responsibility on the ground, increase the level of transparency in corporate activities and comply with modern standards of corporate governance.

The Company's main medium and long term priorities remain those set out in its Strategy-2020 document. The Board of Directors and management remain committed to this Strategy and the objectives that were outlined at the time of the IPO in 2006. In the course of 2011, the Company took several steps towards achieving these goals.

The Company significantly expanded its exploration portfolio in 2011, for example. It acquired a 50% stake in development of the Fedorovsky unit whose hydrocarbon reserves are estimated at 133.6 million barrels. Last year the Company also bought the right to explore the Karpovsky North block, which is located near Fedorovsky in Western Kazakhstan. Prospective recoverable resources of the Karpovsky North block are estimated at 240 million barrels of oil equivalent. The geographical proximity of these two blocks will enable the Company to create and utilise a joint infrastructure.

KMG EP also purchased four exploration contracts from the National Company KazMunayGas in 2011. These are the Temir block, Teresken, Karaton - Sarkamys and territory adjacent to Uzen and Karamandybas. Total geological resources of all the blocks are about 1.5 bn barrels of oil equivalent. In the event of successful exploration, they will increase the recoverable reserves of the company in the medium term, including the Uzen and Emba groups of fields.

The acquisition of these assets has increased the quality of the Company's exploration portfolio. This is consistent with the Company's overall development strategy, which is focused on organic reserves growth through active exploration.

In addition, KMG EP has signed a memorandum with the parent company on its possible involvement in several offshore blocks in the Caspian Sea. In this way the Company gained access to the geological, physical, financial and economic data on a number of oil and gas projects. These include marine blocks Zhambyl, Ustyurt (Dead Kultuk) Zhenis, Godin, C-1 and C-2, as well as Urikhtau. The company has conducted a feasibility study of these projects and their commercial attractiveness and made a relevant proposal to the National Company KazMunaiGas.

At the end of 2011 the Company also completed the preferred shares buy out program, whereby it acquired more than two million shares worth over 37 billion tenge. This program has considerably stimulated the stock market in Kazakhstan, accounting for a significant share of transactions. In addition, KMG has started buying back common shares on the Kazakhstan Stock Exchange and GDRs on the London Stock Exchange. By doing this the management has demonstrated its confidence in the value and future prospects of the Company.

KMG EP is strongly placed to continue implementing its development strategy through exploration, acquisitions and investments in oil and gas assets. The Company's financial stability is reinforced by its high standards of corporate governance. Among the major strengths of the Company's corporate governance analysts note the experience of its independent directors in balancing the influence of the majority shareholder, and monitoring of management. Analysts also note the Company's high level of transparency, active investor relations work and the significant amount of voting rights held by KMG EP's shareholders.

Despite some existing difficulties, the Company looks to the future with confidence. Through establishing a close and continuing dialogue with the workforce of the newly created joint stock companies, the management, with the support of the Board of Directors, expects to continue to ensure efficient operation of the Company for the benefit of all shareholders.

Lyazzat Kiinov
Chairman of the Board of Directors

Alik Aidarbayev
Chief Executive Officer
(Chairman of the Management Board)

CORPORATE GOVERNANCE INFORMATION

CORPORATE GOVERNANCE CODE COMPLIANCE

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

As an overseas company with GDRs admitted to the Official List of the United Kingdom Listing Authority, the Company is not required to comply with the UK Code on Corporate Governance (the UK Code). However, in accordance with DTR 7.2 it is required to disclose in its Annual Report whether or not it complies with the corporate governance code of the Republic of Kazakhstan and the actual principles of corporate governance, which being applied in addition to the practices to be observed in accordance with applicable laws of the Republic of Kazakhstan. In addition, the Company shall specify where its actual governance practices differ from those set out in the UK Code.

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

KAZAKHSTAN CORPORATE GOVERNANCE CODE AND COMPANY'S CORPORATE GOVERNANCE CODE

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

Throughout 2011 the Company has complied with the provisions of the Code on Corporate Governance of Kazakhstan in all material respects.

The Company has adopted the Code on Corporate Governance of Kazakhstan as its own Code, amended to include certain provisions of the UK Code. The amendments adopted by the Company impose additional obligations on KMG EP in respect of corporate governance. The Company believes that these additional amendments will significantly strengthen the corporate governance practices applied by the Company. KMG EP also takes into consideration other provisions of the UK Code and will seek to improve its standards of corporate governance in the future.

Additional provisions of the Code on Corporate Governance of the Company in addition to the requirements of applicable laws of the Republic of Kazakhstan (namely, the Code on Corporate Governance of the Republic of Kazakhstan) are as follows:

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

- Some of the corporate governance principles are supplemented by various provisions, such as:
  - Social Policy principles.
  - Provisions regarding relationship with shareholders.
  - Division of responsibility between the Chairman of the Board of Directors and the Chief Executive Officer (CEO).
  - The provisions describing the role of the Chairman of the Board of Directors.
  - Requirement of a minimum number of independent directors.
  - Additional provisions governing the criteria for establishing the "independence" of independent directors.
  - Provisions on access to information and professional development for directors of the Company.
  - Provisions governing the principles of directors' remuneration.
  - Provisions concerning treatment of inside information.

The copy of the Code on Corporate Governance of the Company along with description of the Company's practices on corporate governance are available on KMG EP's website.

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

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

- According to the UK Code, the Directors should meet without the Chairman of the Board of Directors present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. In addition, according to the UK Code the evaluation of the Board of Directors' should be externally facilitated at least every three years.

The KMG EP's Code on Corporate Governance has no such requirements. Throughout 2011, the Independent Non-Executive Directors met seven times without the Chairman of the Board to discuss the following issues: development of the updated Company's strategy; acquisition projects for oil and gas assets in the Republic of Kazakhstan and abroad, relations of the Company with its major shareholder, Company's insurance programme, further participation of the Company in petrochemical projects, cash funds management and observance of the Treasury Policy, internal audit and control matters, election to the Board of Directors and to the Management Board, Succession Policy.

No official evaluation of the activity of the Chairman of the Board of Directors was made by the Directors. The Board's activity was evaluated by an external independent consultant.

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

The Code on Corporate Governance of the Company does not contain the provision on independence of the Chairman of the Board of Directors, and, in the opinion of the Directors, the Chairman would not meet the criteria of independence stated in the respective provisions of the UK Code or the Company's Code on Corporate Governance.

The Audit Committee Provision specifies that the Chairman of the Board of Directors must not be a member of the Audit Committee, notwithstanding such an option in the UKCode. This difference is intentionally included in the Audit Committee Provision as the Chairman of the Board of Directors is the representative of the major shareholder.

- According to the UK Code at least half of the Board of Directors, excluding the Chairman, should comprise of Independent Non-Executive Directors. On the other hand, the Code on Corporate Governance and the Charter of the Company specify that Independent Non-Executive Directors shall make at least one third of the Board of Directors.

In 2011 the Board of Directors consisted of 8 members, including the Chairman and three Independent Non-Executive Directors: Philip Dayer, Paul Manduca and Edward Walshe.

According to the Charter of the Company a number of key issues, including related-party transactions, shall be approved by a majority of the Independent Non-Executive Directors. The Charter of the Company is available for review at the corporate website.

- The UK Code also states that the Board shall appoint one of the Independent Non-Executive Directors to be the Senior Non-Executive Director.

The Board of Directors did not appoint the Senior Non-Executive Director in a view of the current shareholder structure of the Company. The requirement on appointment of the Senior Non-Executive Director will be subject for consideration from time to time.

- According to the UK Code the Chairman is responsible for setting the board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues.

The Code on Corporate Governance of the Company does not contain similar provisions, however in practice this requirement is complied with in all material respects.

- According to the UK Code the Chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. Further the chairman should regularly review and agree with each director their training and development needs.

The Code on Corporate Governance of the Company has no such requirements and during 2011 these requirements were not complied with in all material respects.

- According to the UK Code the Chairman, if necessary, should ensure that the company maintains contact as required with its principal shareholders about remuneration.

This requirement is not contained in the Code on Corporate Governance of the Company. In practice, remuneration issues are subject to approval by the Company's major shareholder – NC KMG.

- The UK Code states that the Chairman should ensure that the views of shareholders are communicated to the board as a whole and that the Chairman should discuss governance and strategy with major shareholders.

This requirement is not contained in the Code on Corporate Governance of the Company. Nevertheless, during 2011 the Chairman ensured that the views of the major shareholder – NC KMG was communicated to the Board of Directors as a whole, and also facilitated negotiations on governance issues and strategy of the Company with the major shareholders – NC KMG.

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

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

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

The Code on Corporate Governance of the Company does not contain this requirement. During 2011 the Executive Director – General Director – was appointed and resigned following the decision instigated by the major shareholder of the Company – NC KMG.

- The UK Code states that all Directors should be re-elected by the shareholders on an annual basis.

The Code on Corporate Governance of the Company does not contain this requirement. During the election of the members of the Board of Directors in 2011 requirements of the UK Code were not complied.

- The UK Code provides that the Board of Directors is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives.

This requirement is not included in the Code on Corporate Governance of the Company. However this annual report provides certain information on risk factors facing the Company.

- The UK Code provides that the Audit Committee should also review the Company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems; The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The Code on Corporate Governance of the Company does not contain these requirements. The Company does not have a separate Risk Committee; therefore the Audit Committee of the Board of Directors carries out these functions according to the provisions of the Committee. More detailed information on the Audit Committee of the Board of Directors evaluation may be found on page 14 of this report.

- According to the UK Code the Directors should include in the annual report explanation of the basis on which the Company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the Company.

The Code on Corporate Governance of the Company does not contain such a requirement. This annual report does provide some explanation of the basis on which the Company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the Company in the business outlook section.

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the Code on Corporate Governance of the Company, the Board of Directors and the Management Board shall be responsible for the fair presentation of the Company's annual report and financial statements.

In compliance with the UKLA Disclosure and Transparency Rules, each of the Directors, confirms that to the best of his or her knowledge:

- the financial statements prepared in accordance with the International Financial Reporting Standards (IFRS), give a true and fair account of the Company's assets, liabilities, and financial position, the results of its financial and economic activities and those of the subsidiary enterprises included in the consolidated Company's balance sheet taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the financial position of the Company and its joint obligations in the matter of subsidiary enterprises, together with the description of the principal risks and uncertainties they face.

STRUCTURE OF THE BOARD OF DIRECTORS

As of December 31, 2011, the Board of Directors consisted of eight members, including:

Name	Position
Sisengali Utegaliyev	Acting Chairman of the Board of Directors
Alik Aidarbayev	Member of the Board of Directors (General Director)
Yerzhan Zhangaulov	Member of the Board of Directors
Askar Balzhanov	Member of the Board of Directors
Asiya Syrgabekova	Member of the Board of Directors
Philip Dayer	Independent director
Paul Manduca	Independent director
Edward Walshe	Independent director

At the extraordinary general shareholders' meeting on 31 March 2011, the following decisions were made:

- to terminate the powers of member of the Board of Directors of the Company, Tolegen Dzhumadovich Bozzhanov;
- to elect Sisengali Utegaliyev as a member of the Board of Directors of the Company.

Based on results of the Annual general meeting of shareholders on 5 May 2011 the following decisions were made:

- to terminate the powers of member of the Board of Directors of the Company, Kenzhebek Niyazovich Ibrashev;
- To elect Alik Aidarbayev to the Board of Directors. The Board of Directors elected Alik Aidarbayev as the Chairman of the Board of Directors of the Company.

On 22 December 2011, the Chairman of the Management Board (General Director) of the Company, Askar Balzhanov resigned. Alik Aidarbayev, who until that time acted as the Chairman of the Management Board of Directors, was elected the Chairman of the Board (General Director) of KMG EP.

On February 27, 2012, at the extraordinary general shareholders' meeting, it was decided to terminate the powers and election of Askar Balzhanov and to elect Lyazzat Kiinov as a new member of the Board of Directors.

On 13 March 2012 pursuant to resolution of the Board of Directors, Mr. Lyazzat Kiinov was elected as Chairman of the Company's Board of Directors.

The Board of Directors of KMG EP as of 13 March 2012:

- Lyazzat Kiinov – Chairman of the Management Board of NC KazMunayGas, Chairman of the Board of Directors
- Alik Aidarbayev – CEO, Chairman of the KMG EP Management Board (General Director)
- Yerzhan Zhangaulov – General Manager for Legal Affairs of NC KazMunayGas
- Asiya Syrgabekova – Chief Financial Officer of NC KazMunayGas
- Sisengali Utegaliyev – Deputy General Director of JSC KazTransOil
- Paul Manduca – Independent Non-Executive Director of KMG EP
- Edward Walshe – Independent Non-Executive Director of KMG EP
- Philip Dayer – Independent Non-Executive Director of KMG EP

In accordance with the Code of Corporate Governance of the Company, the Board of Directors established the fact of the independence of the directors and believes that Philip Dayer, Paul Manduca and Edward Walshe are independent in character and in making decisions. The Board of Directors found that there were no relationships or circumstances which had or could have a significant impact on independent solutions of these directors.

STRUCTURE OF THE MANAGEMENT BOARD

In 2011 the Management Board of the Company consisted of senior executives, including Director General and his deputies.

The members of the Management Board as of 31 December 2011 are listed below:

Name	Position
Alik Aidarbayev	General Director and Chairman of the Management Board
Vladimir Miroshnikov	Deputy Director General
Zhanneta Bekezhanova	Deputy Director General for economy and finance
Askar Aubakirov	Deputy Director General for corporate development and assets management
Bakitgali Biseken	Deputy Director General for operations
Taras Khituov	Managing Director for Personnel and Social Policy
Kiykbay Yeshmanov	Director of PB “Uzenmunaigas”
Zhumabek Zhamauov	Director of PB “Embamunaigas”

During 2011 on the basis of decisions of the Board of Directors the following changes were made in the composition of the Management Board:

- On 5 May 2011 it was decided to elect Bagitkali Biseken as a member of the Management Board (Deputy Director for Operations).
- On 22 December 2011 it was decided to terminate the powers of General Director (Chairman of the Management Board), Askar Balzhanov, and elect Alik Aidarbayev as the General Director (Chairman of the Management Board).

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Responsibilities between the Board of Directors, Management Board and Director General of the Company are allocated in accordance with the Charter of the Company, Sections 12 and 13.

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

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

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

During 2011 the Board of Directors held 20 meetings, including seven meetings - withvoting in person, 10 sessions - with absentee voting, and three meetings - via telephone conferencing.

During the year the Board of Directors considered, among other things, the following issues:

- Purchasing oil and gas assets by the Company: 100% share in JSC “Karpovsky Severniy”, a 50% share in the company “Ural Group Limited” (Block Fedorovskiy), 100% right to use subsoil under the four contracts for exploration of hydrocarbons in the Republic of Kazakhstan (Temir, Teresken, Karaton, Sarkamys)
- Program for repurchase of common shares of the Company
- Risk Management Policy
- Company’s Risk Insurance Program

- Approving budgets and business plans of the Company
- Adoption of the Strategic Map of the Company for 2011
- The policy of sponsorship and charitable assistance of the Company
- Preliminary approval of the Company's consolidated financial statements for the previous year
- Issues of relationships with affiliated entities - subsidiaries of NC KMG
- Conclusion of transactions by the Company of related parties
- Matters within the competence of the supreme bodies of subsidiaries
- Issues of Compliance
- Policy on securities transactions
- Disclosure Policy
- Observance of the law of the United Kingdom on corruption (UK Bribery Act)
- Election of the Chairman of the Board of Directors
- Formation of committees of the Board of Directors
- Issues of labour collectives
- Election of the Director General (Chairman of the Management Board) and members of the Management Board
- Determining the amount of salaries and conditions of remuneration and bonuses of the members of the Management Board
- Report of the Board of Directors and Management Board for 2010
- Report on assessment of performance of the Board of Directors for 2010
- Review of plans and reports of the Internal Audit Service, the status of implementation of the recommendations of the Internal Audit Service
- The final performance of key performance indicators (KPIs) of the Management, Head of Internal Audit Service and Corporate Secretary of the Company
- Hiring and staffing issues of the Internal Audit Service and Corporate Secretary
- Providing options in accordance with the Option Program

The Board of Directors in 2011 approved the following documents:

- The rules of compensation of employees.
- Risk management policy
- Policy on securities transactions
- Disclosure policy
- Internal documents regulating internal audit
- Changes and additions to Cash management policy
- Provisions on affiliates of subsidiaries of the Company

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

Presence of members of the Board of Directors and committee members at meetings of the Board of Directors and committees

Number of meetings held in 2011	Board of Directors	Audit Committee	Nomination Committee	Remuneration Committee	Strategic Planning Committee
Sisengali Utegaliyev	16				2
Alik Aidarbayev	13				4
Askar Balzhanov	19		2		4
Kenzhebek Ibrashev	6				1
Asiya Syrgabekova	18				3
Tolegen Bozzhanov	1				
Yerzhan Zhangaulov	19				
Paul Manduca	20	9	2	6	5
Philip Dayer	20	9	2	6	5
Edward Walshe	20	9	2	6	5

The Management Board is an executive authority and regulates the Company's current activities. In 2011 46 meetings of the Board of the Company were held on a regular basis and as necessary.

In 2011 the Board of Directors of the Company considered the following key issues related to the Company's operating activities:

- transactions on participation in share acquisition and 100% right to subsoil use in a number of Kazakhstan oil and gas companies were approved;
- the project for Company's participation in the public licensing round in Vietnam was approved;
- projects to assess the acquisition of 100% participation share in a number of foreign companies were approved to be implemented;
- the medium-term production program of JSC "EP "KazMunaiGas" for 2011-2013 was approved;
- the production plan of JSC "EP "KazMunaiGas" for 2011 -2015 was approved;
- the related party transaction - the merger agreement between JSC "EP "KazMunaiGas" and LLC "NSC" was approved;
- the production plan of JSC EP KazMunaiGas for 2012-2016 was approved;
- the 2012 budget and the business-plan for 2012-2016 were approved;
- a number of procedures regulating internal operations of the Company in accordance with the Integrated Management Standards was approved.

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

AUDIT COMMITTEE

Members of the Audit Committee

In 2011, this Committee was composed of only independent directors, namely, Paul Manduca (Chairman), Philip Dayer and Edward Walshe. Appointments to the Audit Committee are made for the three years period which may be extended by the Board of Directors not more than for two additional three years periods, provided that the members of the Audit Committee are independent.

Number of Meetings

For 2011 the Audit Committee held nine meetings. The Chairman of the Audit Committee shall make decisions on frequency and timing of meetings of the Committee. The number of meetings is determined in accordance with the requirements to the duties of the Committee. At the same time at least four meetings per year must be held, which should coincide with key dates of the cycle of preparation of financial reporting and audit of the Company (when audit plans of internal and external auditors are prepared, and when the interim financial statements, preliminary announcements and the annual report approach to completion).

Responsibilities and Duties of the Audit Committee

The Audit Committee is responsible, among other things, for any reports containing financial information of the Company, monitoring risk management and internal control system and for involvement of the auditors of the Company in this process. It also receives information from the Company's Internal Audit Service, which monitors compliance with internal control procedures of the Company. In particular, the Committee deals with issues of compliance with regulatory requirements, accounting standards, applicable rules of the UK Listing Authority (UKLA) and the Kazakhstan Share Exchange (KASE), providing effective system of internal control. The Management Board is also responsible for preliminary approval of the annual financial report.

The Audit Committee periodically reviews major transactions on acquisitions and disposals, and addresses any questions that the Management Board may refer to the Audit Committee.

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

Activities of the Audit Committee in 2011

- Financial statements
  - Reviewed issues on preparation of financial statements in compliance with the IFRS
  - Quarterly and annual financial statements to be disclosed to the Kazakhstan and London stock exchanges were approved
- Issues of taxation
- Internal control and risk management systems
  - Effectiveness of the internal control and risk management systems was assessed
  - The Audit Committee self-assessed its performance
  - Insurance program
- Internal audit
  - The plan of the Internal Audit Service was reviewed and approved
  - Internal audit effectiveness was assessed
  - Work progress report of the Audit Committee for 2010 was reviewed and approved
- Forecasts of cash flows of the Company
  - Issues on compliance with cash management policy
  - The requirements to consider candidates for the position of chief accountant and deputy chief accountant were approved
- Compliance
  - Policy on securities transactions
  - Disclosure policy
  - Issues of compliance with the law on corruption Britain (UK Bribery Act)

REMUNERATION COMMITTEE

Members of the Remuneration Committee

In 2011 this Committee was composed of only independent directors in the name of Philip Dayer (Chairman), Paul Manduca and Edward Walshe. Terms of office of the members of the Committee coincide with their terms of office as the members of the Board of Directors.

Responsibilities and Duties of the Remuneration Committee

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

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

The Remuneration Committee oversees coordination of the Company's policy of remuneration and current remuneration system of the Company with the development strategy of the Company, its financial situation and the situation on the labour market. The Remuneration Committee oversees provision of adequate information disclosure in respect of remuneration and compensation of members of the Management Board and the Board of Directors of the Company in accordance with the laws of the Republic of Kazakhstan, the Listing Rules and the Company's internal documents.

In addition, the Remuneration Committee monitors implementation of decisions of the General meeting of shareholders with respect to determining the size and order of payment of remuneration of the Board of Directors of the Company.

The Remuneration Committee shall report regularly to the Management Board on its work and also hold annual review on compliance by the Committee of the provision on the Remuneration Committee providing information to the Board of Directors.

Activities of the Remuneration Committee in 2011

During 2011 the Remuneration Committee held six meetings. The Committee shall hold meetings as necessary, but not fewer than once every six months. Meetings may be convened at the initiative of the Chairperson of the Committee, or by decision of the Board of Directors.

In 2011, the Remuneration Committee considered issues such as:

- Determining the amount of salaries and conditions of remuneration and bonuses of the members of the Management Board
- The final performance of key performance indicators (KPIs) of the members of the Board, Head of Internal Audit Service and Corporate Secretary of the Company
- Remuneration and approval of KPIs of the members of the Management Board, employees of the Internal Audit Service and Corporate Secretary
- Issues related to the share option program
- Proposals to introduce a system of bonuses based on implementation of cost management projects

Total amount of remunerations of independent directors for the year as of December 31, 2011, are listed in the table below:

Name	Annual remu-neration 000 USD	Physical attendance 000 USD	Phone-video conference	Meetings of independent directors 000 USD	Committee Chairman-ship	Total 2011 (excluding taxes) 000 USD	Total 2011 (including taxes) 000 KZT
Paul Manduca	150	70	15	17.5	25	277.5	45,326
Edward Walshe	150	70	15	17.5	15	267.5	43,692
Philip Dayer	150	70	15	17.5	15	267.5	43,692
Total	**450**	**210**	**45**	**52.5**	**55**	**812.5**	**132,710**

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

NOMINATION COMMITTEE

In 2011 the composition of the Nomination committee included: Alik Aydarbayev (Chairman of the Committee from 28 June 2011), Askar Balzhanov (Chairman of the Committee until 28 June 2011), Edward Walshe, Paul Manduca and Philip Dayer.

The main purpose of the Committee is to increase efficiency and quality of the Board of Directors in selection of professionals to fill positions in the Company, as well as to ensure continuity in changing officers of the Company, to define criteria for selection of candidates for the Board of Directors, Director General, members of the Management Board and Corporate Secretary of the Company.

The Nomination committee considers matters related to changing the composition of the Board of Directors and Management Board, with termination of office and appointment of the Corporate Secretary, his/her retirement and appointment of additional and alternate directors.

Activities of the Nomination Committee for 2011

During 2011 the Committee held two meetings, where the following issues were discussed:

- Recommendation on electing a member of the Board of Directors
- Recommendation on electing members of the Management Board

STRATEGIC PLANNING COMMITTEE

In 2011 the composition of the Strategic Planning Committee consisted of: Edward Walshe (Chairman), Kenzhebek Ibrashev (up to May 5, 2011), Askar Balzhanov, Alik Aydarbayev (since 28 June 2011).

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

Activities of the Committee on Strategic Planning for 2011

For 2011 the Committee held five meetings, where issues were discussed:

- The strategic map and a list of key performance indicators (KPIs)
- Acquisition and development opportunities for international development
- Functional strategies
- Information about the exploration program of the Company going forward
- Participation in the petrochemical project

STAKES OF DIRECTORS AND MEMBERS OF THE MANAGEMENT BOARD

Stakes of directors and members of the Management Board in common, preferred shares and GDRs of the Company, according to information provided by members of the Board of Directors and the Board as of 31 December 2011 are the following:

Name	Ordinary shares	GDRs	Preferred shares
Sisengali Utegaliyev	1,929	5	-
Alik Aidarbayev	-	-	-
Askar Balzhanov	-	49,102	-
Kenzhebek Ibrashev	-	-	-
Asiya Syrgabekova	-	-	-
Tolegen Bozzhanov	-	-	-
Yerzhan Zhangaulov	-	8,681	-
Paul Manduca	-	6,828	-
Philip Dayer	-	-	-
Edward Walshe	-	6,828	-
Vladimir Miroshnikov	2,745	2,312	-
Abat Nurseitov	-	-	-
Benjamin Fraser	-	-	-
Malik Saulebay	806	6,826	-
Eldan Salimov	-	-	-
Botagoz Ashirbekova	-	-	-

MAJOR SHAREHOLDERS AND/OR GDR HOLDERS

In accordance with the laws of the Republic of Kazakhstan the list of holders of securities of the Company, who own shares as of 31 December 2011, the number of which must be reported, is presented. This requirement does not apply to holders of GDR, however, the Company considers it necessary to specify the information on that on 30 September 2009, the State Investment Fund of the People's Republic of China Investment Corporation (CIC) announced on acquisition of GDR amounting to about 11% of the shares of the Company in the form of GDRs.

Shareholder	Number of common shares	Number of preferred shares	Total number of shares placed
Amount of shares issued	70,220,935	4,136,107	74,357,042
In possession of "NC KazMunayGas" JSC	43,087,006	-	43,087,006
Percentage of issued share capital	61.36%	0.00%	57.95%

CONTRACTS OF DIRECTORS, LETTER OF APPOINTMENT OF DIRECTORS AND LABOR CONTRACTS OF MEMBERS THE MANAGEMENT BOARD

Contracts with Director

- Powers of Tolegen Bozzhanov as a member of the Board of Directors were terminated on 31 March 2011.
- Sisengali Utegaliyev was elected to the Board of Directors on 31 March 2011.
- Powers of Kenzhebek Ibrashev as a member of the Board of Directors were terminated on 5 May 2011.
- Alik Aidarbayev was elected to the Board of Directors on 5 May 2011.

Labour Contracts of Members of the Management Board

All the members of the Management Board signed labour contracts with the Company which provide them with accident insurance during travel and expenses during business trips, in accordance with the internal rules of the Company. Except for the foregoing, it is not expected to enter into any other employment agreements with members of the Company's Board of Directors or Management Board members.

INTERNAL CONTROL AND RISK MANAGEMENT

JSC «Exploration Production» KazMunayGas» operates a system of internal control over financial and economic activity. The system is based on firmly-established international practices, such as the COSO Internal Control Framework and COSO Enterprise Wide Risk Management, as well as on the requirements of the Listing Rules of the London Stock Exchange and the UK Combined Code of Corporate Governance. The main objective of the system of internal control is to ensure sustainable development of the Company by identifying, evaluating and managing significant risks to achieve its strategic objectives and to preserve and increase shareholder value.

The system of internal control of the JSC includes the Audit Commission, the Committee of the Audit Board, and Risk Management Committee under the Company's management, independent auditor and internal audit service. The existing chain of authority and interaction between elements of the internal control system provides a level of independence necessary for its effective functioning, and in line with best international practice in this area. The Directors confirm that during 2011 the processes that identified, assessed and managed significant risks faced by the Company were in place. In addition, the Directors used an approach that takes into account the risks of creating a system of internal control and reviewing performance.

The key elements of the Company's internal control include:

- The internal company documents such as financial, operational, administrative policies, policies for managing the funds and other procedures.
- Constant monitoring of the operating and financial activities and related work in compliance with the safety requirements of the Company.

The Internal Audit Service of the Company provides the Board of Directors with objective information about how effectively the system of internal control of the Company operates. In its work The Internal Audit Service uses a risk-oriented approach which allows identifying and focusing maximum attention on the critical areas of the Company, thereby helping to improve the Company's overall performance and the quality of its corporate governance. The Internal Audit Service reports include recommendations for improving the forms and methods of operation of the system of internal control. The Internal Audit Service monitors the implementation of the recommendations by the Management and reports thereon to the Audit Committee and the Board of Directors.

In addition the financial risks information can be found in the Analysis of financial condition and results of financial and economic activities, beginning from page 22. General information on the risk profile of the Company can be found in the Risk Factors section on page 41.

With regard to risk management, the Board established a Committee on risk management and more detailed information on its activities is presented below.

Risk Management Commitee

In 2011, the Risk Management Committee conducted its activities under the chairmanship of General Director, Askar Balzhanov. The Committee consists of Head of Risk Management Department, Deputy General Director for Production - Head of Operations Management in Aktau, Deputy General Director for Economics and Finance, Deputy Director of Corporate Development and Asset Management, Managing Director - Financial Controller, Managing Director for Economics and Finance, Managing Director of Legal Affairs, Managing Director of Information Technology, Managing Director of Human Resources and Social Policy, Managing Director of Safety, Health and Environment and Corporate Secretary. Head of Internal Audit participates in meetings of the Committee as an observer.

The main purpose of the Committee is a prompt consideration of risk management issues in the Company. The Committee may make recommendations to the Board on risk management, and monitoring the effectiveness of risk management systems and make recommendations to structural units of the Company to improve the risk management system in order to make business processes more efficient and achieve the strategic goals of the Company.

During the 2011 Risk Management Committee held four meetings where it discussed and made decisions on the following issues:

- Review and approval of the Risk Management Policies Project.
- Overview on the current status and development plan for the risk management system.
- The status of orders on matters considered at the meeting of the RMC.
- Issue on the list of key positions of JSC KMG EP.
- Status on the choice of an independent consultant for the Insurance Program of JSC "EP "KMG".
- An overview and current status of the risk management system and further plan of RMC meetings.

INFORMATION ON TAXATION IN THE UK

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

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

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

Withholding Tax

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

Taxation of Dividends

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

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

Taxation of Disposals or Deemed Disposals

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

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

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

Effect of Kazakhstan withholding Taxes

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

Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

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

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

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

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

OPERATING AND FINANCIAL REVIEW

The following document is intended to assist the understanding and assessment of trends and significant changes in the Company's results and financial condition. In this document, the consolidated financial statements presented are those of the Company. This review is based on the consolidated financial statements of the Company and should be read in conjunction with those statements and the accompanying notes. All the financial data and discussions thereof are based upon financial statements prepared in accordance with IFRS.

OVERVIEW

KazMunaiGas Exploration Production Joint Stock Company ("the Company" or "KMG EP") is engaged in the exploration, development, production, processing, export of hydrocarbons and the acquisition of oil and gas assets. The Company's core operations are oil and gas properties located in the Pre-Caspian, Mangistau, Southern Torgai basins. The Company's majority shareholder is JSC National Company KazMunaiGas (NC KMG), the wholly state-owned joint stock company which represents the state's interests in the Kazakh oil and gas industry. The Company conducts its core production activities at 47 oil and gas fields, including "Uzenmunaigas" ("UMG"), which consists of 2 fields, "Embamunaigas" ("EMG"), which consists of 40 fields and "Kazakh Gas Refinery" LLP which consists of 5 fields. The Company also has a 50% interest in the oil and gas production joint venture Kazgermunai LLP, CCEL, Ural Group Limited BVI ("UGL") and a 33% interest in its associate PetroKazakhstan Inc.

Company is carrying out onshore exploration in the areas of Liman, Taisoigan, R-9, Karaton-Sarkamys, Uzen and Karamandybas, Fedorovskiy block ("UGL"), Karpovskiy Severniy ("Karpovskiy Severnyi JSC"), Temir, Teresken, Zharkamys Eastern -1 ("KMG EP Exploration assets") and also holds 35% interest in the BG Group operated license in the United Kingdom Central North Sea – the production license which contains the White Bear prospect.

The Company's total 2011 oil production, together with the share of its joint ventures and its associate company, was approximately 12,341k tonnes or 250kbopd. This includes oil derived from its 50% share in JV Kazgermunai LLP, its 50% share in CCEL and its 33% stake in PetroKazakhstan Inc. The stake in UMG and EMG produced 159kbopd with a further 41kbopd from PetroKazakhstan Inc., 32kbopd from JV Kazgermunai LLP and 18kbopd from CCEL.

Further details of the above joint ventures and associate are given in the section entitled: Overview of Associate and Joint Ventures Operations. Elsewhere in this Operating and Financial Review the discussion is limited to the core assets (UMG, EMG and 100% subsidiaries) of the Company unless indicated otherwise.

BUSINESS ENVIRONMENT AND OUTLOOK

Macroconomic factors affecting the Company's financial performance for the 2011 under review include movements in crude oil prices, domestic inflation, and foreign exchange rates, particularly the tenge-US dollar rate.

Business Environment for 2011

The average Brent price in 2011 was US$111.26 per barrel; an increase of US$32.07 per barrel year on year.

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
	(US$ /bbl)		%		(US$ /bbl)		%
109.36	113.41	86.46	26%	Brent (DTD)	111.26	79.18	41%

Most of the Company's revenues, financial assets and borrowings are denominated in US dollars, while most of the Company's operating expenses are denominated in tenge. Company manages currency risk by reducing or increasing the share of financial instruments denominated in US dollars in its portfolio.

Tenge-US dollar exchange rates and domestic inflation, as measured by the consumer price index («CPI») were as follows:

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
147.91	146.55	147.49	0%	Average US$ vs KZT	146.62	147.35	0%
1.2%	1.1%	2.6%	-54%	CPI	7.4%	7.8%	-5%
148.40	147.87	147.40	1%	US$ vs KZT at balance sheet date	148.40	147.40	1%

Source: National Bank of Kazakhstan

The tenge appreciated against the US dollar from average 147.35 KZT/US$ in 2010 to 146.62 KZT/US$ in 2011. The inflation rate in 2011 was 7.4% compared to 7.8% in 2010.

PRODUCTION ACTIVITY

Production of crude oil from core assets in 2011 was 7,900k tonnes which is 10% lower than in 2010.

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
1,293	1,056	1,492	-13%	UMG	5,082	5,966	-15%
715	721	718	0%	EMG [(1)]	2,818	2,800	1%
2,008	1,777	2,210	-9%	Total production	7,900	8,766	-10%

[1] Including crude oil production of NBK LLP in 2011.

The main reason for the decrease in production of crude oil is a significant number of absences of production staff at UMG during May-August period of 2011, which disrupted normal well servicing and well workover operations. In addition, a number of emergency power cuts in the field, caused by severe weather conditions during 2011 decreased average daily production.

As of January 1, 2012, the number of wells operated by the company was 5,912 production and 1,603 injection wells. Including of 3,637 production and 1,154 injection wells in UMG and 2,275 production and 449 injection wells in EMG. The majority of the Company's existing oil fields are at a mature stage of development, characterized by high water content and declining oil production. The Company engages in production drilling, work-over operations and enhanced recovery operations in order to mitigate the natural production decline and achieve its oil production targets.

In 2011 UMG drilled and put into operation 172 wells (122 oil producing, 50 injection), 14 more than in 2010. Oil production generated by new wells rose to 186k tonnes compared to 149k tonnes in 2010. The workover of 769 wells provided an incremental production of 389k tonnes. In 2011 at UMG as a result of 150 well operations for hydro-fracturing, an additional 223k tonnes were produced.

In 2011 EMG drilled and put into operation 65 wells (63 oil producing, 2 injection), 8 more than in 2010. Oil production generated by new wells rose to 71k tonnes compared to 58k tonnes in 2010. The workover of 297 wells provided an incremental production of 73k tonnes. At EMG as a result of 10 well operations for hydro-fracturing, an additional 16k tonnes were produced.

EXPLORATION ACTIVITY

During 2011 the Company conducted seismic surveys in the amount of KZT2.3 billion. The exploratory drilling expenditures were KZT8.2 billion(1), including KZT2.6 billion allocated to disposal of 7 dry exploratory wells and KZT1 billion to disposal of 4 appraisal wells. In 2012, the Company plans to carry out seismic works in the amount of KZT2.1 billion and exploratory drilling at KZT23.5 billion(1). Increase of expenses for exploration activity in 2012 mainly associated with the start of exploratory drilling on the White Bear structure and drilling of 2 exploratory wells on the JSC «Karpovskiy Severniy» acquired in 2011.

During 2011 the Company carried out exploration works in the blocks Liman, R-9, Taisoigan, Karaton-Sarkamys, Uzen-Karamandybas, Novobogatinsk Western, Temir, Teresken, Zharkamys Eastern-1, Fedorovskiy and White Bear area and appraisal works in the S. Nurzhanov, Prorva Western, Eastern Makat fields.

At Liman block, the analysis of 3D seismic data of 165 sq. km on the Novobogat South Eastern structure was finished. At well G-3 with a projected depth of 1,400m the drilling was halted at 1,250m. The well is in the stage of third object testing. Third object testing has indicated oil production facility at the level of 36 tonnes/day. Well G-4 was drilled to a depth of 1,650m. Due to absence of productive reservoirs according to geophysics and borehole core data the well has been abandoned.

In 2012 on Liman block, for the discovered oil deposits of Novobogat SE to be delineated, 2 exploratory wells of 1,600m and 1,400m will be drilled to track post-salt Midle-Triassic deposits. Apart from that, based on 3D seismic results to analyze the potential of 2 prospects, 2 subsalt wells with a depth of 2,500m will be drilled.

[1] These amounts do not include the 50% share of the expenditures for exploratory drilling on the block Fedorovskiy (KZT2.5 billion - in 2011 and KZT2.5 billion - in 2012), which are stated as «Investments in joint ventures» in the consolidated statement of financial position of KMG EP.

At R-9 block, the analysis of 3D seismic data for 224 sq. km on structure Shokat was completed. The drilled wells 100 (Esbolai), 100 (Masabai), 102 (Kyzylkala), 100 (Kamyskol North) and 100 (Kamyskol South) with depth of 9236m were abandoned for geological reasons.

Due to negative drilling results in 2011, it was decided that all exploration efforts are cancelled in 2012 and detailed feasibility study is made on whether any further work should be done within the block.

At Taisoigan block, the analyses of 3D seismic data for 150 sq. km on Uaz and Kondybai fields were finished. In 2011 drilling of exploration wells 13, 20 at the Kondybai field and well 1 (Bazhir) completed and all wells were abandoned for geological reasons without lowering the production casing.

At the block Taisoigan exploration drilling is planned for 1 well with planned depth of 1300m on the Uaz area in order to identify oil and gas in Triassic sediments. Seismic 3D-MOGT works for 86 sq. km is planned to be performed on Bazhir structure (eastern wing) to revise geological model and discover new targets in Triassic deposits.

In 2012 on Karaton-Sarkamys block drilling of 1 well with a depth of 3,000 m is expected on Keneral structure and 1 well in the eastern wing of Dosmukhambetovskoe field with a depth of 3,500 m. Apart from that, 390 physical tonnes of magnetotelluric depth sounding works is expected as part of studying the block’s geological aspects in 2012 and using the data in comprehensive interpretation of 3D/2D seismic data to enhance the performance of exploratory wells location.

To revise geological model and to determine the perspective of areas on Karaton-Sarkamys block, 160 sq. km of 3D seismic works is planned on structures Severniy, Bulatai and on the northern wing of S. Nurzhanov structure.

At Uzen-Karamandybas block, the drilling of exploratory well on the Bodrai structure with a total planned depth of 2,200 m finished. According to the results 4 objects selected for testing in Middle Jurassic deposits. The well has been abandoned for geological reasons by the results of testing.

To revise geological model of Bodrai structure and other selected structures in the northern and southern parts of the block in 2012, it is planned to conduct 3D-MOGT seismic works and further procession of received data for 715 sq. km.

On Novobogatinsk Western field drilled well 19 with a depth of 2,511m for Permian-Triassic sediments, which is currently in the stage of testing. In 2012 will be drilled the exploratory well 20 with projected depth of 2,600m.

At Zharkamys Eastern-1 in 2011, 610 linear km of 2D seismic and 200 sq. km of 3D seismic works were performed. A presalt well was drilled on Tuskum structure with actual depth of 4,750 m. Currently, the first target is being tested. Acid treatment was also performed for stimulation and the well is currently is being tested.

In 2012 an exploratory well (RA-2-T) will be drilled with the projected depth of 4,500 m for presalt deposits of Tuskum structure as well as 1,000 linear km of 2D MOGT seismic data processing and re-interpretation along with historical data for the central and western parts of Zharkamys Eastern-1 block.

On the Temir block 975 linear km of 2D seismic data was aquired during the reporting period.

In 2012 on Temir area a gravity survey for 3,500 sq. km is planned with further processing and interpretation.

On the Teresken block, processing and interpretation of 1,000 linear km of 2D seismic data was finished.

In 2012 analysis and summary of 2D seismic processing and interpretation of the results is expected and any further exploration works in the area will be specified.

On the block Fedorovskiy 3 subsalt wells were drilled with total depth of 13,500m, which were transferred to temporary conservation for future testing in 2012. The extension of the test term for drilled wells was due to a gas flaring permission obtained from an authorized body.

Apart from the test of the 3 drilled wells, two wells are expected to be drilled with the projected depths of 4,500m and 5,200m respectively according to Rozhkovskoe field assessment in 2012, which were approved in the 2012 production program. Also planned further processing of 747 sq. km of 3D data and completion of Rozhkovskoe field construction for pilot production.

In December 2011the Company announced the closing of the acquisition of 100% of shares in Karpovskiy Severnyi JSC from GazMunaiOnim in West Kazakhstan region.

In 2012 on Karpovskiy Severniy block it is planned to drill 2 exploratary wells with the projected depth of 5,600m and 5,250m according to contractual obligations, as well as to aquire 335 linear km of 2D seismic works.

In the White Bear area, geological and technical studies were carried out. The program of drilling and testing was approved. Also, it was carried out a partial refund of the area by PL 1722 license.

On the White Bear structure it is planned to drill an exploratory well White Bear West 22/4b-F, with a projected depth of 5,900 meters and acquisition of 3D seismic data on blocks 22/8v, part 22 / 9c for preliminary 106.7 sq. km.

At the S. Nurzhanov field drilling of wells 509 and 707 with a total depth of 5,500 meters was finished. Well 509 is in the stage of testing intervals at 3177-3197m with oil deposit at 47.5 tonnes/day and well 707 was abandoned for geological reasons.

In 2012 it is planned to drill one well for Valanginian deposits in the eastern dome of S. Nurzhanov field with the projected depth of 2,000 m.

At the Western Prorva field the 3,560 m well 402 was drilled, received 108.6 m3/day of oil inflow without water.

In 2012 well 401 with projected depth of 3,500m is expected to be drilled for detailed appraisal works on Triassic deposits.

At the Eastern Makat field well 105 with a depth of 1,501 was drilled for a triassic deposit. The well was abandoned for geological reasons.

According to the approved appraisal works project, well 103 with projected depth of 1,550m is expected to be drilled in 2012.

PLANNED PRODUCTION ACTIVITY IN 2012

Crude oil production in PB UMG and EMG in 2012 is planned to be 8.6 million tonnes, including 5.8 million tonnes in UMG and 2.8 million tonnes in EMG. In order to ensure this and compensate for the natural production decline in 2012, the Company is planning to drill 156 oil producing wells and 79 injections wells. In addition to well workovers, the Company will apply bottomhole treatment and will bring some inactive wells back on line.

In the first quarter of 2012 the production of EMG and UMG was about 150 thousand tonnes (7%) behind the plan, primarily due to adverse weather conditions in Western Kazakhstan. Given the 1Q 2012 results, the planned oil production targets may be more challenging than previously anticipated. The Company will do everything possible to meet them but the results of 2Q 2012 will serve as an indicator whether KMG EP will need to adjust its 2012 production forecasts.

In order to ensure the planned production, Company has set the beginning of construction of the following objects in the UMG: two workshops on repair and diagnostics (tubing, rods and deep-well pumps), site preparation for the jamming of the liquid with the equipment, car service center for specialized equipment, site collection and other objects.

The construction of these targets would allow:

- to eliminate the use of defective equipment;
- to increase time between repairs of wells by reducing the number of well servicing operations due to sucker rod breakage;
- to enhance production by reducing the number of well servicing operations and downtime of equipment;

- to raise the level production safety;
- to improve sanitary and living conditions of rotational workers which would improve the productivity of labour.

In connection with the events on December 16 in the city Zhanaozen, the Board of Directors of the Company in early 2012 decided to establish two service companies in the Zhanaozen and Aktau citites (PSB «UBR» and LLP «UTTiOS»), which will provide employment for more than 2,000 people. The principal activities of service companies is the implementation of repairs of wells and provision of transport services in UMG and other businesses in the region, which will have a positive impact on maintaining current production levels.

In order to enable service businesses to quickly start their activities, KZT20.6 billion has been allocated, including KZT12.3 billion for operating activities and KZT8.3 billion for capital expenditures. Using these funds in 2012, it is planned to purchase machinery and equipment, as well as to begin construction of two rotational camps and two production bases to service Kalamkas and Karazhanbas fields. Construction of these facilities is necessary for the production activity (workover, transportation services) and provides shift workers with necessary sanitary and living conditions.

In 2012 the capital expenditure of the Company is expected to reach KZT126.5 billion. The Company's budget will be periodically reviewed to reflect changes in the crude oil price, and foreign exchange and inflation rates, among other factors.

RESULTS OF OPERATIONS

Company prepares financial statements in tenge, amounts shown in US dollars are included solely for the convenience of the user of information at the average exchange rate over the applicable period. Assets and liabilities are translated at the closing rate. Income and expenses are translated at the average exchange rate. See "Business Environment and Outlook".

Key Indexes

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
(KZT thousands, unless otherwise stated)			%		(KZT thousands, unless otherwise stated)		%
175 447 580	145 688 364	164 212 856	7%	Revenue	721 194 169	609 242 398	18%
29 618 398	25 148 870	30 061 954	-1%	Production expenses	117 465 026	110 747 524	6%
23 746 316	17 162 683	22 740 153	4%	Selling, general and administrative expenses	100 173 285	92 276 532	9%
66 029 291	56 127 601	54 279 249	22%	Taxes other than on income	284 027 851	179 709 999	58%
3 355 758	1 951 378	1 172 261	186%	Exploration expenses	5 985 224	2 072 263	189%
12 601 727	11 308 128	10 197 074	24%	Depreciation, depletion and amortization	45 494 136	35 486 128	28%
646 193	1 269 323	875 866	-26%	Loss on disposal of fixed assets	4 043 980	2 200 613	84%
39 449 897	32 720 381	44 886 300	-12%	Profit from operations	164 004 667	186 749 339	-12%
44 282 243	50 310 508	77 693 561	-43%	Profit for the period	208 930 886	234 501 890	-11%
2 004	1 923	1 848	8%	Production expenses (KZT per bbl) (1)	2 020	1 717	18%
13,55	13,12	12,53	8%	Production expenses (US$ per bbl) (1)	13,78	11,65	18%
37 506 462	20 913 686	36 406 044	3%	Capital Expenditures (2)	104 977 365	88 251 917	19%

[1] Converted at 7.36 barrels per tonne of crude oil.

[2] Capital expenditures includes expenditures for exploration and evaluation assets as per consolidated statement of cash flows for the period ending December 31, 2011 (see Company website for a copy).

Transport Routes

The Company delivers its crude oil through three principal routes: export markets via the pipeline owned by Caspian Pipeline Consortium (CPC) and the Uzen-Atyrau-Samara pipeline (UAS) owned by KazTransOil JSC (in Kazakhstan) and the domestic market, as outlined in the following table:

Q4 2011	Q3 2011	Q4 2010		2011	2010
			Exports sales via UAS		
0.9	0.6	1.0	Volume of crude oil (in million tonnes)	3.5	4.3
46%	38%	48%	% total crude oil sales volume	46%	50%
57%	49%	56%	% total sales value of crude oil	56%	58%
			Exports sales via CPC		
0.5	0.5	0.7	Volume of crude oil (in million tonnes)	2.2	2.5
28%	29%	31%	% total crude oil sales volume	29%	29%
35%	41%	38%	% total sales value of crude oil	37%	35%
			Domestic sales		
0.5	0.5	0.4	Volume of crude oil (in million tonnes)	1.9	1.8
26%	32%	21%	% total crude oil sales volume	25%	21%
8%	10%	7%	% total sales value of crude oil	7%	7%

The relative profitability of the two export routes depends on the quality of oil in the pipeline, the prevailing international market prices and the relevant pipeline tariffs. Specifically, CPC tends to be the more advantageous route owing to the higher quality of crude oil in the CPC pipeline in a higher price oil environment, even after taking into account quality bank payments. It should be noted that the volume of crude oil that can be shipped through the pipelines has to be agreed with the Kazakh Ministry for Oil and Gas (MOG); the Company's ability to allocate export volume to different pipelines is, therefore, limited.

Revenue

The following table shows sales volumes and realized prices:

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
(KZT thousands, unless otherwise stated)			%		(KZT thousands, unless otherwise stated)		%
				Export sales of crude oil			
				UAS pipeline			
97,677,046	69,691,891	89,561,927	9%	Net sales	395,582,658	345,485,101	15%
863	638	1,032	-16%	Volume (in thousand tonnes)	3,521	4,314	-18%
113,216	109,318	86,748	31%	Average price (KZT/tonne)	112,344	80,086	40%
105.87	103.17	81.35	30%	Average price (US$/bbl)(1)	105.98	75.17	41%
				CPC pipeline			
60,743,134	57,706,736	60,452,326	0%	Net sales	260,012,252	211,081,198	23%
530	484	672	-21%	Volume (in thousand tonnes)	2,237	2,546	-12%
114,590	119,345	89,965	27%	Average price (KZT/tonne)	116,239	82,893	40%
107.15	112.63	84.37	27%	Average price (US$/bbl)(1)	109.65	77.81	41%
158,420,180	127,398,627	150,014,253	6%	Total sales of crude oil-exported	655,594,910	556,566,299	18%
				Domestic sales of crude oil			
13,706,987	14,787,515	10,932,163	25%	Domestic sales of crude oil	52,882,316	40,707,699	30%
489	536	443	10%	Volume (in thousand tonnes)	1,898	1,783	6%
28,013	27,564	24,665	14%	Average price (KZT/tonne)	27,858	22,830	22%
26.44	26.01	23.13	14%	Average price (US$/bbl)(1)	26.28	21.43	23%
				Total sales			
172,127,167	142,186,142	160,946,416	7%	Total sales of crude oil	708,477,226	597,273,998	19%
1,882	1,658	2,148	-12%	Total volume (in thousandtonnes)	7,656	8,643	-11%
91,452	85,783	74,942	22%	Average price (KZT/tonne)	92,535	69,101	34%
86.31	80.96	70.28	23%	Average price (US$/bbl)(1)	87.29	64.86	35%
3,320,413	3,502,222	3,266,441	2%	Other sales	12,716,943	11,968,400	6%
175,447,580	**145,688,364**	**164,212,857**	**7%**	**Total revenue**	**721,194,169**	**609,242,398**	**18%**

[1] Average sales price under financial statement (realized price), converted at 7.23 barrels per tonne of crude oil.

Crude Oil Sales

The total sales of crude oil in 2011 increased by 19% to KZT708 billion compared to 2010. This was due to a 34% increase in the average sales price. The overall volume of crude oil sales in 2011 were decreased by 11% to 7,656 ktonnes in 2011.

Export – UAS Pipeline

Sales of crude oil exported via the UAS pipeline in 2011 increased by 15% to KZT396 billion owing to the increase of the average realized price by 40% to KZT112,344 per tonne which was partially offset by the decrease of volume exported via the UAS pipeline that declined by 793 ktonnes, or 18%.

The decrease of sales volume in 2011 was caused by a 15% decrease in UMG oil production, or 884 thousand tonnes, in comparison with 2010.

Export – CPC Pipeline

In 2011 sales of exported crude oil via the CPC pipeline increased by 23% to KZT260 billion in comparisons with 2010. This is due to an increase of 40% to KZT116,239 per tonne in the average realized price and was partially offset by the decrease in volume exported via the CPC which declined by 12%.

Domestic Market – Sales of Crude Oil

Domestic sales of crude oil in 2011 increased by 30% to KZT53 billion, compared with 2010, due to a 22% increase in the average sales price and also by the increase in sales volume by 6% or 115k tonnes.

The following table shows the Company's realized sales prices adjusted for crude oil transport and other expenses:

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
	(US$/bbl)		%		(US$/bbl)		%
				UAS			
109.36	113.41	86.46	26%	Benchmark end-market quote [1]	111.26	79.18	41%
105.83	109.18	81.53	30%	Sales price [2]	106.06	75.35	41%
0.04	(0.18)	(0.17)	-125%	Premium of bbl difference	(0.08)	(0.18)	-57%
105.87	**109.00**	**81.36**	**30%**	**Realized price [3]**	**105.98**	**75.17**	**41%**
(23.72)	(25.92)	(15.00)	58%	Rent tax	(24.51)	(13.17)	86%
(5.53)	(5.53)	(2.70)	104%	Export customs duty [4]	(5.20)	(0.65)	703%
(7.91)	(7.86)	(7.17)	10%	Transportation	(7.75)	(7.32)	6%
(0.07)	(0.07)	(0.06)	18%	Sales commissions	(0.07)	(0.07)	1%
68.64	69.63	56.43	22%	Netback price	68.45	53.96	27%
				CPC			
109.36	113.41	86.46	26%	Benchmark end-market quote [1]	111.26	79.18	41%
108.70	112.75	85.28	27%	Sales price [3]	109.98	78.70	40%
(10.83)	(9.86)	(7.75)	40%	Quality bank	(9.65)	(6.98)	38%
9.28	9.75	6.84	36%	Premium of bbl difference	9.32	6.09	53%
107.15	**112.63**	**84.37**	**27%**	**Realized price [3]**	**109.65**	**77.81**	**41%**
(23.72)	(25.92)	(14.95)	59%	Rent tax	(24.57)	(13.21)	86%
(5.53)	(5.53)	(2.87)	93%	Export customs duty [4]	(5.20)	(0.76)	587%
(7.59)	(7.37)	(8.20)	-7%	Transportation	(7.56)	(7.62)	-1%
(0.07)	(0.07)	(0.06)	18%	Sales commissions	(0.07)	(0.07)	1%
70.24	73.74	58.29	20%	Netback price	72.25	56.15	29%
				Domestic Market			
26.19	26.01	23.13	21%	Sales price [3]	26.28	21.43	23%
(1.45)	(1.21)	(1.92)	-17%	Transportation	(1.38)	(1.58)	-12%
24.74	24.80	21.21	24%	Netback price	24.90	19.85	25%
				Average			
86.47	83.27	71.00	22%	Sales price [3]	87.96	65.50	34%
(3.05)	(2.96)	(2.43)	25%	Quality bank	(2.82)	(2.06)	37%
2.28	2.39	1.71	33%	Premium of bbl difference	2.30	1.41	63%
85.70	**82.69**	**70.28**	**22%**	**Realized price [3]**	**87.44**	**64.85**	**35%**
(17.55)	(17.27)	(11.89)	48%	Rent tax	(18.45)	(10.47)	76%
(4.09)	(3.68)	(2.20)	86%	Export customs duty [4]	(3.91)	(0.55)	616%
(6.07)	(5.44)	(6.40)	-5%	Transportation	(6.08)	(6.20)	-2%
(0.05)	(0.05)	(0.05)	3%	Sales commissions	(0.05)	(0.06)	-12%
57.94	**56.25**	**49.74**	**16%**	**Netback price**	**58.94**	**47.58**	**24%**

[1] The Brent (DTD) quoted price is used as benchmark.

[2] Netback results have been corrected for the netting of gross margin on sale of crude oil for KZT1.7 billion produced from Uaz and Kondybay blocks, which have been transferred from an exploration to a development stage fields in accordance with the IFRS 6.

[3] Average realized price by financial report converted at 7.23 barrels per tonne of crude oil.

[4] Export customs duty without including a claim of KZT15.2 billion by the decision of the Supreme Court, export customs duty for crude oil export shipments in 2008.

The difference between the benchmark quote and the realized price of sales mainly comprises freight expenses, port charges, customs fees, certain sales commissions and averaging effects. Averaging effects usually appear because of the difference between the average mean of the quoted price on the sale date and the average published price over the whole period. This difference may be significant on account of the high volatility of oil prices.

Production expenses

The following table presents a breakdown of the Company's production expenses:

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
(KZT thousands, unless otherwise stated)			%		(KZT thousands, unless otherwise stated)		%
14,740,890	14,883,352	14,585,139	1%	Employee benefits	59,769,131	54,129,594	10%
8,518,604	7,324,186	7,909,532	8%	Repairs and maintenance	29,972,825	28,119,436	7%
5,730,159	2,216,844	4,127,674	39%	Materials and supplies	13,571,313	11,829,948	15%
2,915,848	2,248,016	2,893,745	1%	Energy	10,546,572	10,962,880	-4%
680,259	1,140,225	388,741	75%	Transportation service	2,894,028	1,625,868	78%
256,663	208,412	460,275	-44%	Processing expenses	1,040,996	1,250,805	-17%
(3,830,638)	(4,012,394)	(1,728,626)	122%	Change in crude oil balance	(3,918,657)	(1,538,597)	155%
606,613	1,140,229	1,425,474	-57%	Other	3,588,818	4,367,590	-18%
29,618,398	**25 148 870**	**30,061,954**	**-1%**	**Total**	**117,456,026**	**110,747,524**	**6%**

Production expenses in 2011 increased by 6% or KZT6.7 billion compared with 2010. This is primarily due to increased expenses for employee benefits, repairs and maintenance, materials and supplies and transportation services.

Employee benefits expenses for 2011 increased by 10% compared with 2010 owing to the increase in salaries of production personnel at production divisions, due to the new compensation plan introduced on June 1, 2010 and also because of indexation of basic tariffs by 7% according to the collective agreement.

Repairs and maintenance expenses during 2011 increased by 7% compared with 2010 mainly due to increase in cost of workovers, which were partially offset by decrease in volumes of work done. The cost of materials mainly increased because of higher prices for materials in 2011 and also due to increase in expenses for workwear of production personnel according to the collective agreement.

Transportation service expenses increased by 78% mainly due to increase in volume of transport services provided by third parties. This relates to massive absence of production staff at UMG, during which UMG's own transport units were left idle.

Selling, general and administrative expenses

The following table presents a breakdown of the Company's selling, general and administrative expenses:

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
(KZT thousands, unless otherwise stated)			%		(KZT thousands, unless otherwise stated)		%
12,370,076	9,365,059	14,646,864	-16%	Transportation expenses	49,577,574	56,168,909	-12%
3,922,383	3,387,633	3,887,436	1%	Employee benefits	13,768,236	12,112,201	14%
427,172	(1,055,945)	(2,626,333)	-116%	Accrual/(Reverse) of fines and penalties	12,737,805	2,805,102	354%
2,184,402	2,160,353	2,071,698	5%	Management fees and commissions	8,751,610	8,281,574	6%
1,183,280	791,092	1,439,694	-18%	Sponsorship	6,434,359	4,137,051	56%
755,812	396,308	883,215	-14%	Consulting and audit services	1,668,823	3,030,945	-45%
327,220	217,584	337,396	-3%	Repairs and maintenance	840,290	738,136	14%
2,575,971	1,900,599	2,100,183	23%	Other	6,394,588	5,002,614	28%
23,746,316	**17,162,683**	**22,740,153**	**4%**	**Total**	**100,173,285**	**92,276,532**	**9%**

Selling, general and administrative expenses increased by 9% or KZT7.9 billion compared to 2010. This is primarily due to the increased expenses, for fines and penalties, employee benefits and sponsorship and was partially offset by a decrease in transportation expenses and consulting and audit services expenses.

The increase in fines and penalties is explained by accruals of fines and penalties due to results of Complex Tax Audit for 2004-2005 for total amount of KZT6.6 billion, accrual of fines of KZT2.3 billion for export customs duty, and accrual of an environmental fine of KZT2.6 billion. The environmental fine for burning gas is related to gas flaring at Prorva fields group in the first quarter of 2011.

Employee benefits expenses, including general and administrative personnel of UMG and EMG for 2011 increased by 14% compared with 2010 owing to the increase in salary due to the new compensation plan introduced on June 1, 2010 and the indexation increase of basic tariffs by 7% according to the collective agreement.

The increase in expenditure on social projects is mainly due to fact that Company committed KZT1 billion more funds to finance Uralsk city for restoration after flooding and committed funds to social funds for the social support of Mangystau and Atyrau regions.

The decrease in consulting and audit services expenses is related to the decrease in expenses for consultation for acquisition of new assets.

The decrease in transportation expenses is explained by the drop in volumes shipped for export by 16%. This drop is explained by the decrease in production of crude oil at Uzen field.

Taxes other than on income

The following table presents a breakdown of the Company's taxes other than on income:

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
(KZT thousands, unless otherwise stated)			%		(KZT thousands, unless otherwise stated)		%
35,331,095	29,443,087	28,222,445	25%	Rent tax	149,771,267	97,484,646	54%
20,449,977	16,714,049	19,740,317	4%	Mineral extraction tax	78,680,221	70,932,591	11%
8,239,972	6,280,585	5,032,165	64%	Export customs duty	46,979,482	6,477,735	625%
939,458	941,634	777,756	21%	Property tax	3,453,888	2,990,971	15%
1,068,789	2,748,246	506,566	111%	Other taxes	5,142,993	1,824,056	182%
66,029,291	**56,127,601**	**54,279,249**	**22%**	**Total**	**284,027,851**	**179,709,999**	**58%**

Taxes other than on income expenses in 2011 increased by 58% or KZT104 billion compared to 2010. This is primarily due to the increased expenses for rent tax, mineral extraction tax , export customs duty and other taxes

Rent tax expenses in 2011 increased by 54% in comparison with 2010 due to the increase in crude oil market prices. In 2011 Brent price increased by 41% to US$111.26 per barrel. As a result the rent tax rate increased from 16% during 2010 to 22% in 2011.

The increase of Mineral Extraction Tax expenses in 2011 compared to 2010 is due to the increased crude oil market prices.

The change in export customs duty is explained by re-introduction of export customs duties starting from August 16, 2010. Also, starting from January 1, 2011 export customs duty rate increased up to US$40 per ton from previous US$20 per ton. Also in the Q2 2011, Company recognized export customs duty in the amount of KZT15.2 billion for volume of oil shipped in 2008 and realized in 2009 after the introduction of the rent tax. Company has recognized this amount after an unsuccessful appeal to the additional charges of customs bodies and dismissal of the appeal of the Company by the Supreme Court of the RK.

Increase in other taxes is explained by the writing off of VAT receivable for total amount of KZT2.1 billion in connection with the received recommendations and explanations of the relevant sections of the Tax Code from consultants and tax officials.

Finance Income

Net finance income, including foreign exchange gain for 2011 was KZT24.3 billion, as compared to KZT27.1 billion for 2010. The drop is mainly explained by the decrease in interest income. Interest income decreased due to a reduction in the average rate of interest on deposits, which was partially offset with increase in interest income on debt instrument of NC KMG.

Share of Income in Associate and Joint Ventures

The Company's income from its share in associate and joint ventures in 2011 was KZT84.3 billion compared to KZT56.6 billion in 2010. This increase was mainly due to high crude oil prices during 2011. Share of income from JV Kazgermunai LLP was KZT38.4 billion and from PetroKazakhstan Inc. was KZT45.7 billion. For further details please refer to section: Overview of Associate and Joint Ventures Operations.

Income Tax Expense

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
(KZT thousands)			%		(KZT thousands)		%
60,829,793	64,497,888	83,548,990	-27%	Profit before tax	272,592,108	291,947,153	-7%
46,317,654	43,312,690	51,050,145	-9%	Profit before tax (net of JV's and associates results)	188,315,796	213,834,120	-12%
16,547,550	14,187,380	5,855,429	183%	Income tax	63,661,222	57,445,263	11%
27%	**22%**	**7%**	**288%**	**Effective tax rate**	**23%**	**20%**	**19%**
36%	**33%**	**11%**	**212%**	**Effective tax rate (net of JV's and associate results)**	**34%**	**27%**	**26%**

The effective tax rate (net of JV’s results) increased due to non-deductible expenses increase in 2011, such as amounts of fines and penalties paid on 2004-2005 tax audit results. Also, increase in income tax is explained by submission of additional declarations for 2006-2008 periods due to revision of the position of the Company to the risks identified in the comprehensive tax audit for 2004-2005.

The income tax expenses in Q4 2011 in comparison with Q4 2010 increased mainly due to significant deductions related to double tax depreciation for full 2010 made in Q4 2010.

Profit for the Period

As a result of the factors mentioned above, in 2011 the Company’s profit for the period decreased by 11% to KZT208.9 billion compared to 2010.

OVERVIEW OF ASSOCIATE'S AND JVS OPERATIONS

PetroKazakhstan Inc.

PetroKazakhstan Inc.'s key financial and operational indicators are shown below (1):

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
968,916	1,382,262	951,395	2%	Revenue, US$ thousands	4,964,794	3,422,195	45%
579,255	838,566	655,951	-12%	Operating expenses, US$ thousands	3,076,029	1,941,843	58%
(6,948)	(5,199)	(5,480)	27%	Finance income/(cost), US$ thousands	(17,934)	(20,330)	-12%
194,284	179,086	113,671	71%	Income tax expense, US$ thousands	686,394	448,617	53%
188,429	359,411	176,293	7%	Profit for the period, US$ thousands	1,184,437	1,011,405	17%
153,629	87,717	153,881	0%	Capital Expenditures	373,230	410,582	-9%
1,458	1,479	1,516	-4%	Crude oil production, thousand tonnes	5,912	6,053	-2%
1,534	1,853	1,349	-15%	Crude oil and oil products sales, thousand tonnes (2)	7,154	7,609	-6%
300	618	643	-53%	Export via KCP (PKKR 100%, Kolzhan 100%)	2,324	2,816	-17%
89	110	120	-26%	Export Aktau (KGM 50%)	390	514	-24%
211	293	184	15%	Export via KCP (KGM 50%)	1,008	630	60%
44	55	62	-30%	Export Uzbekistan (KGM 50%)	225	252	-10%
114	180	211	-46%	Export via KCP (TP 50%)	633	684	-7%
776	598	583	33%	Domestic sales, thousand tonnes (2)	2,573	2,713	-5%

[1] Results of Associate's and JVs Operations for 2011 are unaudited.

[2] The excess of sales volume over the volume of crude oil produced is due to the fact that the JSC PKKR buys crude oil from third parties to supply the domestic market.

Crude oil production in 2011 was 5,912k tonnes, which is 2% less than in 2010. For 2011 the Company recognized share income from its investment in PetroKazakhstan Inc. (33% share) of KZT45.7 billion, which is KZT11.5 billion higher than in 2010. Growth is the result of greater crude oil prices and reconsolidation of JSC Turgai Petroleum since August 2010. Increase in operating expenses is also related with reconsolidation of JSC Turgai Petroleum since August 2010. Capital expenses in 2011 were US$373.2 million (KZT54.7 billion). During 2011 the Company received dividends from PKI in the amount of KZT53.2 billion.

JV Kazgermunai LLP

JV Kazgermunai LLP's (Kazgermunai) key financial and operational indicators are shown below:

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
561,863	659,355	414,284	36%	Revenue, US$ thousands	2,354,240	1,526,749	54%
313,820	414,765	243,449	29%	Operating expenses, US$ thousands	1,343,142	811,853	65%
(3,175)	(2,903)	(851)	273%	Finance income/(cost), US$ thousands	(6,967)	(2,430)	187%
106,377	122,131	115,189	-8%	Income tax expense, US$ thousands	375,268	285,761	31%
138,491	119,556	54,795	153%	Profit for the period, US$ thousands	628,862	426,705	47%
43,140	21,573	41,716	3%	Capital Expenditures, US$ thousands	73,723	74,107	-1%
783	767	748	5%	Crude oil production, thousand tonnes	3,000	3,102	-3%
802	806	727	10%	Crude oil sales, thousand tonnes	3,017	3,073	-2%
179	219	240	-26%	Export via Aktau	780	1,028	-24%
422	587	367	15%	Export via KCP	2,016	1,261	60%
202	-	120	68%	Domestic market	222	784	-72%

The Company's share (50%) in Kazgermunai oil production in 2011 was 1,500k tonnes. Capital expenditure for the period was US$73.7 million (KZT10.8 billion). The company's share in income of the joint venture agreed to consolidated financial statements of the Company for 2011 is KZT38.4 billion which is KZT15.8 billion greater than in 2010. During 2011 the Company received dividends from Kazgermunai in the amount of KZT36.6 billion.

The increase in operating expenses is mainly due to increase in tax payments (rent tax, MET) and customs duty, which is due to an increase in volumes of oil sent for export.

The increase in net income is due to higher oil price, optimization of the structure of crude oil supplies and purchases for the purposes of meeting domestic supply requirements (mechanism for substitution of oil).

CCEL

CCEL's key financial and operational indicators are shown below (1):

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
303,432	385,096	260,656	16%	Revenue, US$ thousands	1,367,173	924,424	48%
246,770	302,805	178,574	38%	Operating expenses, US$ thousands	1,025,163	690,888	48%
(2,986)	489	(3,683)	-19%	Finance income/(cost), US$ thousands	6,698	15,000	-55%
48,811	20,841	29,650	65%	Income tax expense, US$ thousands	121,128	59,555	103%
4,866	61,940	52,432	-91%	Profit for the period, US$ thousands	214,184	173,981	23%
28,025	42,907	33,163	-15%	Capital Expenditures, US$ thousands	102,464	109,357	-6%
510	495	506	1%	Crude oil production, thousand tonnes	1,981	1,941	2%
446	528	492	-9%	Crude oil sales, thousand tonnes	1,957	1,914	2%
217	322	326	-33%	Export via Mahachkala	1,195	1,300	-8%
177	160	92	92%	Export via Primorsk	552	314	76%
-	-	20	-100%	Export via Gdansk	24	85	-72%
51	47	54	-6%	Domestic market	187	215	-13%

[1] Results of Associate's and JVs operations for 2011 are unaudited.

Crude oil production of CCEL in 2011 was 1,981k tonnes. The increase in net income is primarily due to greater prices for crude oil during 2011. The increase in operating expenses is mainly due to increase in tax payments (rent tax, MET). Capital expenses in 2011 were US$102.5 million (KZT15 billion).

As of December 31, 2011 the Company has recognized the amount of KZT19.5 billion as a receivable from CCEL, a jointly controlled entity with CITIC Group. The Company has accrued KZT3 billions of interest income in 2011 related to the US$26.87 million annual priority return from CCEL.

Ural Group Limited BVI (UGL)

On April 15, 2011 the Company acquired from Exploration Venture Limited (EVL) 50% of the common shares of UGL. UGL holds 100% equity interest in Ural Oil and Gas LLP (UOG), which has an exploration license for the Fedorovskiy hydrocarbons field located in western Kazakhstan. In May 2010 the exploration license was extended until May 2014.

Operating activities of the UGL are financing from the shareholders in the form of capital or borrowings to enable the UGL to meet its current obligations and to continue its activities. As a result the Company has provided financing in the form of additional loans in the amount of US$13.1 million (KZT1.9 billion) from the acquisition date to December 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

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

Q4 2011	Q3 2011	Q4 2010	Q4 on Q4 change		2011	2010	Change
(KZT thousands)			%		(KZT thousands)		%
38,232,981	23,614,280	39,321,704	-3%	Net cash generated from operating activities	148,210,426	115,694,318	28%
31,677,506	57,063,753	-56,490,018	-156%	Net cash used in investing activities	34,325,615	-31,492,441	-209%
-5,773,101	-36,558,264	-10,550,783	-45%	Net cash used in financing activities	-74,934,072	-93,234,670	-20%

In 2011 net cash generated from operating activities was KZT148 billion and increased by KZT33 billion compared to 2010. The change is mainly due to increase of revenue from sales of crude oil resulted in greater crude oil prices in comparison with 2010.

Net cash generated in investment activities amounted to KZT34 billion in 2011. The increase is mainly explained by the purchase of investments in debt instrument of NC KMG in 2010.

Net cash outflows from financing activities in 2011 were KZT 75 billion. This was mainly associated with the decrease in dividends paid to shareholders. The decrease is explained by a non-cash off-set of the declared dividends payable to NC KMG against part of the Debt instrument.

Borrowings and Cash Position

The table below shows the Company's net cash:

	As at December 31, 2011	As at September 30, 2011	As at December 31, 2010	December to December change
	(в тыс. тенге, если не указано иное)			%
Current portion	54,931,227	53,730,216	60,194,818	-9%
Non-current portion	33,033,898	32,972,479	62,286,045	-47%
Total borrowings	**87,965,125**	**86,702,695**	**122,480,863**	**-28%**
Cash and cash equivalents	206,511,923	142,704,763	98,519,680	110%
Other current financial assets	321,889,708	357,231,564	377,800,956	-15%
Non-current financial assets	188,802,605	188,067,152	221,825,818	-15%
Total financial assets	**717,204,236**	**688,003,479**	**698,146,454**	**3%**
US$-denominated cash and financial assets, %	**72%**	**81%**	**81%**	**-11%**
Net cash	**629,239,111**	**601,300,784**	**575,665,591**	**9%**

As of December 31, 2011 total borrowings were KZT88 billion including KZT80 billion related to the KMG PKI Finance notes issued in 2006 for the acquisition of a 33% share in PetroKazakhstan Inc. As at December 31, 2011 the outstanding amounts of the KMG PKI Finance notes and related accrued interest are KZT78.3 billion and KZT1.5 billion respectively.

RISK FACTORS

The Company is subject to several risks, including environmental, market, operational, financial, investment and corporate governance risks.

The company exercises risk management within its Risk Management Policy. The Company's Risk Management Policy aims at increasing shareholder value and improving corporate governance through risk identification and assessment and analysis of its significance, as well as development of measures to minimize and control risks.

In all production branches a centralized risk management system is implemented which covers all business processes and functional areas of operation of the Company and allows it effectively to manage the risks, minimizing their impact on the operation of the Company.

ENVIRONMENTAL RISKS

The main risks associated with the external environment of the Company include political, economic and regional risks.

Political risks:

- ability to change the external or domestic policy by the leadership of the country, which may significantly affect the investment attractiveness of the country in general and the Company in particular;
- the likelihood of negative changes to legislation, including tax legislation, aimed at maximizing budget revenues from raw materials industries;
- in the process of reforming the public authorities the abolition and the creation of new ministries and agencies regulating the operation of the Company may take place, which may lead to a lack of or delay of approval of regulations affecting the Company.

Economic risks:

- The economy of the Republic of Kazakhstan is poorly diversified and depends significantly on world commodity prices. A significant and sustained fall in global commodity prices could lead to a drop in profits of mineral companies, and eventually economic decline;
- Aging infrastructure of the economy could have a material adverse effect on the efficiency of the Company's business.
- Current legislation in the area of procurement of goods and services does not allow for increases in the efficiency of logistics.
- Lack of a competitive environment among suppliers and contractors reduces the quality of work and services provided by the company.
- Level of development of financial system of Kazakhstan may worsen the conditions of allocation of free funds (for details see below – in Financial Risks section).

Regional risks

Regions of the Company's activity are Magistau region, Atyrau, Aktyubisnk, Kyzylorda regions.

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

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

An appropriate set of measures, including the following steps is being developed to reduce the negative impact of changes in the situation in the country and the main regions:

- Actions aimed at increasing the geographic diversification of the Company's operation, in order to minimize the risk of a given region;
- Actions aimed at minimizing the social tensions in the regions of the core business;
- Actions to improve business efficiency, to minimize the risks with a significant adverse effect on the ability of the Company to develop business.

The Company consistently works for the promotion and maintenance of social stability in the regions where it has a presence. The Company actively cooperates with representatives of local administrations and communities in order to jointly find solutions for pressing social problems in the regions.

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

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

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

MARKET RISKS

Market risks include risks of adverse impact of oil price changes, exchange rates, and interest rates (for more details about currency risk and interest rate risk, see the Financial Risks Section below).

The company provides wholesale supply of oil, for both internal and external markets.The main possible deterioration, both for internal and external markets, is a decline in oil prices, which can be characterized by significant volatility due to a number of factors: the balance of supply and demand, the impact of policies of major oil-producing countries or the political situation in the main producing regions of energy. A decline in world oil prices would significantly result in a deteriorating financial performance of the Company.

The company does not at the moment resort to hedging the risks of oil prices falling, but in each situation uses internal cost management tools to reduce the negative impact of the risk.

FINANCIAL RISKS

The economy of the Republic of Kazakhstan is sensitive to fluctuations in international financial markets and any slowdown in global economic growth. The recent international financial crisis has led to instability in capital markets, lack of liquidity in the banking sector, as well as to fluctuations in the exchange rate of the tenge. There is some uncertainty about the ability to access the allocation of capital in highly reliable banks and the value of such allocation for the Company, which in turn may affect its financial position, as well as the results of its operations and plans. The continuation of the international financial crisis may also adversely affect the solvency of the consumers of the Company, which can lead to declining revenues and liquidity.

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

Inflation risks

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

Interest rate exposures

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

Currency risks

Currency risk is the fluctuation in exchange rates, which has a multidirectional impact on financial and economic activities of the Company.

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

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

In the case of a negative impact of changes in interest rates and exchange rates the Company will perform the following steps to reduce the negative effects:

- expansion of the number of partner banks, primarily drawn from the institutions least affected by the current global financial crisis;
- greater use of trade finance instruments (letters of credit, guarantees) allowing the Company to reduce the dependence of its activities on base interest rates.

The Company does not resort to hedging of the specified risks at the moment, but in each situation uses internal tools and provisions of financial risk management, allowing it to guarantee fulfillment of its obligations on time and in full.

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

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

Credit risks

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

An efficient centralized cash management system implemented by the Treasury of the Company allows it to minimize credit risks.

Financial risks, their probability and nature of changes in the statements

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

TAX RISKS

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

Change in customs regulations and duties

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

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

OPERATIONAL RISKS

The main operational risks of the Company lie in the field of exploration and production, and relate to the implementation of continuous operations of the Company.

The characteristic features of the basic fields of the Company are:

- deterioration in raw materials base and oil reserves quality;
- transition to the late stage of development of a considerable part of fields;
- low efficiency of a number of industrial and technological processes and energy recourses use;
- need to replace obsolete equipment at all stages of the production cycle;
- high capital intensity of production in comparison with other companies.

Below is a list of key operational risks, to minimize which the Company allocates considerable resources and pays them much attention, both in their daily activities, and in the process of planning and operating efficiency evaluation.

Exploration

There is always a risk of non-commercial discovery of hydrocarbons and/or drilling a "dry" well in carrying out exploration work. To reduce the risk of exploration a complex geological and geophysical investigation is carried out. In addition to traditional seismic surveys this includes geochemical studies, high-resolution electrical exploration and special methods for seismic and gravics data processing, as well as for the analysis of geological risks.

Mining

One of the most important tasks of the Company is to maintain an optimal level of production in its own fields, most of which are located at the late stage of operation. To this end, the Company uses modern methods and technologies of impact on the oil reservoirs and well bottom zones.

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

- Status of firm wells.
- Technical integrity of equipment
- Continuity of supply.
- Weather conditions.
- Timeliness of procurement and supply of equipment.
- Quality of the delivered equipment.
- Timeliness and quality of service provided by the contractors.
- Safety of operating personnel.
- Environmental security.
- Effectiveness of planning.
- Compliance with state regulators.

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

Health, safety and environment

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

Consequences of these risks can be very severe, including fatal accidents, air pollution, soil and water pollution, fire, suspension or stop of production. Depending on the cause of occurrence of these events, the consequences could adversely affect the reputation, financial and operating policies of the Company. In this regard, the Company performs various measures to prevent the occurrence of such threats, including the control of occupational health and safety, hazards identification and training. The current labour protection systems and health, safety and environment of the Company have been introduced and function in accordance with ISO 14001, OHSAS 18001. Every year the company insures the risks of occupational safety and the environment associated with its own activities and projects.

Information Technology

The Company is subject to risks in the field of information technology in connection with the use and implementation of a large number of high-tech equipment and software for effective operating activity. It is in connection with these that problems of adapting new equipment and software, as well as secure storage of sensitive business data, may arise.

In order to ensure effective work in this direction the Company annually analyzes the technologies used. In its selecting and purchasing policy the Company gives preference to the most adaptable and recommended information technologies, so as to provide reliable control of access to business data.

INVESTMENT RISKS

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

- Limitation of new assets on the ground in Kazakhstan available for the purchase.
- Increased competition from large international oil companies for access to oil and gas assets.
- Lack of its own high-performance service expertise, which would enable KMG EP to participate in offshore projects in Kazakhstan, as well as attractive international projects.
- Limitation of its own expertise in the field of application of new technologies to increase the efficiency of the development of existing fields and development of unconventional sources of oil and gas.
- Lack of technical and skilled manpower for the assessment and effective management of new assets
- Opacity of the selection process for the acquisition of an asset.

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

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

RISKS OF CORPORATE GOVERNANCE

Reducing the organizational capacity

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

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

Fraud and Corruption

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

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

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Joint Stock Company KazMunaiGas Exploration Production and its subsidiaries ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of Joint Stock Company KazMunaiGas Exploration Production and its subsidiaries as of 31 December 2011, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

13 February 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Tenge thousands

		As at December 31,	
	Notes	2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	6	338,860,081	297,508,553
Intangible assets	7	26,638,032	15,185,859
Investments in joint ventures	9	116,526,247	96,737,910
Investments in associates	10	133,228,381	139,952,442
Receivable from a jointly controlled entity	9	18,138,239	19,153,089
Loan receivable from a joint venture		8,494,019	–
Other financial assets	8	188,802,605	221,825,818
Deferred tax asset	21	9,450,148	8,408,967
Other assets		19,591,820	13,858,297
Total non-current assets		**859,729,572**	**812,630,935**
Current assets			
Inventories	11	22,651,421	18,779,936
Income taxes prepaid		9,970,659	5,945,507
Taxes prepaid and VAT recoverable		22,737,975	20,583,791
Prepaid expenses		12,055,210	27,815,083
Trade and other receivables	8	84,125,802	65,529,767
Receivable from a jointly controlled entity	9	1,361,055	1,203,834
Other financial assets	8	321,889,708	377,800,956
Cash and cash equivalents	8	206,511,923	98,519,680
Total current assets		**681,303,753**	**616,178,554**
Total assets		**1,541,033,325**	**1,428,809,489**
EQUITY			
Share capital	12	198,451,861	214,081,197
Other capital reserves		2,123,886	1,739,901
Retained earnings		1,083,749,222	931,455,065
Other components of equity		14,354,200	12,376,574
Total equity		**1,298,679,169**	**1,159,652,737**
LIABILITIES			
Non-current liabilities			
Borrowings	14	33,033,898	62,286,045
Deferred tax liability	21	2,049,181	1,829,852
Provisions	15	37,845,571	35,625,247
Total non-current liabilities		**72,928,650**	**99,741,144**
Current liabilities			
Borrowings	14	54,931,227	60,194,818
Mineral extraction tax and rent tax payable		50,908,398	46,054,359
Trade and other payables		48,680,153	47,304,799
Provisions	15	14,905,728	15,861,632
Total current liabilities		**169,425,506**	**169,415,608**
Total liabilities		**242,354,156**	**269,156,752**
Total liabilities and equity		**1,541,033,325**	**1,428,809,489**

The notes on pages 54 to 88 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Tenge thousands

	For the year ended December 31,		
	Notes	2011	2010
Revenue	16	721,194,169	609,242,398
Share of results of associates and joint ventures	9, 10	84,276,312	56,641,838
Finance income	20	28,843,487	38,039,785
Other income	10	–	21,471,195
Total revenue and other income		**834,313,968**	**725,395,216**
Production expenses	17	(117,465,026)	(110,747,524)
Selling, general and administrative expenses	18	(100,173,285)	(92,276,532)
Exploration expenses		(5,985,224)	(2,072,263)
Depreciation, depletion and amortization	6, 7	(45,494,136)	(35,486,128)
Taxes other than on income	19	(284,027,851)	(179,709,999)
Loss on disposal of fixed assets		(4,043,980)	(2,200,613)
Finance costs	20	(7,222,511)	(7,495,555)
Foreign exchange gain / (loss)		2,690,153	(3,459,449)
Profit before tax		**272,592,108**	**291,947,153**
Income tax expense	21	(63,661,222)	(57,445,263)
Profit for the year		**208,930,886**	**234,501,890**
Exchange difference on translating foreign operations		1,977,626	(560,821)
Other comprehensive income / (loss) for the year, net of tax		**1,977,626**	**(560,821)**
Total comprehensive income for the year, net of tax		**210,908,512**	**233,941,069**
EARNINGS PER SHARE			
Basic and diluted	13	2.95	3.23

The notes on pages 54 to 88 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Tenge thousands

	Notes	For the year ended December 31, 2011	2010
Cash flows from operating activities			
Profit before tax		272,592,108	291,947,153
Adjustments to add / (deduct) non-cash items			
Depreciation, depletion and amortization	6, 7	45,494,136	35,486,128
Other income	10	–	(21,471,195)
Share of result of associates and joint ventures	9, 10	(84,276,312)	(56,641,838)
Loss on disposal of property, plant and equipment (PPE)		4,043,980	2,200,613
Impairment of PPE and intangible assets	6, 7	2,438,923	16,194
Dry well expense on exploration and evaluation assets	7	2,586,223	1,103,615
Recognition of share-based payments		407,779	309,987
Forfeiture of share-based payments		(23,794)	(49,809)
Unrealised foreign exchange gain on non-operating activities		(2,306,422)	(73,832)
Other non-cash income and expense		5,869,493	916,338
Add finance costs	20	7,222,511	7,495,555
Deduct finance income relating to investing activity	20	(28,843,487)	(38,039,785)
Working capital adjustments			
Change in other assets		(817,081)	630,450
Change in inventories		(4,821,587)	(3,463,525)
Change in taxes prepaid and VAT recoverable		(2,104,701)	(11,312,224)
Change in prepaid expenses		15,839,095	(6,351,679)
Change in trade and other receivables		(18,486,630)	(18,377,144)
Change in trade and other payables		(3,600,176)	10,918,152
Change in mineral extraction and rent tax payable		4,854,039	9,877,060
Change in provisions		6,343,762	3,500,215
Income tax paid		(74,201,433)	(92,926,111)
Net cash generated from operating activities		**148,210,426**	**115,694,318**

The notes on pages 54 to 88 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

Tenge thousands

	For the year ended December 31,		
	Notes	2011	2010
Cash flows from investing activities			
Purchases of PPE		(92,759,829)	(86,679,884)
Proceeds from sale of PPE		753,447	139,497
Purchases of intangible assets		(12,217,536)	(1,572,033)
Acquisition of share in a joint venture	9	(23,906,835)	–
Loans provided to a joint venture	9	(1,923,356)	–
Dividends received from joint ventures and associates	9, 10	89,794,595	94,458,518
Purchase of investments in debt instruments of NC KMG		–	(221,543,183)
Interest received from investment in debt instruments of NC KMG		13,005,528	7,691,113
Sale of financial assets held-to-maturity		56,836,304	146,680,715
Loan repayments received from related parties		3,939,718	3,959,137
Acquisition of subsidiary, net of cash acquired	5	(8,799,170)	(8,614,935)
Interest received		9,602,749	33,988,614
Net cash generated from / (used in) investing activities		**34,325,615**	**(31,492,441)**
Cash flows from financing activities			
Share buy back	12	(15,762,657)	(24,531,975)
Repayment of borrowings		(35,219,073)	(14,614,702)
Dividends paid to Company's shareholders		(19,287,040)	(48,235,969)
Interest paid		(4,665,302)	(5,852,024)
Net cash used in financing activities		**(74,934,072)**	**(93,234,670)**
Net change in cash and cash equivalents		107,601,969	(9,032,793)
Cash and cash equivalents at the beginning of the year	8	98,519,680	107,626,368
Exchange gains / (losses) on cash and cash equivalents		390,274	(73,895)
Cash and cash equivalents at the end of the year	8	**206,511,923**	**98,519,680**

The notes on pages 54 to 88 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Tenge thousands

	Share capital	Treasury stock	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity
As at January 1, 2010	**263,094,581**	**(24,547,667)**	**1,474,089**	**747,820,751**	**12,937,395**	**1,000,779,149**
Profit for the year	–	–	–	234,501,890	–	234,501,890
Other comprehensive loss	–	–	–	–	(560,821)	(560,821)
Total comprehensive income	**–**	**–**	**–**	**234,501,890**	**(560,821)**	**233,941,069**
Recognition of share-based payments	–	–	309,987	–	–	309,987
Forfeiture of share-based payments	–	–	(49,809)	–	–	(49,809)
Exercise of employee options (Note 12)	–	66,258	5,634	–	–	71,892
Share buy back (Note 12)	–	(24,531,975)	–	–	–	(24,531,975)
Dividends (Note 12)	–	–	–	(50,867,576)	–	(50,867,576)
As at December 31, 2010	**263,094,581**	**(49,013,384)**	**1,739,901**	**931,455,065**	**12,376,574**	**1,159,652,737**
Profit for the year	–	–	–	208,930,886	–	208,930,886
Other comprehensive income	–	–	–	–	1,977,626	1,977,626
Total comprehensive income	**–**	**–**	**–**	**208,930,886**	**1,977,626**	**210,908,512**
Recognition of share-based payments	–	–	407,779	–	–	407,779
Forfeiture of share-based payments	–	–	(23,794)	–	–	(23,794)
Exercise of employee options (Note 12)	–	133,321	–	–	–	133,321
Share buy back (Note 12)	–	(15,762,657)	–	–	–	(15,762,657)
Dividends (Note 12)	–	–	–	(56,636,729)	–	(56,636,729)
As at December 31, 2011	**263,094,581**	**(64,642,720)**	**2,123,886**	**1,083,749,222**	**14,354,200**	**1,298,679,169**

The notes on pages 54 to 88 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Tenge thousands unless otherwise stated

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

KazMunaiGas Exploration Production Joint Stock Company (the "Company") has been incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company's direct majority shareholder is Joint Stock Company National Company KazMunaiGas ("NC KMG" or the "Parent Company"), which represents the state's interests in the Kazakh oil and gas industry and which holds 61.3% of the Company's outstanding shares as at December 31, 2011 (2010: 60.5%). The Parent Company is 100% owned by joint stock company Samruk-Kazyna National Welfare Fund ("Samruk-Kazyna NWF"), which is in turn 100% owned by the government of the Republic of Kazakhstan (the "Government").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

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

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

Adopted accounting standards and interpretations

The Company has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year, which did not have any material effect on the financial performance or position of the Company.

- IAS 24 Related Party Disclosures – amendment;
- Improvements to IFRSs (May 2010).

New accounting developments

The following IFRS, IFRIC interpretations and improvements to IFRS are not yet in effect for the year ended December 31, 2011:

- IFRS 9 Financial Instruments: Classification and measurement

- IAS 28 Investments in Associates and Joint Ventures – amendment
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 19 Employee Benefits – amendment
- IAS 1 Presentation of Items of Other Comprehensive Income – amendment

Management does not expect the above standards and interpretations to have a material impact on the Company's financial position or results of operations.

2.2 CHANGE IN PRESENTATION OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The Company changed the presentation of income and expenses in the consolidated statement of comprehensive income by adding the subtotal of revenue and other income, which includes revenue, share of results of associates and joint ventures and finance income. The presentation of comparative information was also changed in line with the current year.

2.3 CONSOLIDATION

Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are no longer consolidated from the date that control ceases.

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

Investment in associates and interests in joint ventures

The Company's investment in its associates and joint ventures are accounted for using the equity method. An associate is an entity in which the Company has significant influence. The Company also 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 the entities.

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

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

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

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

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

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

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

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

2.4 FOREIGN CURRENCY TRANSLATION

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

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

2.5 OIL AND NATURAL GAS EXPLORATION AND DEVELOPMENT EXPENDITURE

Exploration license costs

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

Exploration expenditure

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

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

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

Development expenditure

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

2.6 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

2.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use.

Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

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

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.8 INTANGIBLE ASSETS

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

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

2.9 FINANCIAL ASSETS

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

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

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

Held-to-maturity investments

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

Trade and other receivables

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

Available-for-sale financial investments

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Available-for-sale financial investments

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

Derecognition of financial assets

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

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

2.10 INVENTORIES

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

2.11 VALUE ADDED TAX (VAT)

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

2.12 CASH AND CASH EQUIVALENTS

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

2.13 SHARE CAPITAL

Share Capital

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

Treasury Shares

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

Dividends

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

Share-based payment transactions

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

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

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

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

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

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

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

2.14 TRADE PAYABLES

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

2.15 PROVISIONS

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

2.16 BORROWINGS

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

2.17 DEFERRED INCOME TAX

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

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

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

2.18 EMPLOYEE BENEFITS

The Company withholds 10% from the salary of its employees as the employees' contribution to their designated pension funds. The pension deductions are limited to a maximum of 119,993 Tenge per month in 2011 (2010: 112,140 Tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits.

2.19 REVENUE RECOGNITION

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

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

2.20 INCOME TAXES

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

3. SIGNIFICANT NON-CASH TRANSACTIONS

During the year ended December 31, 2011 the Company excluded from the consolidated statement of cash flows a non-cash transaction related to the offset of withholding income tax payable against the interest receivable on financial assets in the amount of 1,497,343 thousand Tenge (2010: 4,066,490 thousand Tenge).

On May 5, 2011 Company declared dividends of 800 Tenge per share outstanding on May 16, 2011 (Note 12). Pursuant to the NC KMG Debt instrument agreement, on May 20, 2011 the Company performed a non-cash off-set of the declared dividends payable to Parent Company against part of the Debt instrument (Note 8) for the amount of 34,469,604 thousand Tenge (principal of 33,335,278 thousand Tenge and interest of 1,134,326 thousand Tenge).

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Oil and gas reserves

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

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

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A. The Company has included in proved reserves only those quantities that are expected to be produced during the initial license period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Company's license periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

Recoverability of oil and gas assets

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

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for oil and gas assets is generally determined as the present value of estimated future cash flows arising from the continued use of the assets, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its CGUs as being an individual production branch, which is the lowest level for which cash inflows are largely independent of those of other assets.

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The Company calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company reviews site restoration provisions at each reporting date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 13.84% and 13.93% of the provision at December 31, 2011 and 2010 relates to final closure costs. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the carrying value of obligation at December 31, 2011 were 5.0% and 7.9% respectively (2010: 5.0% and 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 15.

Environmental remediation

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

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan. As at the date of these financial statements the scope and timing of the remediation plan has not been formally agreed with the Government, except as agreed in the annual budget. Accordingly, the liability has not been discounted as the terms of the liability have not yet been established. The Company has classified this obligation as non-current except for the portion of costs, included in the annual budget for 2012. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology.

Further uncertainties related to environmental remediation obligations are detailed in Note 25. Movements in the provision for environmental remediation obligations are disclosed in Note 15.

Taxation

Deferred tax is calculated with respect to both corporate income tax ("CIT") and excess profit tax ("EPT"). Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates. Both deferred CIT and EPT bases are calculated under the terms of the tax legislation enacted in the above mentioned new tax code disclosed in Note 21.

5. BUSINESS COMBINATION

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

KS JSC's assets and liabilities, based on the allocation of the consideration over the fair values of the identifiable net assets, as at December 23, 2011 and the corresponding carrying amounts immediately before the acquisition and as at December 31, 2011 are as follows:

	Carrying values as at December 23, 2011	Fair values as at December 23, 2011	Assets and liabilities as at December 31, 2011
Cash	16	16	16
Current assets	373	5,508	5,508
Non-current assets	3,207,065	10,100,570	10,027,617
	3,207,454	**10,106,094**	**10,033,141**
Current liabilities	240,520	240,520	240,520
Non-current liabilities	–	1,379,728	1,369,712
	240,520	**1,620,248**	**1,610,232**
Net assets	**2,966,934**	**8,485,846**	**8,422,909**

The fair value of non-current assets includes the exploration license of KS JSC of 6,898,641 thousand Tenge and other exploration and evaluation assets of 3,150,617 thousand Tenge.

The results of operations of KS JSC for the period from the acquisition date to the year end were included into the consolidated financial statements of the Company and comprised a loss of 62,937 thousand Tenge.

6. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Other assets	Construction work-in-progress	Total
2010				
Opening net book amount at January 1, 2010	**214,514,288**	**30,709,575**	**10,770,045**	**255,993,908**
Additions	2,009,579	806,415	77,576,377	80,392,371
Change in ARO estimate	(542,101)	–	–	(542,101)
Disposals	(2,394,841)	(242,585)	(1,849,502)	(4,486,928)
Transfers from construction work-in-progress	70,757,966	4,686,423	(75,444,389)	–
Internal transfers	190,187	(191,374)	1,187	–
Depreciation charge	(29,503,722)	(4,328,781)	–	(33,832,503)
Impairment	(790)	(3,099)	(12,305)	(16,194)
Closing net book amount at December 31, 2010	**255,030,566**	**31,436,574**	**11,041,413**	**297,508,553**
At December 31, 2010				
Cost	428,871,355	51,045,927	11,041,413	490,958,695
Accumulated depreciation	(173,840,789)	(19,609,353)	–	(193,450,142)
Net book amount	**255,030,566**	**31,436,574**	**11,041,413**	**297,508,553**
2011				
Opening net book amount at January 1, 2011	**255,030,566**	**31,436,574**	**11,041,413**	**297,508,553**
Additions	1,672,317	1,491,771	84,159,219	87,323,307
Change in ARO estimate	373,922	–	–	373,922
Disposals	(3,771,308)	(735,028)	(2,638,436)	(7,144,772)
Transfer from exploration and evaluation assets	1,407,070	–	–	1,407,070
Transfers from construction work-in-progress	69,782,393	10,908,355	(80,690,748)	–
Internal transfers	39,228	(194,746)	155,518	–
Depreciation charge	(34,641,584)	(4,313,294)	–	(38,954,878)
Reversal / (Impairment)	46,709	(39,700)	(1,660,130)	(1,653,121)
Closing net book amount at December 31, 2011	**289,939,313**	**38,553,932**	**10,366,836**	**338,860,081**
At December 31, 2011				
Cost	490,309,318	60,630,294	10,366,836	561,306,448
Accumulated depreciation	(200,370,005)	(22,076,362)	–	(222,446,367)
Net book amount	**289,939,313**	**38,553,932**	**10,366,836**	**338,860,081**

7. INTANGIBLE ASSETS

	Exploration and evaluation assets	Other intangibles	Total
2010			
Opening net book amount at January 1, 2010	**1,745,395**	**2,276,745**	**4,022,140**
Additions	13,068,275	858,857	13,927,132
Disposals	–	(6,173)	(6,173)
Dry well write-off	(1,103,615)	–	(1,103,615)
Amortization charge	(954,694)	(698,931)	(1,653,625)
Closing net book amount at December 31, 2010	**12,755,361**	**2,430,498**	**15,185,859**
At December 31, 2010			
Cost	22,553,458	5,027,989	27,581,447
Accumulated amortization	(9,798,097)	(2,597,491)	(12,395,588)
Net book amount	**12,755,361**	**2,430,498**	**15,185,859**
2011			
Opening net book amount at January 1, 2011	**12,755,361**	**2,430,498**	**15,185,859**
Acquisition of exploration licenses	15,794,141	–	15,794,141
Additions	6,245,865	1,074,077	7,319,942
Dry well write-off	(2,586,223)	–	(2,586,223)
Transfers	(1,407,070)	–	(1,407,070)
Disposals	(339,381)	(4,176)	(343,557)
Amortization charge	(5,667,278)	(871,980)	(6,539,258)
Impairment	(761,106)	(24,696)	(785,802)
Closing net book amount at December 31, 2011	**24,034,309**	**2,603,723**	**26,638,032**
At December 31, 2011			
Cost	39,499,685	6,073,194	45,572,879
Accumulated amortization	(15,465,376)	(3,469,471)	(18,934,847)
Net book amount	**24,034,309**	**2,603,723**	**26,638,032**

Acquisition of exploration licenses relates primarily to acquisition of KS JSC exploration license (Note 5) and purchase of exploration licenses from the Parent company (Note 22).

In 2011 the Company recognized dry well expenses related to exploratory wells drilled on its R-9, Liman, and Taisogan blocks.

8. FINANCIAL ASSETS

Other financial assets

	2011	2010
Investments in debt instruments of NC KMG (Note 22)	187,810,467	220,710,987
Tenge denominated held-to-maturity deposits	989,064	953,920
Other	3,074	160,911
Total non-current	**188,802,605**	**221,825,818**
US dollar denominated term deposits	169,806,482	264,841,437
Held-to-maturity financial assets	109,541,770	54,916,073
Tenge denominated term deposits	36,115,639	57,786,248
Great Britain pound denominated term deposits	6,206,774	–
Investments in debt instrument of NC KMG (Note 22)	218,773	256,928
Other	270	270
Total current	**321,889,708**	**377,800,956**
	510,692,313	**599,626,774**

The weighted average interest rate on US dollar denominated term deposits in 2011 was 3.6% (2010: 6.6%). The weighted average interest rate on Tenge denominated term deposits in 2011 was 1.4% (2010: 4.7%).

As at December 31, 2011 the current US dollar denominated term deposits include restricted cash of 31,147,066 thousand Tenge (2010: 27,639,860 thousand Tenge), which is kept in a blocked account as security for the repayment of interest and principal on the long-term debt of KazMunaiGaz PKI Finance B.V. (KMG PKI Finance), a 100% subsidiary of the Company (Note 14).

Investments in debt instrument of NC KMG

On July 16, 2010 the Company purchased unsubordinated, coupon indexed, unsecured bonds issued by NC KMG ("Debt Instrument") on the Kazakhstan Stock Exchange ("KASE") in the amount of 221,543,183 thousand Tenge (1,499,649 thousand US Dollars). The Debt Instrument carries an annual coupon rate of 7% per annum, paid semi-annually, is indexed to the USD/KZT exchange rate at the date of issuance and matures in June 2013. As at December 31, 2011 the outstanding amount of the Debt Instrument and related accrued interest is 187,810,467 thousand Tenge and 218,773 thousand Tenge respectively (2010: 220,710,987 thousand Tenge and 256,928 thousand Tenge, respectively).

The Debt Instrument contains the following key provisions:

i. Whilst there are no fixed repayment terms, NC KMG will mandatorily use any future dividends from the Company to repay against the outstanding Debt Instrument (Note 3).
ii. If the Company acquires assets from NC KMG during the life of the Debt Instrument with an aggregate value of more than 800 million US Dollars, then the Company will be able to finance the portion of the cost of such acquisitions exceeding the 800 million US Dollars threshold through transferring or selling to NC KMG the relevant portion of the Debt Instrument at par value plus accrued coupon indexed to the USD/KZT exchange rate at the issuance date.
iii. If at maturity, NC KMG does not settle its outstanding Debt Instrument for cash, the Company shall pay a Special Dividend to its shareholders of a quantum, where NC KMG's share is sufficient to settle the outstanding Debt Instrument.

iv. The Company will ensure that it will have sufficient cash reserves, which are in compliance with Company's treasury policy, to pay its minority shareholders their portion of the Special Dividend, should it become necessary. Special monitoring and control mechanisms have been put in place to ensure that the Independent Non-Executive Directors could exercise control over expenditures exceeding budgeted amounts in the event that the amount of cash, held in appropriate banks, falls below required levels.

Trade and other receivables

	2011	2010
Trade receivables	83,586,906	65,367,737
Other	923,150	439,253
Allowance for doubtful receivables	(384,254)	(277,223)
	84,125,802	**65,529,767**

As at December 31, 2011 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGas – Refinery and Marketing JSC ("KMG R&M"), a subsidiary of the Parent Company, of 81,686,493 thousand Tenge (December 31, 2010: 63,517,201 thousand Tenge).

As of December 31, 2011 US dollar denominated trade and other receivables represented 93% of total receivables (2010: 93%). The remaining balances are Tenge denominated. Trade receivables are generally on 30 days' terms.

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

	2011	2010
Current	51,073,772	58,298,195
0-30 days overdue	18,493,522	7,222,973
30-60 days overdue	14,539,440	–
120 and more days overdue	19,068	8,599
	84,125,802	**65,529,767**

Cash and cash equivalents

	2011	2010
US dollar denominated term deposits with banks	157,092,089	75,315,631
Tenge denominated term deposits with banks	28,111,444	12,982,717
Tenge denominated cash in banks and on hand	17,564,160	3,880,555
US dollar denominated cash in banks and on hand	2,915,914	5,067,220
Great Britain pound denominated cash in bank and on hand	439,101	878,823
Euro denominated term deposits with banks	389,215	394,734
	206,511,923	**98,519,680**

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

The weighted average interest rate on Tenge denominated deposits in 2011 was 0.5% (2010: 1.9%).The weighted average interest rate on US dollar denominated deposits in 2011 was 0.3% (2010: 0.2%).

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

	2011	2010
Interest in JV Kazgermunai LLP (“Kazgermunai”)	98,823,130	96,737,910
Interest in JV Ural Group Limited BVI (“UGL”)	17,703,117	–
Receivable from jointly controlled entity	19,499,294	20,356,923
	136,025,541	**117,094,833**

JV Kazgermunai

The Company’s share of Kazgermunai’s assets and liabilities as at December 31 is as follows:

	2011	2010
Cash	23,710,222	14,503,911
Current assets	15,055,337	9,998,641
Non-current assets	114,125,049	125,855,630
	152,890,608	**150,358,182**
Current liabilities	26,538,741	21,808,244
Non-current liabilities	27,528,737	31,812,028
	54,067,478	53,620,272
Net assets	**98,823,130**	**96,737,910**

The share of results of Kazgermunai included into the consolidated financial statements of the Company is as follows:

	2011	2010
Revenues	172,591,202	112,478,772
Operating expenses	(109,926,542)	(73,201,797)
Profit from operations	62,664,660	39,276,975
Finance cost, net	(510,790)	(169,169)
Profit before tax	62,153,870	39,107,806
Income tax expense	(23,781,187)	(16,550,967)
Profit for the year	**38,372,683**	**22,556,839**
Foreign currency translation gain / (loss) recognized in other comprehensive income	**339,537**	**(460,988)**

Profit for the year in 2011 is net of the effect of amortization of the fair valuation of the licenses in the amount of 8,695,076 thousand Tenge (2010: 10,175,494 thousand Tenge) and related deferred tax benefit of 965,351 thousand Tenge (2010: deferred tax benefit of 1,129,711 thousand Tenge).

During 2011 the Company received dividends from Kazgermunai in the amount of 36,627,000 thousand Tenge (2010: 47,782,250 thousand Tenge).

JV Ural Group Limited BVI ("UGL")

On April 15, 2011 the Company acquired from Exploration Venture Limited (EVL) 50% of the common shares of UGL. UGL holds 100% equity interest in Ural Oil and Gas LLP (UOG), which has an exploration license for the Fedorovskyi hydrocarbons field located in western Kazakhstan region. In May 2010 the exploration license was extended until May 2014.

The 50% stake in UGL was acquired for cash consideration of 164,497 thousand US dollars (23,906,835 thousand Tenge) gross of withholding tax, including 61,383 thousand US dollars (8,923,237 thousand Tenge) for shares and 103,114 thousand US dollars (14,983,598 thousand Tenge) of shareholder loans. Of the total consideration 46,687 thousand US Dollars (6,784,037 thousand Tenge) has been attributed to the loans receivable from a joint venture, which were initially recognized at fair value and subsequently measured at amortized cost using effective interest method. The difference between the amount paid for the shareholder loans and their fair value was attributed to the cost of the investment in UGL. Investments in UGL are recognized as an investment in a joint venture in the consolidated financial statements of the Company.

The operating activities of UGL are dependent upon continued financing in the form of shareholder loans to enable UGL to meet its current obligations and to continue its activities. As a result the Company has provided financing in the form of additional shareholder loans in the amount of 13,110 thousand US dollars (1,923,356 thousand of Tenge) from the acquisition date to December 31, 2011. The fair value on initial and additional shareholder loans, which are given on an interest free basis, is determined by discounting future cash flows for the loans using discount rate of 15%.

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

The Company's share of UGL assets and liabilities as at December 31, 2011 and as at acquisition date on a provisional basis is as follows:

	Provisional fair value recognized on acquisition (as at April 15, 2011)	December 31, 2011
Cash	231,727	30,535
Current assets	103,896	9,269
Non-current assets	28,535,909	31,240,296
	28,871,532	**31,280,100**
Current liabilities	284,658	219,756
Non-current liabilities	11,464,076	13,357,227
	11,748,734	13,576,983
Net assets	**17,122,798**	**17,703,117**

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

The Company's share of results of operations of UGL for the period from the acquisition date to December 31, 2011 were included in the consolidated financial statements of the Company for the year ended December 31, 2011.

Receivable from jointly controlled entity CITIC Canada Energy Limited ("CCEL")

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

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 the Company is contractually obliged to transfer any dividends received from CCEL, in excess of a Guaranteed Amount, to CITIC, up to the Total Maximum Amount, which amounts to 627.3 million US dollars (93,084,216 thousand Tenge) as at December 31, 2011 (2010: 753.2 million US dollars or 111,019,849 thousand Tenge). The Total Maximum Amount represents the balance of the Company's share of the original purchase price funded by CITIC plus accrued interest. The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Company recognizes in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total maximum Guaranteed Amount. The carrying amount of this receivable at December 31, 2011, amounted to 129.2 million US dollars (19,170,280 thousand Tenge) (2010: 135.9 million US dollars or 20,027,909 thousand Tenge).

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

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

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

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

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

10. INVESTMENTS IN ASSOCIATES

	2011	2010
Interest in Petrokazakhstan Inc. ("PKI")	133,228,381	139,164,657
Other	–	787,785
	133,228,381	**139,952,442**

The Company's share of PKI's assets and liabilities as at December 31 is as follows:

	2011	2010
Cash	25,248,494	12,908,371
Current assets	30,394,521	33,467,489
Non-current assets	162,454,801	199,098,292
	218,097,816	**245,474,152**
Current liabilities	54,288,057	69,317,233
Non-current liabilities	30,581,378	36,992,262
	84,869,435	106,309,495
Net assets	**133,228,381**	**139,164,657**

The share of results of the associate included into the consolidated financial statements of the Company is as follows:

	2011	2010
Revenue	240,222,175	166,399,322
Operating expenses	(160,467,888)	(122,656,203)
Profit from operations	79,754,287	43,743,119
Gain on Turgai Petroleum (TP) re-acquisition	–	13,242,336
Finance cost, net	(867,739)	(988,517)
Profit before tax	78,886,548	55,996,938
Income tax expense	(33,211,259)	(21,813,358)
Profit for the period	**45,675,289**	**34,183,580**
Foreign currency translation gain / (loss) recognized in other comprehensive income	**1,556,030**	**(776,305)**

Profit for the year in 2011 is net of the effect of amortization of the fair valuation of the licenses in the amount of 11,619,596 thousand Tenge (from acquisition date to December 31, 2010: 13,638,372 thousand Tenge).

During 2011 the Company received dividends from PKI in the amount of 53,167,595 thousand Tenge (2010: 46,676,268 thousand Tenge).

During 2006 PKI and Lukoil Overseas Kumkol B.V. ("Lukoil") commenced arbitration claims against each other in the Stockholm Chamber of Commerce ("the Tribunal"). On October 28, 2009, the Tribunal issued an award, where Lukoil was entitled to acquire 50% of TP from PKI and to receive compensation by way of damages and accrued interest on such damages. Starting from October 28, 2009 PKI ceased consolidation of TP's results in its consolidated financial statement for the year ended December 31, 2009.

On August 16, 2010 PKI and Lukoil have entered into an Amicable Agreement (hereinafter – the Agreement) with respect to the TP dispute. According to the Agreement the ownership structure of TP remains unchanged: PKI and Lukoil will continue to jointly own TP in equal shares. Furthermore, PKI paid to Lukoil an amount of 438.4 million US Dollars as compensation for damages.

As a result of the Agreement, PKI accounted for the re-acquisition of a 50% interest in TP in its consolidated financial statements for the year ended December 31, 2010, based on the assessment of fair values of the identifiable assets, liabilities and contingent liabilities of TP as at the acquisition date. The Company accordingly reflected this in its consolidated financial statements for the year ended December 31, 2010. The resulting share of gain in the amount of 90 million US Dollars (13,242,336 thousand Tenge) was recognized by the Company in 2010.

With regard to the compensation to Lukoil, CNPC Exploration and Development Company Limited ("CNPC E&D") and the Company entered into a separate Agreement on Principles (the "AOP") on July 28, 2010. In accordance with AOP the Company's share of the compensation to Lukoil was paid by PKI after they secured a loan for this purpose. At the same time, CNPC E&D made a contribution to the share capital of PKI in the amount of 441.6 million US Dollars which is equal to the principal amount of the loan taken by PKI, inclusive of financing costs. The Company was held harmless in respect of any liability in relation to the payment of the compensation or any loss relating to such liability, and retained its 33% interest. Consequently, the Company recognized in 2010 the resulting gain of 145.7 million USD Dollars (21,471,195 thousand Tenge) within other income.

11. INVENTORIES

	2011	2010
Materials	8,834,069	8,881,241
Crude oil	13,817,352	9,898,695
	22,651,421	**18,779,936**

As at December 31, 2011 the Company had 414,180 tons (2010: 347,685 tons) of crude oil in storage and transit.

12. SHARE CAPITAL

	Shares outstanding	
	Number of shares	Tenge thousands
As at January 1, 2010	**72,559,851**	**238,546,914**
Reduction of treasury stock due to exercise of share options	5,927	66,258
Increase of treasury stock due to share repurchases	(1,346,213)	(24,531,975)
As at December 31, 2010	**71,219,565**	**214,081,197**
Reduction of treasury stock due to exercise of share options	12,302	133,321
Increase of treasury stock due to share repurchases	(938,479)	(15,762,657)
As at December 31, 2011	**70,293,388**	**198,451,861**

12.1 SHARE CAPITAL

Authorized shares

The total number of authorized shares is 74,357,042 (2010: 74,357,042). 43,087,006 of the outstanding shares are owned by the Parent as at December 31, 2011 (2010: 43,087,006). The shares of the Company have no par value.

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognized as distributions to equity holders during the period amounted to 800 Tenge per share (2010: 704 Tenge per share) for both of the outstanding ordinary and preferred shares as at May 16, 2011, the date of record.

12.2 EMPLOYEE SHARE OPTION PLANS

The expense recognized for share option plans related to employee services received during the year is 407,779 thousand Tenge (2010: 309,987 thousand Tenge).

Employee option plans

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

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

Movement in the year

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

	2011		2010	
	No.	WAEP	No.	WAEP
Outstanding at January 1	2,246,195	18.15	1,384,542	17.41
Granted during the year	7,845	21.50	1,028,436	19.27
Exercised during the year	(73,810)	14.19	(35,561)	15.71
Forfeited during the year	(61,246)	19.44	(131,222)	19.11
Outstanding at December 31	2,118,984	18.26	2,246,195	18.15
Exercisable at December 31	1,051,017	17.11	543,641	21.83

The weighted average remaining contractual life for share options outstanding as at December 31, 2011 is 5.35 years (2010: 6.24 years). The range of exercise price for options outstanding at December 31, 2011 was 13.00 US Dollars - 26.47 US dollars per GDR (2010: 13.00 US Dollars - 26.47 US Dollars). The EOP 1 and EOP 2 are equity settled plans and the fair value is measured at the grant date.

12.3 KAZAKHSTAN STOCK EXCHANGE DISCLOSURE REQUIREMENT

The Kazakhstan Stock Exchange has enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets (Note 7) per shares outstanding as at year end. As at December 31, 2011 the amount per share outstanding is 18,437 Tenge (December 31, 2010: 16,249 Tenge).

13. EARNINGS PER SHARE

	2011	2010
Weighted average number of all shares outstanding	70,803,127	72,561,873
Profit for the year	208,930,886	234,501,890
Basic and diluted earnings per share	2.95	3.23

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

14. BORROWINGS

	2011	2010
Fixed interest rate borrowings	8,172,056	8,146,065
Weighted average effective interest rate	7.19%	7.42%
Floating interest rate borrowings	79,793,069	114,334,798
Weighted average effective interest rates	3.88%	4.74%
Total borrowings	**87,965,125**	**122,480,863**
Non-current	33,033,898	62,286,045
Current	54,931,227	60,194,818

The Company's borrowings are denominated in US dollars. The fixed rate borrowings (2011: 6,574,952 thousand Tenge, 2010: 6,795,238 thousand Tenge), primarily relate to an obligation to reimburse historical costs incurred by the Government prior to the acquisition of licenses by the Company, which will expire in 2023. The Company has discounted this obligation at an interest rate of 7.93% and accounts for these borrowings at amortized cost.

The Company's floating interest rate borrowings relate to KMG PKI Finance notes, which were issued in 2006 relating to the acquisition of 33% equity interest in PKI (Note 10). On July 5, 2006 KMG PKI Finance issued floating rate notes in the amount of 1,374,500 thousand US dollars. As at December 31, 2011 the outstanding amounts of the notes and related accrued interest are 527,902 thousand US dollars and 9,787 thousand US dollars, respectively (78,340,630 thousand Tenge and 1,452,439 thousand Tenge, respectively) (2010: 760,034 thousand US dollars and 15,643 thousand US dollars respectively or 112,029,012 thousand Tenge and 2,305,786 thousand Tenge, respectively). There is no recourse to the Company or its assets, except for:

i. a share pledge over all KMG PKI Finance rights, benefits and title in the 33% of the equity interest in PKI;
ii. 80% of any dividend or distribution made from PKI is restricted for further redemption of principal and accrued interest on notes.

The notes bear interest at twelve months LIBOR plus a margin of 2.9073%. The notes are redeemed at one seventh of the principal and accrued interest on the first Monday of July every year to the extent of the restricted cash balance. As this loan is non-recourse, any outstanding annual principal and interest of the notes will be deferred to be due and payable on the next payment date and bear interest at the rate applicable for the interest period concerned. If KMG PKI Finance fails to repay the aggregate of any deferred principal and interest outstanding at the expiry of the initial period in

July 2013, KMG PKI Finance may seek to redeem the outstanding amount on each of the eighth, ninth and tenth years after the issuance date. Whether KMG PKI Finance will be permitted to redeem the outstanding amount in eighth, ninth and tenth years after the issuance date will be at the discretion of the trustee. As at December 31, 2011 the deferred principal comprises 145,497 thousand US dollars (21,591,795 thousand Tenge) (2010: 183,558 thousand US dollars or 27,056,450 thousand Tenge).

15. PROVISIONS

	Environmental remediation	Taxes	Asset retirement obligation	Other	Total
At January 1, 2010	**22,008,857**	**21,010,732**	**14,729,028**	**4,667,905**	**62,416,522**
Additional provisions	–	2,795,918	223,432	998,919	4,018,269
Unused amounts reversed	–	(4,835,885)	–	–	(4,835,885)
Unwinding of discount	–	–	1,168,011	–	1,168,011
Changes in estimate	–	–	(542,100)	–	(542,100)
Used during the year	(2,207,597)	(7,285,707)	(956,735)	(287,899)	(10,737,938)
At December 31, 2010	**19,801,260**	**11,685,058**	**14,621,636**	**5,378,925**	**51,486,879**
Current portion	3,170,070	11,685,058	695,421	311,083	15,861,632
Non-current portion	16,631,190	–	13,926,215	5,067,842	35,625,247
Additional provisions	–	6,283,236	304,901	1,277,383	7,865,520
Unused amounts reversed	–	(3,839,064)	(8,953)	–	(3,848,017)
Unwinding of discount	–	–	1,157,826	–	1,157,826
Changes in estimate	–	–	373,922	–	373,922
Used during the year	(1,273,169)	(2,002,264)	(602,200)	(407,198)	(4,284,831)
At December 31, 2011	**18,528,091**	**12,126,966**	**15,847,132**	**6,249,110**	**52,751,299**
Current portion	1,431,792	12,126,966	748,183	598,787	14,905,728
Non-current portion	17,096,299	–	15,098,949	5,650,323	37,845,571

16. REVENUE

	2011	2010
Export:		
Crude oil	655,594,910	556,566,299
Domestic (Note 25):		
Crude oil	49,555,367	34,603,268
Gas products	7,339,174	6,452,132
Refined products	3,326,949	6,104,431
Other sales and services	5,377,769	5,516,268
	721,194,169	**609,242,398**

17. PRODUCTION EXPENSES

	2011	2010
Employee benefits	59,769,131	54,129,594
Repairs and maintenance	29,972,825	28,119,436
Materials and supplies	13,571,313	11,829,948
Energy	10,546,572	10,962,880
Transportation services	2,894,028	1,625,868
Processing expenses	1,040,996	1,250,805
Change in crude oil balance	(3,918,657)	(1,538,597)
Other	3,588,818	4,367,590
	117,465,026	**110,747,524**

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Transportation expenses	49,577,574	56,168,909
Employee benefits	13,768,236	12,112,201
Accrual of fines and penalties	12,737,805	2,805,102
Management fees and commissions	8,751,610	8,281,574
Sponsorship	6,434,359	4,137,051
Consulting and audit services	1,668,823	3,030,945
Repairs and maintenance	840,290	738,136
Other	6,394,588	5,002,614
	100,173,285	**92,276,532**

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

19. TAXES OTHER THAN ON INCOME

	2011	2010
Rent tax	149,771,267	97,484,646
Mineral extraction tax	78,680,221	70,932,591
Export customs duty	46,979,482	6,477,735
Property tax	3,453,888	2,990,971
Other taxes	5,142,993	1,824,056
	284,027,851	**179,709,999**

20. FINANCE INCOME / COSTS

20.1 FINANCE INCOME

	2011	2010
Interest income on Debt Instrument of NC KMG (Note 22)	14,063,817	7,061,243
Interest income on deposits with banks	10,575,242	27,613,518
Interest income on receivable from jointly controlled entity	3,718,804	3,101,386
Interest income on held-to-maturity financial assets	475,240	239,628
Other	10,384	24,010
	28,843,487	**38,039,785**

20.2 FINANCE COSTS

	2011	2010
Interest expense	5,863,238	6,192,140
Unwinding of discount on asset retirement obligation	1,157,826	1,168,012
Impairment of held-to maturity financial assets	–	16,449
Other	201,447	118,954
	7,222,511	**7,495,555**

21. INCOME TAXES

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

	2011	2010
Corporate income tax	50,059,294	45,298,691
Excess profit tax	15,744,892	10,276,747
Current income tax	**65,804,186**	**55,575,438**
Corporate income tax	(1,938,124)	1,683,946
Excess profit tax	(204,840)	185,879
Deferred income tax	**(2,142,964)**	**1,869,825**
Income tax expense	**63,661,222**	**57,445,263**

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

	2011	2010
Profit before tax	272,592,108	291,947,153
Income tax	63,661,222	57,445,263
Effective tax rate	**23%**	**20%**
Statutory income tax	20	20
Increase / (decrease) resulting from		
Excess profit tax	5	4
Corporate income tax of prior years	2	–
Share of result of associates and joint ventures	(6)	(4)
Non-taxable income	(1)	(2)
Movement of provisions	1	–
Non-deductible expenses	2	2
Effective tax rate	**23**	**20**

During 2011 the Company has refiled its corporate income tax returns related to the 2006-2010 years as a result of the changes in tax treatment of certain expenditures raised by the 2004-2005 period tax audit and change in calculation of mineral extraction tax.

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

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2010	**4,128,870**	**(1,122,271)**	**(8,831,736)**	**(4,440,400)**	**(10,265,537)**
Deferred taxes acquired in business combinations	1,816,597	–	–	–	1,816,597
Recognized in profit and loss	4,878,318	(346,980)	(2,914,487)	252,974	1,869,825
At December 31, 2010	**10,823,785**	**(1,469,251)**	**(11,746,223)**	**(4,187,426)**	**(6,579,115)**
Deferred taxes acquired in business combinations	1,321,112	–	–	–	1,321,112
Recognized in profit and loss	(843,719)	(175,314)	(929,596)	(194,335)	(2,142,964)
At December 31, 2011	**11,301,178**	**(1,644,565)**	**(12,675,819)**	**(4,381,761)**	**(7,400,967)**

22. RELATED PARTY TRANSACTIONS

The category "entities under common control" comprises entities controlled by the Parent Company. The category 'other state controlled entities' comprises entities controlled by Samruk-Kazyna NWF, except for banks, controlled by Samruk-Kazyna NWF. Halyk Bank of Kazakhstan is a related party due to the bank being controlled by a chairman of the management board of Samruk-Kazyna NWF. BTA Bank is a related party since it is controlled by Samruk-Kazyna NWF and Kazkommertsbank is a related party due to Samruk-Kazyna NWF holding 21.2% of the bank's ordinary shares.

Sales and purchases with related parties during the years ended December 31, 2011 and 2010 and the balances with related parties at December 31, 2011 and 2010 are as follows:

	2011	2010
Sales of goods and services (Note 16)		
Entities under common control	711,887,986	594,059,556
Joint ventures	415,265	328,627
Associates	47,853	34,332
Other state controlled entities	7,171	986,698
Halyk Bank of Kazakhstan affiliates	–	23,955
Purchases of goods and services (Note 17 and 18)		
Entities under common control	22,852,393	25,597,155
Other state controlled entities	11,916,272	12,434,270
Parent Company	8,319,757	7,775,474
Halyk Bank of Kazakhstan affiliates	1,189,552	1,190,601
Associates	981,775	995,559
Purchase of exploration licenses from Parent company (Note 7)	5,744,884	–
Interest earned on financial assets		
Interest earned on Debt Instrument	14,063,817	7,061,243
Effective interest rate on Investments in Debt Instrument of NC KMG – indexed USD/KZT	6.97%	6.87%
Halyk Bank of Kazakhstan	4,598,288	12,854,310
Average interest rate on deposits	2.69%	7.31%
Kazkommertsbank	1,415,048	9,489,680
Average interest rate on deposits	6.65%	8.54%
BTA Bank	–	112,906
Average interest rate on deposits	–	12.00%
Salaries and other short-term benefits		
Members of the Board of Directors	132,710	115,197
Members of the Management Board	295,328	325,066
Share-based payments		
Members of the Board of Directors	575	5,248
Members of the Management Board	36,492	33,917

	December 31, 2011	December 31, 2010
Cash and cash equivalents (Note 8)		
Halyk Bank of Kazakhstan	37,008,965	13,141,643
Kazkommertsbank	924,619	997,391
BTA Bank	14,822	10,381
Financial assets (Note 8)		
Halyk Bank of Kazakhstan	37,115,401	99,583,042
Kazkommertsbank	–	37,873,202
Investments in Debt Instrument of NC KMG – indexed USD/KZT	188,029,239	220,967,915
Trade and other receivables (Note 8 and Note 9)		
Entities under common control	85,156,438	66,981,677
Joint ventures	28,107,335	20,432,051
Other state controlled entities	754,730	606,068
Halyk Bank of Kazakhstan affiliates	37,982	98,300
Associates	–	7,540
Trade payables		
Parent Company	776,511	2,591,825
Associates	722,508	631,987
Entities under common control	455,959	543,559
Other state controlled entities	244,000	282,844
Halyk Bank of Kazakhstan affiliates	–	48,609

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. Export sales to related parties represented 5,758,008 tons of crude oil in 2011 (2010: 6,860,318 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 117,830 Tenge in 2011 (2010: 83,890 Tenge). In addition, the Company supplies oil and gas products to the local market at the directive of the Kazakhstan government, the ultimate controlling shareholder of the Parent Company. Those supplies to the domestic market represented 1,812,156 tons of crude oil production in 2011 (2010: 1,604,458 tons). Prices for the local market sales are determined by agreement with the Parent company. For deliveries to the local market in 2011 the Company received an average price per produced crude oil ton of around 27,310 Tenge (2010: 21,531 Tenge). Trade and other receivables from related parties principally comprise amounts related to export sales transactions.

Purchases and payables

Management fees to the Parent company amounted to 8,319,757 thousand Tenge in 2011 (2010: 7,775,474 thousand Tenge). Agency commissions for crude oil sales amounted to 431,853 thousand Tenge in 2011 (2010: 506,100 thousand Tenge). Transportation services related to the shipment of 5,475,921 tons of crude oil in 2011 (2010: 6,128,082 tons) were purchased from a subsidiary of NC KMG for 17,161,157 thousand Tenge in 2011 (2010: 20,656,793 thousand Tenge). The remaining services purchased from subsidiaries of NC KMG include primarily payments for demurrage, sales commissions and electricity.

Share based payments to members of the Management Board

Share based payments to members of the Management Board represents the amortization of share based payments over the vesting period. Additionally during 2011 the Company granted 7,845 options (2010: 122,434 options) at average exercise prices of 21.5 US dollars or 3,158 Tenge (2010: US dollars 19.84 or 2,929 Tenge).

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates to the Company's floating rate on KMG PKI Finance notes (Note 14). In the event of an increase in interest rates, any additional expense incurred in relation to these floating interest rate borrowings would probably be considerably less significant than the additional interest income earned by the Company obtaining higher fixed interest rates on its deposits.

Foreign currency risk

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

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

	Increase / decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2011		
US dollar	+ 10.00%	53,299,055
US dollar	- 10.00%	(53,299,055)
2010		
US dollar	+ 10.00%	75,147,053
US dollar	- 15.00%	(112,720,579)

Credit risk

The Company is exposed to credit risk in relation to its trade receivables. The Company's vast majority of sales is made to an affiliate of the Parent and the Company has a significant concentration risk of the receivable from this affiliate (Note 8, 22). An additional number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company is also exposed to credit risk in relation to its investing activities. The Company places deposits with Kazakhstan and foreign banks, and purchases of National Bank notes. In addition, the Company has purchased Debt Instruments issued by its Parent (Note 8).

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

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

	Rating [1]				
Banks	Location	2011	2010	2011	2010
Investment in Debt Instruments of NC KMG	Kazakhstan	BBB- (stable)	BBB- (stable)	188,029,240	220,967,915
National Bank of Republic of Kazakhstan	Kazakhstan	BBB+ (stable)	BBB (stable)	109,541,770	54,916,073
HSBC Plc	UK	AA- (stable)	AA (stable)	80,799,317	35,552,010
Halyk Bank	Kazakhstan	BB (stable)	B+ (stable)	74,124,366	112,724,686
ATF Bank (Moody's)	Kazakhstan	Ba3 (negative)	Ba2 (stable)	62,416,610	86,746,032
Citi Bank N.A.	UK branch	A (negative)	Not available	50,657,722	57,663,965
BNP Paribas	France	AA- (negative)	AA (negative)	42,420,791	–
HSBC Ltd.	Hong Kong	AA - (stable)	AA (stable)	31,147,066	27,639,860
Citi Bank Kazakhstan	Kazakhstan	Not available	Not available	19,534,060	17,841,845
Deutsche Bank	Germany	A+ (negative)	A+ (stable)	19,523,873	8,816,125
RBS Kazakhstan	Kazakhstan	A (stable)	A (stable)	18,027,752	21,412,244
HSBC Kazakhstan	Kazakhstan	BBB (stable)	Not available	7,324,413	7,192,545
Royal Bank of Scotland NV	Netherlands	A (stable)	A+ (stable)	6,206,774	–
Credit Suisse	British Virgin Islands	A+ (negative)	A+ (stable)	5,749,515	4,971,970
Kazkommertsbank	Kazakhstan	B+ (stable)	B (negative)	924,619	38,870,593
ING Bank	Netherlands	A+ (stable)	A+ (stable)	484,100	668,737
BankCenterCredit (Moody's)	Kazakhstan	B1 (negative)	Ba3 (negative)	18,856	1,840,538
Other				273,392	160,405
				717,204,236	**697,985,543**

[1] Source: Interfax – Kazakhstan, Factivia, official sites of the banks as at December 31 of the respective year.

Liquidity risk

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

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term deposits in local banks.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2011 based on contractual undiscounted payments:

	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Year ended December 31, 2011						
Borrowings	–	587,955	54,343,272	33,706,403	3,111,950	91,749,580
Trade and other payables	48,680,153	–	–	–	–	48,680,153
	48,680,153	**587,955**	**54,343,272**	**33,706,403**	**3,111,950**	**140,429,733**
Year ended December 31, 2010						
Borrowings	–	253,358	60,419,794	63,362,092	3,348,200	127,383,444
Trade and other payables	47,304,799	–	–	–	–	47,304,799
	47,304,799	**253,358**	**60,419,794**	**63,362,092**	**3,348,200**	**174,688,243**

Commodity price risk

The Company is exposed to the effect of fluctuations in the price of crude oil, which is quoted in US dollars on international markets. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Capital management

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

As at December 31, 2011 the Company had a strong financial position and a conservative capital structure. Going forward, the Company intends to maintain a capital structure which allows it the flexibility to take advantage of growth opportunities as and when they arise.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy or processes during the years ended December 31, 2011 and 2010.

24. FINANCIAL INSTRUMENTS

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

	Carrying amount		Fair value	
	2011	2010	2011	2010
Current financial assets				
Cash and cash equivalents	206,511,923	98,519,680	206,511,923	98,519,680
US dollar-denominated term deposits	169,806,482	264,841,437	169,806,482	264,841,437
Held-to-maturity financial assets	109,541,770	54,916,073	109,541,770	54,916,073
Tenge-denominated term deposits	36,115,639	57,786,248	36,115,639	57,786,248
Great Britain Pound-denominated held-to-maturity deposits	6,206,774	–	6,206,774	–
Receivable from jointly controlled entity	1,361,055	1,203,834	1,361,055	1,203,834
Investment in debt instrument of NC KMG	218,773	256,928	218,773	256,928
Other financial assets	270	270	270	270
Non-current financial assets				
Investment in debt instrument of NC KMG	187,810,467	220,710,987	187,810,467	220,710,987
Receivable from jointly controlled entity	18,138,239	19,153,089	18,138,239	19,153,089
Tenge-denominated term deposits	989,064	953,920	989,064	953,920
Other financial assets	3,074	160,911	3,074	160,911
Financial liabilities				
Borrowings floating rate interest	79,793,069	114,334,798	79,793,069	114,334,798
Borrowings fixed rate interest	8,172,056	8,146,065	8,172,056	8,146,065

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

25. COMMITMENTS AND CONTINGENCIES

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The Kazakhstan economy has been affected by the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Company's results and financial position in a manner not currently determinable.

Local market obligation

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. While the price for such supplies of crude oil is agreed with the Company's Parent, this price may be materially below international market prices and may even be set at the cost of production. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Company's business, prospects, financial condition and results of operations.

During the current year, in accordance with their obligations, the Company delivered 1,951,356 tons of oil (2010: 1,811,481 tons) and joint venture Kazgermunai delivered 221,915 tons of oil (2010: 784,000 tons) to the domestic market.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2011.

The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions.

Environment

Environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Other than those amounts provided for in provisions (Note 15) management believes that there are no probable environmental liabilities which could have a material adverse effect on the Company's financial position, statement of comprehensive income or cash flows.

Oilfield licenses

The Company is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation. The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, statement of income or cash flows.

The Company's oil and gas fields are located on land belonging to the Mangistau and Atyrau regional administrations. Licenses are issued by the Ministry of Oil and Gas of Kazakhstan and the Company pays mineral extraction and excess profits tax to explore and produce oil and gas from these fields.

The principle licenses of the Company and their expiry dates are:

Field	Contract	Expiry date
Uzen (8 fields)	No. 40	2021
Emba (1 field)	No. 37	2021
Emba (1 field)	No. 61	2017
Emba (23 fields)	No. 211	2018
Emba (15 fields)	No. 413	2020

Commitments arising from oilfield and exploration licenses

Year	Capital expenditures	Operational expenditures
2012	107,332,411	4,683,719
2013	4,756,876	4,160,322
2014	4,534,276	4,145,712
2015	43,036	3,163,375
2016-2024	–	15,720,654
	116,666,599	**31,873,782**

Crude oil supply commitments

The Company has obligations to supply oil and oil products to the local market under government directives (Note 22).

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2011:

Year	Capital expenditures	Operational expenditures
2012	3,445,564	2,991,304

Commitments of UGL

Under the UGL exploration license the partners to the share purchase agreement have agreed to capital expenditure commitments in order to satisfy the minimum work program. As at December 31, 2011 the Company's share in the capital commitments of UGL is as follows:

Year	Capital expenditures
2012	4,152,842
2013	289,380
	4,442,222

26. SUBSEQUENT EVENTS

Acquisition of common shares on KASE and Global Depositary Receipts (GDR) on LSE

As part of its common share and GDR buyback program, between January 1, 2012 and February 13, 2012, the Company purchased 789,795 GDR's and 697 of its common shares at an aggregate value of 1,809,744 thousand Tenge. Under this common share and GDR buy back program as at February 13, 2012, the Company has repurchased a total of 2,035,302 and 4,528 GDR's and common shares respectively, for an aggregate value of 4,749,647 thousand Tenge.

These consolidated financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on February 13, 2012:

Chief Executive Officer
Aidarbayev A. S.

Acting Chief Financial Officer
B. Fraser, ACA.

INFORMATION FOR SHAREHOLDERS

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The AGM will be held at 10:30 am on 29 May 2012 at: Rixos President Astana Hotel, 7 Kunaev Str., Astana, Republic of Kazakhstan.

SHAREHOLDERS' INQUIRIES

For information about proxy voting, dividends and to report changes in personal details, shareholders should contact the Company's registrar/ depositary:

Holders of ordinary and preferred shares:
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79 "A", Zheltoksan Street,
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Holders of GDRs:
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Shareholder Services, PO Box 358516,
Pittsburgh PA 15252-8516,
United States of America
Tel.: +1 888 269 23 77
(toll free within the USA)
Tel.: +1 201 680 68 25 (outside USA)
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www.adrbnymellon.com

WEBSITE

A wide range of information on the Company is available at www.kmgep.kz including details of activities, press releases and annual and interim reports.

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