NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KZT millions, unless otherwise stated

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

KazMunaiGas Exploration Production Joint Stock Company (the "Company") is 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 63.22% of the Company's outstanding shares as at December 31, 2012 (2011: 61.3%). The Parent Company is 100% owned by Joint Stock Company Samruk-Kazyna Sovereign Welfare Fund ("Samruk-Kazyna SWF"), which is in turn 100% owned by the government of the Republic of Kazakhstan (the "Government").

The Company conducts its principal operations through the wholly owned subsidiaries JSC "Ozenmunaigas" and JSC "Embamunaigas". In addition the Company has oil and gas interests in the form of other wholly owned subsidiaries, jointly controlled entities, associate 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 million 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 during the year, which did not have any material effect on the financial performance or position of the Company:

IFRS 7	Disclosures: enhanced derecognition disclosure requirements – Amendment;
IAS 12	Deferred Tax: Recovery of underlying Assets – Amendment;
IFRS 1	Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment;
IAS 1	Presentation of items of other comprehensive income – Amendment (early adopted);

– Improvements to IFRSs (May 2012) (early adopted).

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 11	Joint arrangements. The Company is currently assessing the impact that this standard will have on the financial position and performance;
IFRS 12	Disclosure of interest in other entities. A number of new disclosures will be required under this standard, however no impact on Company's financial position or results is expected;
IAS 28	Joint arrangements. The Company is currently assessing the impact that this standard will have on the financial position and performance;
IFRS 10	Disclosure of interest in other entities. A number of new disclosures will be required under this standard, however no impact on Company's financial position or results is expected;
IAS 27	Separate financial statements (2011). The Company does not present separate financial statements;
IFRS 13	Fair value measurement. The Company does not expect to have any material impact from adopting this standard in the future;
IFRS 9	Financial instruments: classification and measurement. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued;
IAS 19	Employee benefits (Revised). The Company does not expect to have any material impact from adopting this standard in the future.

2.2 Change in presentation of the consolidated statement of comprehensive income

The Company changed the presentation of certain expenses in the consolidated statement of comprehensive income by separating impairment of property, plant and equipment into a separate line. 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 is 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 is 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 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 or sell 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 130,793 Tenge per month in 2012 (2011: 119,993 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 off loaded 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, 2012 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 856 million Tenge (2011: 1,497 million Tenge) and against dividends received from the associate in the amount of 2,763 million Tenge (2011: 298 million Tenge).

On May 29, 2012 the Company declared dividends of 1,300 Tenge per share outstanding as at June 11, 2012 (Note 12). Pursuant to the NC KMG Debt Instrument agreement, on July 16, 2012 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 56,013 million Tenge including principal of 55,785 million Tenge and interest of 228 million Tenge (during 2011: offset of 34,470 million Tenge, including principal of 33,335 million Tenge and interest of 1,135 million 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 of the Company has carried out a formal assessment of the recoverable amount of JSC "Ozenmunaigas" due to the presence of impairment indicators. The main indicators were the level of production being materially lower than planned in the last two years and the increasing levels of operational and capital expenditure. The result of this assessment indicated that the carrying value of JSC "Ozenmunaigas" assets exceeded the estimated recoverable amount by 75 billion Tenge, resulting in an impairment charge during 2012 (Note 6, 20). The estimated recoverable amount was based on management's estimate of its fair value, which was derived using discounted cash flow approach. The results of the assessment were most sensitive to assumptions related to production and pricing.

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

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

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

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

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 15.80% and 13.84% of the provision at December 31, 2012 and 2011 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, 2012 were 5.0% and 7.9% respectively (2011: 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 a discounted basis based on management's expectations with regard to timing of the procedures required. 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. 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 26. 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 tax code disclosed in Note 22. Further uncertainties related to taxation are detailed in Note 26.

5. CHANGE IN INVESTMENT OWNERSHIP INTERESTS

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

ASSETS AND LIABILITIES AS AT NOVEMBER 16, 2012	
CASH	1,884
Current assets	100
Non-current assets	8,360
	10,344
Current liabilities	113
Non-current liabilities	3,821
	3,934
Net assets	**6,410**

Consideration received from Karpinvest for 49% share in KS EP Investments amounted to 36,455,170 US Dollars (5,485 million Tenge). The resulting gain on disposal of investment amounted to 4,784 million Tenge. As a result of this transaction the Company has derecognized the assets and liabilities of the former subsidiary, when the control was lost and recognized under the equity method its retained 51% interest in KS EP Investments at its fair value of 5,709 million Tenge.

Company's retained interest in KS EP Investments assets and liabilities allocated based on its fair values as at November 16, 2012 and the corresponding share of carrying values immediately before the disposal of 49% share and as at December 31, 2012 are as follows:

	Carrying values as at November 16, 2012	**Fair values as at November 16, 2012**	**Assets and liabilities as at December 31, 2012**
Cash	961	961	82
Current assets	51	51	373
Non-current assets	1,793	7,313	7,583
	2,805	**8,325**	**8,038**
Current liabilities	58	58	553
Non-current liabilities	1,454	2,558	2,586
	1,512	**2,616**	**3,139**
Net assets	**1,293**	**5,709**	**4,899**

KZT millions, unless otherwise stated

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

6. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Other assets	Construction work-in-progress	Total
2011				
Opening net book amount at January 1, 2011	255,031	31,437	11,041	297,509
Additions	1,672	1,492	84,158	87,322
Change in aro estimate	374	–	–	374
Disposals	(3,771)	(735)	(2,638)	(7,144)
Transfer from exploration and evaluation assets	1,407	–	–	1,407
Transfers from construction work-in-progress	69,782	10,908	(80,690)	–
Internal transfers	39	(195)	156	–
Depreciation charge	(34,642)	(4,313)	–	(38,955)
Reversal / (impairment) (Note 20)	47	(40)	(1,660)	(1,653)
Closing net book amount at december 31, 2011	289,939	38,554	10,367	338,860
At December 31, 2011				
Cost	490,309	60,630	10,367	561,306
Accumulated depreciation	(200,370)	(22,076)	–	(222,446)
Net book amount	289,939	38,554	10,367	338,860
2012				
Opening net book amount at January 1, 2012	**289,939**	**38,554**	**10,367**	**338,860**
Additions	1,383	2,694	113,310	117,387
Change in ARO estimate	(1,865)	–	–	(1,865)
Disposals	(3,541)	(1,001)	(2,137)	(6,679)
Transfers from construction work-in-progress	79,008	13,496	(92,504)	–
Internal transfers	(562)	22	540	–
Depreciation charge	(40,580)	(4,591)	–	(45,171)
Impairment (Note 20)	(64,696)	(7,872)	(4,444)	(77,012)
Closing net book amount at December 31, 2012	**259,086**	**41,302**	**25,132**	**325,520**
At December 31, 2012				
Cost	493,981	66,860	25,132	585,973
Accumulated depreciation	(234,895)	(25,558)	–	(260,453)
Net book amount	**259,086**	**41,302**	**25,132**	**325,520**

7. INTANGIBLE ASSETS

	Exploration and evaluation assets	Other intangibles	Total
2011			
Opening net book amount at January 1, 2011	**12,755**	**2,430**	**15,185**
Acquisition of exploration licenses	15,794	–	15,794
Additions	6,246	1,074	7,320
Dry well write-off	(2,586)	–	(2,586)
Transfers	(1,407)	–	(1,407)
Disposals	(339)	(4)	(343)
Amortization charge	(5,667)	(872)	(6,539)
Impairment	(761)	(25)	(786)
Closing net book amount at December 31, 2011	**24,035**	**2,603**	**26,638**
At December 31, 2011			
Cost	39,500	6,072	45,572
Accumulated amortization	(15,465)	(3,469)	(18,934)
Net book amount	**24,035**	**2,603**	**26,638**
2012			
Opening net book amount at January 1, 2012	**24,035**	**2,603**	**26,638**
Additions	12,143	2,137	14,280
Dry well write-off	(4,321)	–	(4,321)
Loss of control over subsidiary (Note 5)	(8,190)	–	(8,190)
Disposals	(210)	(37)	(247)
Amortization charge	(7,668)	(908)	(8,576)
Closing net book amount at December 31, 2012	**15,789**	**3,795**	**19,584**
At December 31, 2012			
Cost	40,292	8,170	48,462
Accumulated amortization	(24,503)	(4,375)	(28,878)
Net book amount	**15,789**	**3,795**	**19,584**

In 2012 the Company recognized dry well expenses related to exploratory wells drilled on its East Zharkamys, NBK and Bodrai blocks.

8. FINANCIAL ASSETS

OTHER FINANCIAL ASSETS

Tenge denominated held to maturity deposits	**1,083**	**989**
Investments in Debt Instrument of JSC NC KMG (Note 3, 23)	–	187,810
Other	2	4
Total non-current	**1,085**	**188,803**
US dollar denominated term deposits	333,218	169,806
Investments in Debt Instrument of JSC NC KMG (Note 3, 23)	134,360	219
Held to maturity financial assets	42,596	109,542
Tenge denominated term deposits	40,382	36,116
Great Britain pound denominated term deposits	–	6,207
Total current	**550,556**	**321,890**
	551,641	**510,693**

KZT millions, unless otherwise stated

The weighted average interest rate on US dollar denominated term deposits in 2012 was 2.4% (2011: 3.6%). The weighted average interest rate on Tenge denominated term deposits in 2012 was 1.4% (2011: 1.4%).

INVESTMENTS IN DEBT INSTRUMENT OF JSC 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 million 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, 2012 the outstanding amount of the Debt Instrument and related accrued interest is 134,204 million Tenge and 156 million Tenge, respectively (2011: 187,810 million Tenge and 219 million 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

	2012	2011
Trade receivables	100,698	83,587
Other	980	923
Allowance for doubtful receivables	(510)	(384)
	101,168	**84,126**

In the second quarter of 2012 the Company concluded a crude oil sales contract with Vector Energy AG ("Vector"), a subsidiary of the Parent Company. Previously export sales were made to KazMunaiGas Refining and Marketing JSC ("KMG R&M"), another subsidiary of the Parent Company. As at December 31, 2012 the Company's trade receivables included receivables from export sales of crude oil to Vector of 96,401 million Tenge (December 31, 2011: nil) and from sales of crude oil to KMG R&M of 2,957 million Tenge (December 31, 2011: 81,686 million Tenge). Of the total amount owed by Vector 32,657 million Tenge is overdue (December 31, 2011: 25,701 million Tenge was overdue from KMG R&M).

Payments for oil delivered shall be made by Vector on the 60-th day after the date of delivery. In case of untimely payment Vector shall pay an interest penalty ranging at the rates from one month LIBOR plus 2% to six month LIBOR plus 3% depending on the amount owed and period overdue.

As of December 31, 2012 US dollar denominated trade and other receivables represented 95% of total receivables (2011: 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:

	2012	2011
Current	68,409	51,074
0-30 days overdue	9,637	18,494
30-60 days overdue	21,555	14,539
90-120 days overdue	1,507	–
120 and more days overdue	60	19
	101,168	**84,126**

CASH AND CASH EQUIVALENTS

	2012	2011
Tenge denominated term deposits with banks	38,813	28,112
US dollar denominated term deposits with banks	30,681	157,092
Euro denominated term deposits with banks	75	389
US dollar denominated cash in banks and on hand	51,951	2,916
Tenge denominated cash in banks and on hand	29,519	17,564
Great Britain pound denominated cash in bank and on hand	3,666	439
	154,705	**206,512**

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 2012 was 1.3% (2011: 0.5%). The weighted average interest rate on US dollar denominated deposits in 2012 was 0.4% (2011: 0.3%).

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

	Ownership share	2012	2011
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	65,287	98,823
Interest in JV Ural Group Limited BVI ("UGL")	50%	19,066	17,703
Interest in JV KS EP Investments (Note 5)	51%	4,899	–
Receivable from jointly controlled entity		18,221	19,499
		107,473	**136,025**

KAZGERMUNAI'S

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

	2012	2011
Cash	11,079	23,710
Current assets	20,011	15,055
Non-current assets	102,029	114,126
	133,119	**152,891**
Current liabilities	37,936	26,539
Non-current liabilities	29,896	27,529
	67,832	**54,068**
Net assets	**65,287**	**98,823**

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

	2012	2011
Revenues	172,238	172,591
Operating expenses	(100,856)	(109,927)
Profit from operations	71,382	62,664
Finance cost, net	(165)	(511)
Profit before tax	71,217	62,153
Income tax expense	(37,883)	(23,781)
Profit for the year	**33,334**	**38,372**
Foreign currency translation gain recognized in other comprehensive income	**300**	**340**

Profit for the year in 2012 is net of the effect of amortization of the fair valuation of the licenses and related deferred tax benefit in the amount of 8,131 million Tenge (2011: 7,730 million Tenge).

During 2012 the Company received dividends from Kazgermunai in the amount of 67,170 million Tenge (2011: 36,627 million Tenge).

KZT millions, unless otherwise stated

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.

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

	2012	2011
Cash	739	31
Current assets	26	9
Non-current assets	36,631	31,240
	37,396	**31,280**
Current liabilities	1,820	220
Non-current liabilities	16,510	13,357
	18,330	13,577
Net assets	**19,066**	**17,703**

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 22,250 thousand US dollars (3,318 million Tenge) during the year ended December 31, 2012. 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 a discount rate of 15%.

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 572.3 million US dollars (86,273 million Tenge) as at December 31, 2012 (2011: 627.3 million US dollars or 93,084 million 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, 2012, amounted to 119.7 million US dollars (18,039 million Tenge) (2011: 129.2 million US dollars or 19,170 million 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 of each year. 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:

	2012	2011
Current assets	26,616	25,967
Non-current assets	104,773	112,997
	131,389	138,964
Current liabilities	40,191	42,149
Non-current liabilities	91,198	96,815
	131,389	**138,964**
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 ASSOCIATE

	Ownership share	2012	2011
Interest in Petrokazakhstan Inc. ("PKI")	33%	118,959	133,228

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

	2012	2011
Cash	10,886	14,475
Current assets	27,463	21,715
Non-current assets	138,928	155,335
	177,277	**191,525**
Current liabilities	23,582	39,232
Non-current liabilities	34,736	19,065
	58,318	**58,297**
Net assets	**118,959**	**133,228**

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

	2012	2011
Revenue	127,485	171,662
Operating expenses	(74,511)	(110,173)
Profit from operations	52,974	61,489
Finance cost, net	(859)	(672)
Profit before tax	52,115	60,817
Income tax expense	(18,391)	(15,142)
Profit for the period	**33,724**	**45,675**
Foreign currency translation gain recognized in other comprehensive income	**1,807**	**1,556**

Profit for the year in 2012 is net of the effect of amortization of the fair valuation of the licenses in the amount of 10,143 million Tenge (2011: 11,620 million Tenge).

During 2012 the Company received dividends from PKI in the amount of 49,800 million Tenge (2011 : 53,168 million Tenge).

11. INVENTORIES

	2012	2011
Crude oil	14,801	13,817
Materials	10,257	8,834
	25,058	**22,651**

As at December 31, 2012 the Company had 361,521 tons (2011: 414,180 tons) of crude oil in storage and transit.

12. SHARE CAPITAL

	Shares outstanding	
	Number of shares	**Tenge million**
As at January 1, 2011	**71,219,565**	**214,082**
Reduction of treasury stock due to exercise of share options	12,302	133
Increase of treasury stock due to share repurchases	(938,479)	(15,763)
As at December 31, 2011	**70,293,388**	**198,452**
Reduction of treasury stock due to exercise of share options	70,127	703
Increase of treasury stock due to share repurchases	(2,205,813)	(36,203)
As at December 31, 2012	**68,157,702**	**162,952**

KZT millions, unless otherwise stated

12.1 Share capital

AUTHORIZED SHARES

The total number of authorized shares is 74,357,042 (2011: 74,357,042). 43,087,006 of the outstanding shares are owned by the Parent Company as at December 31, 2012 (2011: 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 2012 amounted to 1,300 Tenge per share (2011: 800 Tenge per share) for both of the outstanding ordinary and preferred shares as at June 11, 2012, 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 354 million Tenge (2011: 408 million 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:

	No.	WAEP	No.	WAEP
Outstanding at January 1	2,118,984	18.26	2,246,195	18.15
Granted during the year	–	–	7,845	21.50
Exercised during the year	(420,763)	13.12	(73,810)	14.19
Forfeited during the year	(20,273)	26.08	(61,246)	19.44
Outstanding at December 31	1,677,948	19.47	2,118,984	18.26
Exercisable at December 31	636,760	19.77	1,051,017	17.11

The weighted average remaining contractual life for share options outstanding as at December 31, 2012 is 4.53 years (2011: 5.35 years). The range of exercise price for options outstanding at December 31, 2012 was 13.00 US Dollars – 26.47 US dollars per GDR (2011: 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, 2012 the amount per share outstanding is 19,572 Tenge (December 31, 2011: 18,437 Tenge).

13. EARNINGS PER SHARE

	2012	2011
Weighted average number of all shares outstanding	69,301,529	70,803,127
Profit for the year	160,823	208,931
Basic and diluted earnings per share	2.32	2.95

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

14. BORROWINGS

	2012	2011
Fixed interest rate borrowings	7,310	8,172
Weighted average effective interest rate	7.35%	7.19%
Floating interest rate borrowings	–	79,793
Weighted average effective interest rates	–	3.88%
Total borrowings	**7,310**	**87,965**
Current	2,462	54,931
Non-current	4,848	33,034

On July 5, 2012 the Company fully repaid remaining principal and accrued interest of the KMG PKI Finance notes in the amount of 538.2 million US dollars (80,011 million Tenge) and 20 million US dollars (2,975 million Tenge), respectively.

As at December 31, 2012 the Company's borrowings balance primarily relates to fixed rate US dollar denominated 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.

15. PROVISIONS

	Environmental remediation	Taxes	Asset retirement obligation	Other	Total
At January 1, 2011	**19,801**	**11,685**	**14,622**	**5,379**	**51,487**
Additional provisions	–	6,283	305	1,277	7,865
Unused amounts reversed	–	(3,839)	(9)	–	(3,848)
Unwinding of discount	–	–	1,158	–	1,158
Changes in estimate	–	–	374	–	374
Used during the year	(1,273)	(2,002)	(602)	(407)	(4,284)
At December 31, 2011	**18,528**	**12,127**	**15,848**	**6,249**	**52,752**
Current portion	1,432	12,127	748	599	14,906
Non-current portion	17,096	–	15,100	5,650	37,846
Additional provisions	–	9,619	281	3,068	12,968
Unused amounts reversed	–	(8,801)	–	–	(8,801)
Unwinding of discount	–	–	1,254	–	1,254
Changes in estimate	(958)	–	(1,865)	–	(2,823)
Used during the year	(266)	–	(399)	(439)	(1,104)
At December 31, 2012	**17,304**	**12,945**	**15,119**	**8,878**	**54,246**
Current portion	2,940	12,945	809	625	17,319
Non-current portion	14,364	–	14,310	8,253	36,927

16. REVENUE

	2012	2011
Export:		
Crude oil	720,262	655,595
Domestic (Note 26):		
Crude oil	60,559	49,555
Gas products	7,700	7,339
Refined products	2,109	3,327
Other sales and services	6,540	5,378
	797,170	**721,194**

17. PRODUCTION EXPENSES

	2012	2011
Employee benefits	82,959	65,323
Repairs and maintenance	18,162	20,087
Materials and supplies	14,176	14,691
Energy	12,884	10,564
Transportation services	5,758	4,519
Processing expenses	393	1,041
Change in crude oil balance	(984)	(3,919)
Other	7,014	5,159
	140,362	**117,465**

KZT millions, unless otherwise stated

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Transportation expenses	53,122	49,578
Employee benefits	13,936	13,768
Sponsorship	6,778	4,970
Accrual of fines and penalties (Note 26)	8,302	12,738
Management fees and commissions	4,169	8,752
Consulting and audit services	1,382	1,669
Repairs and maintenance	1,339	840
Other	4,060	6,205
	93,088	**98,520**

19. TAXES OTHER THAN ON INCOME

	2012	2011
Rent tax	159,822	149,771
Mineral extraction tax	70,792	78,680
Export customs duty	36,429	46,979
Property tax	4,373	3,454
Other taxes	2,755	5,144
	274,171	**284,028**

20. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

	2012	2011
Impairment from complex assessment (Note 4)	75,000	–
Social objects impairment	1,593	1,465
Individual impairment	419	188
	77,012	**1,653**

21. FINANCE INCOME / COSTS
21.1 Finance income

	2012	2011
Interest income on Debt Instrument of JSC NC KMG (Note 23)	11,403	14,064
Interest income on deposits with banks	7,306	10,575
Gain on sale of other financial assets	5,546	–
Interest income on receivable from jointly controlled entities	4,821	3,719
Capital gain on sale of subsidiary (Note 5)	4,784	–
Interest income on held to maturity financial assets	663	475
Other	5	10
	34,528	**28,843**

21.2 Finance costs

	2012	2011
Interest expense	5,601	5,865
Unwinding of discount on asset retirement obligation	1,254	1,158
Other	376	200
	7,231	**7,223**

22. INCOME TAXES

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

	2012	2011
Corporate income tax	77,993	50,059
Excess profit tax	38,541	15,745
Current income tax	**116,534**	**65,804**
Corporate income tax	(19,175)	(1,938)
Excess profit tax	**(4,433)**	**(205)**
Deferred income tax	**(23,608)**	**(2,143)**
Income tax expense	**92,926**	**63,661**

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

	2012	2011
Profit before tax	253,749	272,592
Income tax	92,926	63,661
Effective tax rate	**37%**	**23%**
Statutory income tax	20%	20%
Increase / (decrease) resulting from		
Capital Gain on reorganization of the Company	5%	0%
Withholding tax	1%	0%
Excess profit tax	12%	5%
Corporate income tax of prior years	3%	2%
Share of result of associate and joint ventures	(5%)	(6%)
Non-taxable income	(2%)	(1%)
Tax provisions	1%	1%
Non-deductible expenses	2%	2%
Effective tax rate	**37%**	**23%**

During 2012 the Company underwent a reorganization, when former production branches “Ozenmunaigas” and “Embamunaigas” were separated into wholly owned subsidiaries JSC “Ozenmunaigas” and JSC “Embamunaigas”. All fixed assets of the former production branches were transferred to newly created companies at fair value in accordance with Kazakhstan legislation. As a result the Company has recognized a significant amount of taxable capital gain, which has also resulted in an increase in excess profit tax for Uzen, Tengiz and the 23 fields contracts.

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

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2011	**10,824**	**(1,469)**	**(11,746)**	**(4,187)**	**(6,578)**
Deferred taxes acquired in business combinations	1,320	–	–	–	1,320
Recognized in profit and loss	(843)	(175)	(930)	(195)	(2,143)
At December 31, 2011	**11,301**	**(1,644)**	**(12,676)**	**(4,382)**	**(7,401)**
Loss of control over subsidiary (Note 5)	(959)	–	–	–	(959)
Recognized in profit and loss	(21,724)	(518)	(1,295)	(71)	(23,608)
At December 31, 2012	**(11,382)**	**(2,162)**	**(13,971)**	**(4,453)**	**(31,968)**

23. 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 SWF, except for banks, controlled by Samruk-Kazyna SWF. BTA Bank and Alliance Bank are related parties since they are controlled by Samruk-Kazyna SWF and Kazkommertsbank is a related party due to Samruk Kazyna SWF holding 21.2% of the bank’s ordinary shares. Starting from 2012, Halyk Group is no longer a related party to the Company since the group is no longer controlled by a member of the management board of Samruk-Kazyna SWF.

Sales and purchases with related parties during the years ended December 31, 2012 and 2011 and the balances with related parties at December 31, 2012 and 2011 are as follows:

KZT millions, unless otherwise stated

	2012	2011
Revenue and other income (Note 16)		
Entities under common control	787,838	711,888
Other state controlled entities	4,863	7
Associates	708	48
Joint ventures	329	415
Purchases of goods and services (Note 17 and 18)		
Entities under common control	22,280	22,852
Other state controlled entities	14,120	11,916
Parent Company	4,018	8,320
Associates	1,130	982
Halyk Bank of Kazakhstan affiliates	–	1,190
Purchase of exploration licenses from Parent Company	–	5,745
Interest earned on financial assets		
Interest earned on Debt Instrument	11,403	14,064
Effective interest rate on Investments in Debt Instrument of JSC NC KMG – indexed USD/KZT	7.00%	6.97%
Interest earned on loans to Joint ventures	2,090	779
Average interest rate on loans to Joint ventures	15.00%	15.00%
Kazkommertsbank	1,082	1,415
Average interest rate on deposits	4.69%	6.65%
Halyk Bank of Kazakhstan	–	4,598
Average interest rate on deposits	–	2.69%
Fair value loss on loans provided		
Joint ventures	2,049	1,312
Salaries and other short-term benefits		
Members of the Board of Directors	121	133
Members of the Management Board	207	295
Share-based payments		
Members of the Board of Directors	–	1
Members of the Management Board	10	36

	December 31, 2012	December 31, 2011
Cash and cash equivalents (Note 8)		
Alliance Bank	208	–
Kazkommertsbank	110	925
BTA Bank	4	15
Halyk Bank of Kazakhstan	–	37,009
Financial assets (Note 8)		
Investments in Debt Instrument of JSC NC KMG – indexed USD/KZT	134,360	188,029
Kazkommertsbank	38,207	–
Halyk Bank of Kazakhstan	–	37,115
Trade and other receivables (Note 5 , Note 8 and Note 9)		
Entities under common control	104,593	85,156
Joint ventures	31,506	28,107
Other state controlled entities	1,106	755
Halyk Bank of Kazakhstan affiliates	–	38
Trade payables		
Parent Company	1,125	777
Associates	837	723
Entities under common control	512	456
Other state controlled entities	101	244

SALES AND RECEIVABLES
Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to subsidiaries of JSC NC KMG. Export sales to related parties represented 6,078,074 tons of crude oil in 2012 (2011: 5,758,008 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, trader's margin and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 122,103 Tenge in 2012 (2011: 117,830 Tenge).

In addition, the Company supplies oil and gas products to the local market through a subsidiary of the Parent Company at the directive of the Kazakhstan government, the ultimate controlling shareholder of the Parent Company. Those supplies to the domestic market represented 1,595,399 tons of crude oil production in 2012 (2011: 1,812,156 tons). Prices for the local market sales are determined by agreement with the Parent Company. In February 2012, the Company agreed a revised schedule of prices for domestic market sales of crude oil, including a price of 43,500 Tenge per tonne effective from July 1, 2012. Subsequently, actual prices for domestic market were reduced and amounted to 38,000 Tenge per tonne for the sales from July 20 to September 30, 2012, and 40,000 Tenge per tonne for the sales from October 1 to December 31, 2012. In accordance with the terms of the Company's charter, such price reduction, as a related party transaction, should have been approved by the Independent Non-Executive Directors of the Company, but no such approval was given to reduce prices for domestic crude oil sales in 2012. As a result, in 2012 the Company received an average price per tonne of around 37,906 Tenge (2011: 27,290 Tenge) for deliveries to the local market.

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 4,018 million Tenge in 2012 (2011: 8,320 million Tenge). Agency commissions for crude oil sales amounted to 151 million Tenge in 2012 (2011: 432 million Tenge). Transportation services related to the shipment of 5,198,600 tons of crude oil in 2012 (2011: 5,475,921 tons) were purchased from a subsidiary of the Parent Company for 18,457 million Tenge in 2012 (2011: 17,161 million Tenge). The remaining services purchased from subsidiaries of JSC NC KMG include primarily payments for security services, processing and demurrage expenditures.

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. During 2012 the Company granted no options (2011: 7,845 options at average exercise prices of 21.5 US dollars or 3,158 Tenge).

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
The Company has various financial liabilities such as borrowings, trade and other payables. The Company also 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 related mainly to the Company's floating rate on KMG PKI Finance notes, which were fully settled on July 5, 2012 (Note 14). As of December 31, 2012 the Company has no floating interest rate borrowings and no exposure to interest rate risk.

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**
2012		
US dollar	+ 10.00%	66,855
US dollar	- 10.00%	(66,855)
2011		
US dollar	+ 10.00%	53,299
US dollar	- 10.00%	(53,299)

CREDIT RISK
The Company is exposed to credit risk in relation to its trade receivables. The Company's vast majority of sales are made to an affiliate of the Parent and the Company has a significant concentration risk of the receivable from this affiliate (Note 8, 23). 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 National Bank notes. In addition, the Company has purchased Debt Instruments issued by its Parent Company (Note 8, 23).

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 JSC NC KMG at the reporting date using the Standard and Poor's credit ratings, unless otherwise stated.

KZT millions, unless otherwise stated

		Rating*			
Banks	**Location**	**2012**	**2011**	**2012**	**2011**
Investment in Debt Instrument of JSC NC KMG	Kazakhstan	BBB- (stable)	BBB- (stable)	134,360	188,029
Halyk Bank	Kazakhstan	BB (stable)	BB (stable)	131,207	74,124
BNP Paribas	France	A+ (negative)	AA- (negative)	75,319	42,421
HSBC Plc	UK	AA- (negative)	AA- (stable)	75,044	80,799
Deutsche Bank	Germany	A+ (negative)	A+ (negative)	47,328	19,524
National Bank of Republic of Kazakhstan	Kazakhstan	BBB+ (stable)	BBB+ (stable)	42,596	109,542
ING BANK	Netherlands	A+ (NEGATIVE)	A+ (STABLE)	41,873	484
KAZKOMMERTSBANK	KAZAKHSTAN	B+ (NEGATIVE)	B+ (STABLE)	38,317	925
ATF BANK (MOODY'S)	KAZAKHSTAN	B1 (STABLE)	BA3 (NEGATIVE)	37,696	62,417
CITI BANK KAZAKHSTAN	KAZAKHSTAN	NOT AVAILABLE	NOT AVAILABLE	26,247	19,534
CITI BANK N.A.	UK BRANCH	A (NEGATIVE)	A (NEGATIVE)	21,712	50,658
RBS KAZAKHSTAN	KAZAKHSTAN	NOT AVAILABLE	NOT AVAILABLE	13,208	18,028
CREDIT SUISSE	BRITISH VIRGIN ISLANDS	A+ (NEGATIVE)	A+ (NEGATIVE)	12,366	5,750
HSBC KAZAKHSTAN	KAZAKHSTAN	BBB (STABLE)	BBB (STABLE)	7,016	7,324
BANKCENTERCREDIT (MOODY'S)	KAZAKHSTAN	B1 (NEGATIVE)	B1 (NEGATIVE)	1,654	19
ALLIANCE BANK (MOODY'S)	KAZAKHSTAN	B3 (NEGATIVE)	B3 (STABLE)	208	–
HSBC LTD.	HONG KONG	AA - (STABLE)	AA - (STABLE)	–	31,147
ROYAL BANK OF SCOTLAND NV	NETHERLANDS	A (STABLE)	A (STABLE)	–	6,207
OTHER				195	273
				706,346	**717,205**

LIQUIDITY RISK

The Company monitors its liquidity risk using a 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, 2012 based on contractual undiscounted payments:

Year ended December 31, 2011	**On demand**	**Less than 3 months**	**3-12 months**	**1 год –5 лет**	**more than 5 years**	**Total**
Borrowings	–	588	54,343	33,706	3,113	91,750
Trade and other payables	48,680	–	–	–	–	48,680
	48,680	**588**	**54,343**	**33,706**	**3,113**	**140,430**

Year ended December 31, 2012	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	–	271	2,262	4,646	2,002	9,181
Trade and other payables	82,255	–	–	–	–	82,255
	82,255	271	2,262	4,646	2,002	91,436

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.

* Source: Interfax – Kazakhstan, Factivia, official sites of the banks and rating agencies as at December 31 of the respective year

As at December 31, 2012 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, 2012 and 2011.

25. 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	
	2012	**2011**	**2012**	**2011**
Current financial assets				
US dollar-denominated term deposits	333,218	169,806	333,218	169,806
Cash and cash equivalents	154,705	206,512	154,705	206,512
Investment in Debt Instrument of JSC NC KMG	134,360	219	134,360	219
Held to maturity financial assets	42,596	109,542	42,596	109,542
Tenge denominated term deposits	40,382	36,116	40,382	36,116
Great Britain Pound denominated held to maturity deposits	–	6,207	–	6,207
Receivable from jointly controlled entity	3,895	1,361	3,895	1,361
Non-current financial assets				
Receivable from jointly controlled entity	14,326	18,138	14,326	18,138
Loan receivable from a joint venture	13,150	8,494	13,150	8,494
Tenge denominated term deposits	1,083	989	1,083	989
Other financial assets	2	4	2	4
Investment in Debt Instrument of JSC NC KMG	–	187,810	–	187,810
Financial liabilities				
Borrowings fixed rate interest	7,310	8,172	7,310	8,172
Borrowings floating rate interest	–	79,793	–	79,793

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of financial assets has been calculated using market interest rates.

26. 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 Parent Company, this price may be materially below international market prices and may even be set at the cost of production (Note 23). 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 1,645,926 tons of oil (2011: 1,951,356 tons) and joint venture Kazgermunai delivered 517,991 tons of oil (2011: 221,915 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, 2012.

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

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

KZT millions, unless otherwise stated

The Company disagreed with the above assessments and filed an appeal to the Ministry of Finance. The Company's management believes its interpretations of the tax legislation were appropriate. However, as management believes the outcome of the dispute is uncertain and further believes that it is more likely than not that the Company may not be entirely successful in its appeals, due to the ambiguity contained in the tax legislation and a history of varying interpretations and inconsistent opinions of the authorities and courts, management has accrued for certain matters that arose in the assessment. As at December 31, 2012, existing provision for tax contains 9,619 million Tenge in respect of this matter, including principal of 4,158 million Tenge, fines of 2,307 million Tenge and late payment interest of 3,154 million Tenge (Note 15). The management believes that the Company will be successful in appealing the remaining balances of principal, fines, and late payment interest of the assessments.

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

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
2013	150,764	7,138
2014	5,685	4,324
2015	2,511	3,235
2016	61	3,277
2017-2024	–	12,621
	159,021	**30,595**

CRUDE OIL SUPPLY COMMITMENTS

The Company has obligations to supply oil and oil products to the local market under government directives (Note 23).

COMMITMENTS OF KAZGERMUNAI

The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2012:

Year	Capital expenditures	Operational expenditures
2013	4,593	4,109

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, 2012 the Company's share in the capital commitments of UGL is as follows:

Year	Capital expenditures
2013	9,881
	9,881

COMMITMENTS OF KS EP INVESTMENTS

The Company's share in the commitments of KS EP Investments is as follows as at December 31, 2012:

Year	Capital expenditures	Operational expenditures
2013	4,665	196
2014	1,502	34
	6,167	**230**

27. SUBSEQUENT EVENTS

CHANGE OF THE CHIEF EXECUTIVE OFFICER

On January 23, 2013 at a meeting of the Board of Directors Abat Nurseitov was elected as a Chief Executive Officer (CEO) of the Company, succeeding Alik Aidarbayev.

These consolidated financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on March 06, 2013:

CHIEF EXECUTIVE OFFICER	NURSEITOV A. A.
ACTING CHIEF FINANCIAL OFFICER	B. FRASER, ACA.