KazMunaiGas Exploration Production Joint Stock Company

Consolidated Financial Statements

For the year ended December 31, 2011

Ernst & Young

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

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

INDEPENDENT AUDITORS' REPORT

To the shareholders and management of Joint Stock Company KazMunaiGas Exploration Production

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

13 February 2012

Consolidated Statement of Financial Position

Tenge thousands

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

The notes on pages 5 to 33 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Tenge thousands

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

The notes on pages 5 to 33 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Tenge thousands

	Notes	For the year ended December 31, 2011	2010
Cash flows from operating activities			
Profit before tax		272,592,108	291,947,153
Adjustments to add / (deduct) non-cash items			
Depreciation, depletion and amortization	6, 7	45,494,136	35,486,128
Other income	10	−	(21,471,195)
Share of result of associates and joint ventures	9, 10	(84,276,312)	(56,641,838)
Loss on disposal of property, plant and equipment (PPE)		4,043,980	2,200,613
Impairment of PPE and intangible assets	6, 7	2,438,923	16,194
Dry well expense on exploration and evaluation assets	7	2,586,223	1,103,615
Recognition of share-based payments		407,779	309,987
Forfeiture of share-based payments		(23,794)	(49,809)
Unrealised foreign exchange gain on non-operating activities		(2,306,422)	(73,832)
Other non-cash income and expense		5,869,493	916,338
Add finance costs	20	7,222,511	7,495,555
Deduct finance income relating to investing activity	20	(28,843,487)	(38,039,785)
Working capital adjustments			
Change in other assets		(817,081)	630,450
Change in inventories		(4,821,587)	(3,463,525)
Change in taxes prepaid and VAT recoverable		(2,104,701)	(11,312,224)
Change in prepaid expenses		15,839,095	(6,351,679)
Change in trade and other receivables		(18,486,630)	(18,377,144)
Change in trade and other payables		(3,600,176)	10,918,152
Change in mineral extraction and rent tax payable		4,854,039	9,877,060
Change in provisions		6,343,762	3,500,215
Income tax paid		(74,201,433)	(92,926,111)
Net cash generated from operating activities		**148,210,426**	**115,694,318**
Cash flows from investing activities			
Purchases of PPE		(92,759,829)	(86,679,884)
Proceeds from sale of PPE		753,447	139,497
Purchases of intangible assets		(12,217,536)	(1,572,033)
Acquisition of share in a joint venture	9	(23,906,835)	−
Loans provided to a joint venture	9	(1,923,356)	−
Dividends received from joint ventures and associates	9, 10	89,794,595	94,458,518
Purchase of investments in debt instruments of NC KMG		−	(221,543,183)
Interest received from investment in debt instruments of NC KMG		13,005,528	7,691,113
Sale of financial assets held-to-maturity		56,836,304	146,680,715
Loan repayments received from related parties		3,939,718	3,959,137
Acquisition of subsidiary, net of cash acquired	5	(8,799,170)	(8,614,935)
Interest received		9,602,749	33,988,614
Net cash generated from / (used in) investing activities		**34,325,615**	**(31,492,441)**
Cash flows from financing activities			
Share buy back	12	(15,762,657)	(24,531,975)
Repayment of borrowings		(35,219,073)	(14,614,702)
Dividends paid to Company's shareholders		(19,287,040)	(48,235,969)
Interest paid		(4,665,302)	(5,852,024)
Net cash used in financing activities		**(74,934,072)**	**(93,234,670)**
Net change in cash and cash equivalents		107,601,969	(9,032,793)
Cash and cash equivalents at the beginning of the year	8	98,519,680	107,626,368
Exchange gains / (losses) on cash and cash equivalents		390,274	(73,895)
Cash and cash equivalents at the end of the year	8	**206,511,923**	**98,519,680**

Consolidated Statement of Changes in Equity

Tenge thousands

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

The notes on pages 5 to 33 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Tenge thousands unless otherwise stated

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Adopted accounting standards and interpretations

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

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

New accounting developments

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

- IFRS 9 Financial Instruments: Classification and measurement
- IAS 28 Investments in Associates and Joint Ventures – amendment
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 19 Employee Benefits – amendment
- IAS 1 Presentation of Items of Other Comprehensive Income –amendment

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Change in presentation of the consolidated statement of comprehensive income

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

2.3 Consolidation

Subsidiaries

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

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

Investment in associates and interests in joint ventures

The Company's investment in its associates and joint ventures are accounted for using the equity method. An associate is an entity in which the Company has significant influence. The Company also has interests in joint ventures, which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entities.

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Consolidation (continued)

Investment in associates and interests in joint ventures (continued)

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

2.4 Foreign currency translation

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

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

2.5 Oil and natural gas exploration and development expenditure

Exploration license costs

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

Exploration expenditure

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Oil and natural gas exploration and development expenditure (continued)

Development expenditure

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

2.6 Property, plant and equipment

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

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

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

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

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

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

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

2.7 Impairment of non-financial assets

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Intangible assets

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

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

2.9 Financial assets

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

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

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

Held-to-maturity investments

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

Trade and other receivables

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

Available-for-sale financial investments

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

Fair value

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Trade payables

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

2.15 Provisions

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

2.16 Borrowings

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

2.17 Deferred income tax

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

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

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

2.18 Employee benefits

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

2.19 Revenue recognition

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Income taxes

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

3. SIGNIFICANT NON-CASH TRANSACTIONS

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Oil and gas reserves

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of oil and gas assets

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

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

Asset retirement obligations

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Environmental remediation

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

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

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

Taxation

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

5. BUSINESS COMBINATION

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

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

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

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

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

6. PROPERTY, PLANT AND EQUIPMENT

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

7. INTANGIBLE ASSETS

	Exploration and evaluation assets	Other intangibles	Total
2010			
Opening net book amount at January 1, 2010	**1,745,395**	**2,276,745**	**4,022,140**
Additions	13,068,275	858,857	13,927,132
Disposals	−	(6,173)	(6,173)
Dry well write-off	(1,103,615)	−	(1,103,615)
Amortization charge	(954,694)	(698,931)	(1,653,625)
Closing net book amount at December 31, 2010	**12,755,361**	**2,430,498**	**15,185,859**
At December 31, 2010			
Cost	22,553,458	5,027,989	27,581,447
Accumulated amortization	(9,798,097)	(2,597,491)	(12,395,588)
Net book amount	**12,755,361**	**2,430,498**	**15,185,859**

7. INTANGIBLE ASSETS (continued)

	Exploration and evaluation assets	Other intangibles	Total
2011			
Opening net book amount at January 1, 2011	**12,755,361**	**2,430,498**	**15,185,859**
Acquisition of exploration licenses	15,794,141	−	15,794,141
Additions	6,245,865	1,074,077	7,319,942
Dry well write-off	(2,586,223)	−	(2,586,223)
Transfers	(1,407,070)	−	(1,407,070)
Disposals	(339,381)	(4,176)	(343,557)
Amortization charge	(5,667,278)	(871,980)	(6,539,258)
Impairment	(761,106)	(24,696)	(785,802)
Closing net book amount at December 31, 2011	**24,034,309**	**2,603,723**	**26,638,032**
At December 31, 2011			
Cost	39,499,685	6,073,194	45,572,879
Accumulated amortization	(15,465,376)	(3,469,471)	(18,934,847)
Net book amount	**24,034,309**	**2,603,723**	**26,638,032**

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

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

8. FINANCIAL ASSETS

Other financial assets

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

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

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

Investments in debt instrument of NC KMG

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

8. FINANCIAL ASSETS (continued)

Investments in debt instrument of NC KMG (continued)

The Debt Instrument contains the following key provisions:

i. Whilst there are no fixed repayment terms, NC KMG will mandatorily use any future dividends from the Company to repay against the outstanding Debt Instrument (Note 3).

ii. If the Company acquires assets from NC KMG during the life of the Debt Instrument with an aggregate value of more than 800 million US Dollars, then the Company will be able to finance the portion of the cost of such acquisitions exceeding the 800 million US Dollars threshold through transferring or selling to NC KMG the relevant portion of the Debt Instrument at par value plus accrued coupon indexed to the USD/KZT exchange rate at the issuance date.

iii. If at maturity, NC KMG does not settle its outstanding Debt Instrument for cash, the Company shall pay a Special Dividend to its shareholders of a quantum, where NC KMG's share is sufficient to settle the outstanding Debt Instrument.

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

Trade and other receivables

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

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

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

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

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

Cash and cash equivalents

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

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

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

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

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

JV Kazgermunai

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

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

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

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

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

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

JV Ural Group Limited BVI ("UGL")

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

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

9. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITIY (continued)

JV Ural Group Limited BVI ("UGL") (continued)

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

The accounting for acquisition of the 50% interest in UGL in the consolidated financial statements is based on the provisional assessment of fair values.
The Company's share of UGL assets and liabilities as at December 31, 2011 and as at acquisition date on a provisional basis is as follows:

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

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

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

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

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

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

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

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

9. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITIY (continued)

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

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

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

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

10. INVESTMENTS IN ASSOCIATES

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

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

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

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

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

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

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

10. INVESTMENTS IN ASSOCIATES (continued)

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

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

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

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

11. INVENTORIES

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

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

12. SHARE CAPITAL

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

12.1 Share capital

Authorized shares

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

Dividends

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

12. SHARE CAPITAL (continued)

12.2 Employee share option plans

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

Employee option plans

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

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

Movement in the year

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

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

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

12.3 Kazakhstan Stock Exchange disclosure requirement

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

13. EARNINGS PER SHARE

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

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

14. BORROWINGS

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

14. BORROWINGS (continued)

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

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

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

The notes bear interest at twelve months LIBOR plus a margin of 2.9073%. The notes are redeemed at one seventh of the principal and accrued interest on the first Monday of July every year to the extent of the restricted cash balance. As this loan is non-recourse, any outstanding annual principal and interest of the notes will be deferred to be due and payable on the next payment date and bear interest at the rate applicable for the interest period concerned. If KMG PKI Finance fails to repay the aggregate of any deferred principal and interest outstanding at the expiry of the initial period in July 2013, KMG PKI Finance may seek to redeem the outstanding amount on each of the eighth, ninth and tenth years after the issuance date. Whether KMG PKI Finance will be permitted to redeem the outstanding amount in eighth, ninth and tenth years after the issuance date will be at the discretion of the trustee. As at December 31, 2011 the deferred principal comprises 145,497 thousand US dollars (21,591,795 thousand Tenge) (2010: 183,558 thousand US dollars or 27,056,450 thousand Tenge).

15. PROVISIONS

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

16. REVENUE

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

17. PRODUCTION EXPENSES

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

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

19. TAXES OTHER THAN ON INCOME

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

20. FINANCE INCOME / COSTS

20.1 Finance income

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

20.2 Finance costs

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

21. INCOME TAXES

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

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

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

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

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

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

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

22. RELATED PARTY TRANSACTIONS

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

Notes to the Consolidated Financial Statements (continued)

Tenge thousands unless otherwise stated

22. RELATED PARTY TRANSACTIONS (continued)

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

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

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

22. RELATED PARTY TRANSACTIONS (continued)

Sales and receivables

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

Purchases and payables

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

Share based payments to members of the Management Board

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

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

Foreign currency risk

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

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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

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

Credit risk

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

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

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

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

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

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

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

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

Year ended December 31, 2011	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	−	587,955	54,343,272	33,706,403	3,111,950	91,749,580
Trade and other payables	48,680,153	−	−	−	−	48,680,153
	48,680,153	**587,955**	**54,343,272**	**33,706,403**	**3,111,950**	**140,429,733**

Year ended December 31, 2010	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	−	253,358	60,419,794	63,362,092	3,348,200	127,383,444
Trade and other payables	47,304,799	−	−	−	−	47,304,799
	47,304,799	**253,358**	**60,419,794**	**63,362,092**	**3,348,200**	**174,688,243**

Commodity price risk

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

Capital management

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

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

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

24. FINANCIAL INSTRUMENTS

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

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

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

25. COMMITMENTS AND CONTINGENCIES

Operating environment

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

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

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

Local market obligation

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

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

25. COMMITMENTS AND CONTINGENCIES (continued)

Taxation

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

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

Environment

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

Oilfield licenses

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

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

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

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

Commitments arising from oilfield and exploration licenses

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

Crude oil supply commitments

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

25. COMMITMENTS AND CONTINGENCIES (continued)

Commitments of Kazgermunai

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

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

Commitments of UGL

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

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

26. SUBSEQUENT EVENTS

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

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

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

Chief Executive Officer — Aidarbayev A. S.

Acting Chief Financial Officer — B. Fraser, ACA.

Contact information

The Company's registered office is:

KazMunaiGas Exploration Production Joint Stock Company

Left Bank, Kabanbay Batyr ave., Building 17

Astana 010000

Republic of Kazakhstan

Telephone: +7 (7172) 975 433

Fax: +7 (7172) 975 445

www.kmgep.kz