Kazakhstan – China Pipeline Group

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2012

(Translated from the Russian original)

Contents

Management's responsibility for the consolidated financial statements for the year ended 31 December 2012

Independent Auditor's Report

Consolidated Financial Statements

Consolidated Statement of Financial Position....1
Consolidated Statement of Comprehensive Income....2
Consolidated Statement of Changes in Equity....3
Consolidated Statement of Cash Flows....4

Notes to the Consolidated Financial Statements

1 Kazakhstan-China Pipeline Group and its Operations....5
2 Summary of Significant Accounting Policies....6
3 Critical Accounting Estimates and Professional Judgments in Applying Accounting Policies....11
4 New Accounting Pronouncements....12
5 Balances and Transactions with Related Parties....15
6 Property, Plant and Equipment....17
7 Other Non-Current Assets....19
8 Inventories....19
9 Other Current Assets....19
10 Cash and Cash equivalents....19
11 Borrowings....19
12 Provision for Asset Retirement Obligations....20
13 Trade Payables....20
14 Other Payables and Accrued Liabilities....21
15 Cost of Sales....21
16 General and Administrative Expenses....21
17 Interest Expense....21
18 Income Taxes....22
19 Contingencies and Commitments....23
20 Financial Risk Management....24
21 Fair Value of Financial Instruments....26

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MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The enclosed consolidated financial statements were prepared by the management, which bears responsibility for its full and accurate representation. The management considers that the consolidated financial statements, preparation of which requires formation of certain estimates and judgments, fairly and accurately represent the financial position, results of its operations, and the cash flows of the Kazakhstan-China Pipeline LLP (hereinafter the "Company"), and its subsidiary (hereinafter the "Group") in accordance with International Financial Reporting Standards ("IFRS").

Management of the Group implements relevant policies, procedures and systems of internal control in order to maintain compliance and consistency of reporting practices, accounting and administrating procedures at reasonable costs. These methods and procedures are intended to provide reasonable assurance that operations are accurately reflected and summarized in accounting records for preparation of fair financial records and reports and safeguarding of assets.

Approved for issue and signed on behalf of the management on 1 February 2013:

Gou Yi General Director	Tang Jing Deputy General Director / Chief Accountant

Translated from Russian original

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Independent Auditor's Report

To the Owners of Kazakhstan-China Pipeline Group:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Kazakhstan-China Pipeline LLP and its subsidiary, which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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.

Auditor's responsibility

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

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

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

Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

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Opinion

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

PricewaterhouseCoopers LLP

Almaty, Kazakhstan
1 February 2013

Approved by:

Zhanbota Bekenov
Managing Director of PricewaterhouseCoopers LLP
(General State License of the Ministry of Finance
of the Republic of Kazakhstan №0000005 dated

Signed by:

Baurzhan Burkhanbekov
Auditor partner
(Qualified Auditor's Certificate
№0000586 dated 30 October 2006)

Signed by:

Maigul Rakhimbekova
Auditor in charge
(Qualified Auditor's Certificate
№00056 dated 28 February 1994)

Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

In thousands of Kazakhstani tenge	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	235,567,763	234,258,450
Other non-current assets	7	8,107,815	8,739,536
Total non-current assets		**243,675,578**	**242,997,986**
Current assets			
Inventories	8	405,492	792,965
Receivables from related parties	5	-	736,310
Other current assets	9	28,603,860	15,587,721
Cash and cash equivalents	10	16,971,827	17,136,665
Total current assets		**45,981,179**	**34,253,661**
TOTAL ASSETS		**289,656,757**	**277,251,647**
OWNERS' EQUITY AND LIABILITIIES			
Owners' equity		13,000,000	13,000,000
Reserve capital for revaluation of property, plant and equipment		35,542,149	37,997,093
Retained earnings / (accumulated deficit)		11,777,716	(5,286,578)
Cumulative translation reserve		46,931	39,102
TOTAL OWNERS' EQUITY		**60,366,796**	**45,749,617**
LIABILITIES			
Non-current liabilities			
Borrowings	11	197,215,004	204,191,831
Deferred tax liability		16,669,557	14,578,667
Provision for asset retirement obligations	12	4,618,254	-
Total non-current liabilities		**218,502,815**	**218,770,498**
Current liabilities			
Trade payables	13	2,523,856	1,328,441
Accounts payable to related parties	5	6,827,576	9,575,559
Other payables and accrued liabilities	14	1,435,714	1,827,532
Total current liabilities		**10,787,146**	**12,731,532**
TOTAL LIABILITIES		**229,289,961**	**231,502,030**
TOTAL OWNERS' EQUITY AND LIABILITIIES		**289,656,757**	**277,251,647**

Approved for issue and signed on behalf of the Management on 1 February 2013:

Gou Yi
General Director

Tang Jing
Deputy General Director / Chief Accountant

The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements.
Translated from the Russian original

In thousands of Kazakhstani tenge	Note	2012	2011
Revenue		54,597,380	54,787,851
Cost of sales	15	(22,679,960)	(19,920,188)
Gross profit		**31,917,420**	**34,867,663**
General and administrative expenses	16	(1,944,457)	(1,965,617)
Foreign exchange gain (net)		93,039	46,837
Property, plant and equipment impairment loss	6	-	(5,081,364)
Other (expense)/income (net)		(105,897)	46,967
Operating profit		**29,960,105**	**27,914,486**
Interest expense	17	(11,273,261)	(6,659,943)
Interest income		527,196	278,293
Foreign exchange gain from financing activities		17,449,589	18,785,010
Foreign exchange loss from financing activities		(20,532,892)	(20,163,628)
Profit before income tax		**16,130,737**	**20,154,218**
Income tax expense	18	(2,090,890)	(1,822,985)
Profit for the year		**14,039,847**	**18,331,233**
Other comprehensive income			
Change in estimate in provision for asset retirement obligations		624,722	-
Revaluation of property, plant and equipment		-	48,732,114
Income tax charged to equity		-	(9,746,423)
Foreign exchange gains and losses		7,829	3,347
Total other comprehensive income for the year		**632,551**	**38,989,038**
Total comprehensive income for the year		**14,672,398**	**57,320,271**
Total comprehensive income for the year attributable to:			
- owners of the Group		14,672,398	57,320,271
- minority interest		-	-

Approved for issue and signed on behalf of the Management on 1 February 2013:

Gou Yi
General Director

Tang Jing
Deputy General Director / Chief Accountant

Kazakhstan-China Pipeline Group
Consolidated Statement of Changes in Equity

In thousands of Kazakhstani tenge	**Charter Capital**	**Cumulative translation reserve**	**Revaluation provision**	**Retained earnings/ (Accumulated deficit)**	**Total**
Balance at 1 January 2011	**13,000,000**	**35,755**	**-**	**(24,606,409)**	**(11,570,654)**
Total comprehensive income for the year	-	3,347	38,985,691	18,331,233	57,320,271
Revaluation provision utilised	-	-	(988,598)	988,598	-
Balance at 31 December 2011	**13,000,000**	**39,102**	**37,997,093**	**(5,286,578)**	**45,749,617**
Total other comprehensive income for the year	-	7,829	624,722	14,039,847	14,672,398
Revaluation provision utilised	-	-	(3,024,447)	3,024,447	-
Other	-	-	(55,219)	-	(55,219)
Balance at 31 December 2012	**13,000,000**	**46,931**	**35,542,149**	**11,777,716**	**60,366,796**

Approved for issue and signed on behalf of the Management on 1 February 2013:

Gou Yi
General Director

Tang Jing
Deputy General Director / Chief Accountant

Consolidated Statement of Cash Flows

In thousands of Kazakhstani tenge	Note	2012	2011
Cash flows from operating activities			
Cash flows from operating activities:			
Receipts from consignors for services rendered		56,844,480	55,905,247
Other inflows		634,181	804,092
Cash flows used in operating activities:			
Payments to suppliers for goods and services		(9,724,304)	(8,434,097)
Interests paid		(9,303,868)	(5,785,916)
Payments to budget		(3,635,409)	(3,517,738)
Salaries payable		(1,521,361)	(1,368,487)
Advances issued		(451,990)	(574,619)
Other payment		(551,118)	(1,005,791)
Net cash flow from operating activities		**32,290,611**	**36,022,691**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(7,903,705)	(14,657,080)
Acquisition of intangible assets		(25,543)	-
Placement of short-term bank deposits		(45,363,766)	(19,646,279)
Withdrawal of short-term bank deposits		32,662,075	5,000,000
Disposal of assets for sale		72,334	-
Net cash flow used in investing activities		**(20,558,605)**	**(29,303,359)**
Cash flows from financing activities			
Repayment borrowings		(11,908,800)	-
Net cash flow used in financing activities		**(11,908,800)**	**-**
Effect of Tenge exchange rate		**11,956**	**-**
Net changes in cash and cash equivalents		**(164,838)**	**6,719,332**
Cash and cash equivalents at the beginning of the year		**17,136,665**	**10,417,333**
Cash and cash equivalents at the end of the year		**16,971,827**	**17,136,665**

Approved for issue and signed on behalf of the Management on 1 February 2013:

Gou Yi
General Director

Tang Jing
Deputy General Director / Chief Accountant

1 Kazakhstan-China Pipeline Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2012 for Kazakhstan-China Pipeline LLP (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group").

The Company was incorporated on 6 July 2004 and is operating in the Republic of Kazakhstan. The Company is a limited liability partnership and was established in accordance with the legislation of the Republic of Kazakhstan.

The Company is owned by two participants: China National Operating and Development Corporation ("CNODC"), a subsidiary of China National Petroleum Corporation ("CNPC"), and KazTransOil JSC ("KazTransOil"), a subsidiary of KazMunaiGas National Company JSC ("KazMunaiGas"), each owning 50 percent participant interest in the charter capital of the Company. The Company is jointly controlled by KazTransOil and CNODC on an equal basis. KazTransOil is ultimately controlled by the Kazakh Government through Samruk-Kazyna National Welfare Fund, CNODC is ultimately controlled by the Chinese Government through CNPC, a state owned company.

On 17 May 2004 the Government of the People's Republic of China and the Government of the Republic of Kazakhstan signed the Framework Agreement Concerning Development of Overall Cooperation in the Oil and Gas Sector. At the same date CNPC and KazMunaiGas signed the Agreement Concerning Main Principles for Construction of Atasu – Alashankou oil pipeline with length of 962.2 km. On 20 December 2006 CNPC and KazMunaiGas signed the Agreement Concerning Main Principles for Construction of the Second Stage of Kazakhstan – China Oil Pipeline and, on 18 August 2007, Additional Agreement No.1 thereto.

The Company is considered to be a monopolist and, accordingly, is subject to regulation by the Natural Monopolies Regulation Agency of the Republic of Kazakhstan (the "Agency"). The Agency approves the tariff rates for oil transportation based on return of capital for assets used.

The Company has a wholly owned subsidiary, KCP Finance B.V., incorporated in the Netherlands. KCP Finance B.V. was incorporated solely for the purpose of issuing the notes to finance the construction of Atasu – Alashankou Oil Pipeline.

On 17 November 2005 the Company obtained a license to invest, construct, operate and repair the Atasu – Alashankou oil pipeline in China valid until 16 November 2025. In connection with the above, the Group has set up its branch in China.

The Group constructed and, on 28 July 2006, put into operation the Atasu – Alashankou pipeline with the capacity of 7 million tons per year. In 2008, the Group put into operation the additional facilities to increase the Atasu – Alashankou pipeline's capacity up to 10 million tons per year.

The technological oil for the oil pipeline filling in quantity of 401,449 metric tons has been provided by PetroChina International Kazakhstan LLP ("PetroChina"). Technological oil belongs to PetroChina.

On 8 May 2008, the Company obtained an approval from the Committee for Construction and Housing and Communal Services under the Ministry of Industry and Trade to carry out construction and assembly operations for Kenkiyak – Kumkol oil pipeline, and signed contracts with KazStroiServices NSCC and China Petroleum Pipeline Engineering Kazakhstan LLP for project development, shipping and construction of 794.1 km long Kenkiyak-Kumkol oil pipeline with the annual throughput capacity of the second stage's first phase of 10 million tons.

On 1 July 2009, the construction of linear part of Kenkiyak-Kumkol oil pipeline (the "Kenkiyak-Kumkol pipeline") was completed. The technological oil for this oil pipeline filling in quantity of 411,915 metric tons has been provided by JSC "CNPC-Aktobemunaigas" in accordance with Contract No. 02-2009 dated 12 February 2009. Technological oil belongs to JSC "CNPC-Aktobemunaigas". The return period of the technological oil to JSC "CNPC-Aktobemunaigas" is the termination of the Kenkiyak-Kumkol pipeline operation.

On 7 October 2009, the Group launched the first starting complex of the Kenkiyak-Kumkol pipeline with the first phase capacity of 10 million tons per year.

On 10 December 2010, the Group completed the commissioning of the second stage's first phase facilities of the Kenkiyak-Kumkol pipeline construction.

In 2011, the Group commissioned the additional equipment in order to increase the throughput capacity of the Atasu-Alashankou pipeline up to 12 million tons per year.

1 The Kazakhstan-China Pipeline Group and Its Operations (Continued)

In 2012 and 2011, the Group transported through the Atasu-Alashankou pipeline 10,401 thousand tons and 10,900 thousand tons of oil, respectively. In 2012 and 2011, the Group transported through the Kenkiyak-Kumkol pipeline 5,355 thousand tons and 4,782 thousand tons of oil, respectively.

The Company's registered office address is: 109C Abay Avenue Street, Almaty 050008, Republic of Kazakhstan.

2 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") on the historical cost basis, except for the financial instruments and property, plant and equipment recorded at fair value. 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 (see Note 4 "New Accounting Pronouncements").

Functional and presentation currency. All amounts in these consolidated financial statements are presented in Kazakhstani Tenge ("Tenge"). Tenge is the Group's functional currency.

Consolidation principles. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date when control ceases.

The intra-group transactions, the balances of the corresponding accounts, as well as unrealized gains on the operations between the companies of the Group are mutually excluded. Unrealized losses are also mutually excluded, with the exception of cases when costs cannot be compensated.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current supply price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis. Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

2 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense during the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. The management of the Group classifies its financial assets upon initial recognition. Financial assets of the Group are represented by 'Loans and Receivables' category and include cash and cash equivalents, term deposits, trade receivables. Loans and receivables are recorded at amortized cost.

Classification of financial liabilities. Financial liabilities of the Group include financial liabilities that are carried at amortised cost. Financial liabilities on the Group's statement of financial position include borrowings (Note 11), trade payables (Note 13) and accounts payable to related parties (Note 5).

Initial recognition of financial instruments. Financial assets and liabilities are initially recorded at fair value subject to transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. Gain or loss upon initial recognition of the borrowings, which are received from the owners and/or the ultimate owners of the Group, is reflected on the statement of changes in equity. Subsequently, the carrying amount of the loans is adjusted for amortisation of the gains/losses on origination and the amortisation is recorded as interest income/interest expense using the effective yield method on the asset/ liability.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Impairment of financial assets carried at amortised cost. Receivables impairment losses are recognised when objective evidence exists that the Group will not be able to recover the amount due in initially stated period. The amount for the provision is the difference between the carrying value of the asset and the present value of expected cash flows discounted at the original effective interest rate of the asset. The provision is recognized as part of general and administrative expenses in profit or loss. Uncollectible trade receivables are written off against the trade receivables' impairment provision. Subsequent recoveries of amounts previously written off are accounted as part of general and administrative expense on profit or loss.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

2 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment. On 1 January 2011, the Group amended its Accounting Policies with regard to the accounting for property, plant and equipment and selected the revaluation model. Therefore, the Group, through an independent appraiser, revaluated its property, plant and equipment as at 31 August 2011 for the first time.

Upon recognition as an asset, property, plant and equipment items are stated at revaluation cost less accumulated depreciation and provision for impairment, if any.

Property, plant and equipment, are subject to revaluation regularly performed to ensure that the carrying amount does not substantially change from the amount determined at fair value as at the end of the reporting period. Property, plant and equipment are revaluated on approval of an authorised agency regulating natural monopolies. Once every three years the Group engages independent appraisers for revaluation of its property, plant and equipment.

An increase in the carrying amount resulting from revaluation is recorded within other comprehensive income and increases revaluation provision within the equity; decrease in the value of an item within the amount of previous cost increases is recorded directly in other comprehensive income and reduces the revaluation provision previously recognized within the equity; when decrease in the value exceeds such amount, it is recorded in profit or loss for the year. The provision for revaluation of property, plant and equipment, within the equity is directly included into retained earnings when capital gain is realised with use of such asset by the Group; in the last event, the capital gain write-off amount is determined as the difference between the depreciation measured at carrying value, taking into account revaluation, and the depreciation determined at the initial cost.

When property, plant and equipment are disposed, the remaining surplus of the provision for revaluation of property, plant and equipment is directly transferred to retained earnings. This movement is stated in the statement of changes in equity.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Costs of complex regular inspections of property, plant and equipment objects having periodicity of not more than once a year amounting to not less than 10 percent of cost of property, plant and equipment object, are subject to capitalization as separate component of PPE. If the amount of costs of complex regular inspections of selected property, plant and equipment object is less than 10 percent of its cost, the amount is recognized as current expense.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss within the amount of excess over the value of increase in value, recorded within equity in previous revaluation. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not charged depreciation. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful life in years
Buildings and constructions	5-50
Machinery and equipment	2-30
Pipeline and other vehicles	8-39
Other	2-12

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if necessary, at the end of each reporting period.

Intangible assets. Intangible assets are recorded at purchased cost and amortized on a straight-line basis over their estimated useful lives of one to three years.

2 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents include cash at bank and in hand, deposits held at call or with original maturities of three months or less, as well as other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Cash and cash equivalents also include cash placed with banks for the period of more than three months if there are no restrictions, and the Group has an ability and intention of their early withdrawal.

Cash restricted for more than three months is included in other current and non-current assets depending on terms of restriction.

Term deposits. Term deposits represent cash placed with banks for the period of over three months for investment income purposes. Such deposits are classified as other current or non-current assets depending on maturity terms, if the Group's management has an intention to hold the deposits until their maturity dates rather than to use them to settle the short-term cash needs. Term deposits are carried at amortized cost using the effective interest method.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Cost includes purchase price, import duties, transport-procurement works, and commission fees paid to supply and mediator organisations, and other expenses directly attributable to inventories purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Receivables, with the exception of prepaid taxes and advances given to the suppliers, are accounted for at the amortized cost using effective interest rate method. Prepaid taxes and advances given to the suppliers are stated at actual costs paid.

Borrowings. Borrowings are stated at amortised cost using the effective interest method.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of the asset that require substantial time to prepare for its intended use or sale (qualifying asset) are capitalised as part of the cost of such asset.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for use or sale.

The Group capitalises the borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The capitalised borrowing costs are calculated using the Group's average financing cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except when funds are borrowed specifically for the purpose of purchasing the qualifying asset. Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Financial income and financial expense. Interest income/expense is stated using the effective income on assets/liabilities method.

Foreign currency transactions and translation. The Group's foreign currency monetary assets and liabilities are translated into Tenge using exchange rate of the Kazakhstani Stock Exchange (KASE) established at the reporting period date. Transactions in foreign currencies are recorded at the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions or from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

The foreign subsidiaries of the Group represent the foreign operations which form an integral part of the Group's operations. The financial statements of the foreign subsidiaries are translated as if the transactions of the foreign subsidiaries are the Group's activities.

At 31 December 2012 the official rate of exchange applied to translate balances denominated in USD, was Tenge 150,74 for 1 US dollar (31 December 2011: Tenge 148.4 for 1 US dollar). Tenge is not freely convertible in most countries outside of the Republic of Kazakhstan.

2 Summary of Significant Accounting Policies (Continued)

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract. The Group accounts for trade payables initially at fair value. Subsequently trade payables are carried at amortized cost using the effective interest method.

Employee benefits. Salaries, pension fund contributions, paid annual leave and sick leave, bonuses and other benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

The Group does not incur any expenses in relation to pensions for its employees. However, in accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds upon the employee decision. Upon retirement of employees, all pension payments are administered by such pension funds.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Value-added taxes ("VAT"). VAT related to sales is payable to the tax authorities when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon the receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sale and purchase transactions, which has not been settled at the balance sheet date, is recognized in the statement of financial position on a net basis. Any impairment indicator, which would include a delay in cashflows, would result in VAT (decrease in value), calculated by discounting the latest expected cashflows using the original effective interest rate.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provision for asset retirement obligations. Assets retirement obligations are recognized where there is a probability of their occurrence and their amounts can be reasonably measured.

Assets retirement costs include costs for dismantling of pipelines and equipment, removal of residual materials and restoration of disturbed lands.

Estimated landfill site restoration and remediation costs are provided for and incurred in the cost of property, plant and equipment in the reporting period, in which the obligation arising from the related land disturbance fact occures, based on the discounted value of estimated future costs. These costs are subsequently depreciated over the useful lives of the assets to which they relate using the depreciation method applied to those assets.

Provisions for asset retirement obligations do not include any additional obligations which are expected to arise from current or future disturbance. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revised useful lives of pipelines.

2 Summary of Significant Accounting Policies (Continued)

Although the ultimate cost to be incurred is uncertain, the Group estimates its costs based on feasibility and engineering studies pursuant to the current restoration standards and techniques for conducting restoration and remediation works.

The amortisation or "unwinding" of the discount applied in establishing the discounted value of provisions is charged to performance results for each reporting period. The amortisation of discount is recorded as finance expense.

Other movements in the provisions for asset retirement obligations, resulting from updated accounting estimates, changes in the estimated lives of operation and revision of discount rates, adjust the revaluation reserve for property, plant and equipment.

Revenue recognition. Revenue is recognized when there is a likelihood that the Group obtains the transaction related economic benefits, and when the amount of revenue can be reliably estimated. Revenue from oil transportation services is recognized upon delivery of oil through the pipelines. Revenue is shown net of VAT and measured at the fair value of interest received or receivable. Revenue is based on the application of tariffs authorized by the Agency for transportation of oil through the pipelines.

Changes in presentation. The Group's management decided that expenses on corporate withholding income tax on non-residents with respect to interest on borrowings should be presented among interest expense. Comparative figures have been adjusted to conform to the presentation of the current year amounts.

The below table presents the effect of changes in the classifications on amounts for 2011:

In thousands of Kazakhstani tenge	As previously reported	Change in classification	As reclassified for 2011
General and administrative expense	(2,624,824)	659,207	(1,965,617)
Interest expense	(6,000,736)	(659,207)	(6,659,943)

Change in classification, made in the consolidated statement of comprehensive income, affected the information disclosed in Note 16 and Note 17, but did not impact other items of the consolidated financial statements.

3 Critical Accounting Estimates and Professional Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Deferred income tax asset recognition. Deferred income tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future management makes judgements and applies estimates that are believed to be reasonable under the circumstances taking into account taxable profit for the previous years and expectations of future revenue (Note 18).

Revaluation of property, plant and equipment. Property, plant and equipment are stated at fair value based on the reports prepared by an independent appraiser. Due to a specific nature of buildings, structures, pipeline assets, machinery and equipment, and due to the lack of comparable market data, the fair value of such assets was determined by the cost recovery methods applied the cost approach.

Fair value measurement is based on the key assumptions related to the cash generating unit, tariffs and volumes of transported oil. In the profitability test applied the income approach two pipelines were considered as one cash generating unit, the united oil transportation tariff and the expected volume of oil transportation through pipelines were applied.

Tax legislation. Tax, currency and customs legislation of the Republic of Kazakhstan is subject to varying interpretations (Note 19).

3 Critical Accounting Estimates and Professional Judgments in Applying Accounting Policies (Continued)

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. The terms and conditions with regard to related party transactions are exposed in Note 6.

Useful lives and residual values of property, plant and equipment. Management estimates economic useful lives of property, plant and equipment as the period over which the Group expects to consume economic benefits from the assets. Also management estimates that the residual value of the asset is nil as the Group expects to use the asset until the end of its physical life. The useful lives and residual values of the assets are reviewed at least at each year-end.

Provision for asset retirement obligations. In accordance with the Law of Republic of Kazakhstan *Concerning Manifold Pipeline* effective 4 July 2012, the Group has a legal obligation to remediate damage caused to the environment from its operations and to dismantle the Atasu-Alashankou and Kenkiyak-Kumkol pipelines upon completion of their operation.

Provision is made, based on net present values, for site restoration and rehabilitation costs as soon as the obligation arises from past operations. Provision for asset retirement obligations is measured based on the value of decommissioning and restoration works calculated by the Group in accordance with the technical regulations effective in the Republic of Kazakhstan.

Estimates for remediation costs are subject to potential changes in environmental regulatory requirements and the interpretation of the legislation.

Asset retirement obligation is recognized when there is a probable certainty of incurring the costs and those costs can be measured reliably.

The amount of the provisions is determined using the nominal prices effective at the reporting dates by applying the forecasted rate of inflation for the expected period of the obligation (50 years) and discount rate at the reporting dates.

Uncertainties in the estimates of such costs include potential changes in the regulatory requirements, alternatives to closure and reclamation of disturbed lands, discount and inflation rates.

Principal assumptions made in calculations of asset retirement obligations are presented below:

In percentage	**2012**
Discount rate at 31 December	6.01
Inflation rate at 31 December	5.60

The estimate of discount rate is based on state bonds rates.

As of 31 December 2012 carrying amount of provision for asset retirement obligations was Tenge 4,618,254 thousand (31 December 2011: no provision was created).

4 New Accounting Pronouncements

(i) *Standards, amendments and interpretations to existing standards which are effective for the annual periods beginning on 1 January 2012, but not relevant for the Group's operations:*

- Amendments to IFRS 1, *First-time adoption of International Financial Reporting Standards – Government Loans* (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. These amendments did not affect these financial statements.

4 New Accounting Pronouncements (Continued)

(ii) Standards, amendments and interpretations not effective yet but relevant to the Group's operations.

- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 with regard to (i) change of the effective date determined as the annual periods beginning on or after 1 January 2015, (ii) addition of a requirement to the disclosure of transition to this Standard. The key features of the standard are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

  While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. Currently the Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

- IFRS 13, Fair Value Measurement (issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013), is intended to improve the comparability and the quality of the information disclosed on fair value due to its requirements which result in IFRSs having the same definition and meaning of fair value and the same disclosure requirements about fair value measurements. Currently the Group is considering the implications of the standard for these financial statements.

- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 and effective for the periods beginning on or after 1 July 2012) revise the way other comprehensive income is presented. These Amendments Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified. These Amendments change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. The Group believes that the revised Standard will change the presentation of financial statements; however, it will not affect the measurement of transactions and balances.

- The revised IAS 19, Employee Benefits (issued in June 2011 and effective for the periods beginning on or after 1 January 2012), substantially changes the procedure for recognition and measurement of defined pension and benefit plans, and substantially changes the requirements to disclosure of the information on all types of employee benefits. This Standard requires recognition of all changes in net liabilities (assets) on defined pension plans when they arise as follows: (i) cost of services and net interest income are recognised in the profit or loss; and (ii) revaluation is recognised in other comprehensive income. Currently the Group is considering the implications of the standard for these financial statements.

4 New Accounting Pronouncements (Continued)

- Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendment to IFRS 7 (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013). This Amendment requires a disclosure allowing the readers of financial statements to assess the effect or potential effect of offsetting arrangements, including the rights of set-off. This change will affect the disclosure of information but it will not affect the measurement and recognition of financial instruments.

- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for the annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation, Including the clarification of the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is currently assessing the impact of the standard on these financial statements.

- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of this standard on these financial statements.

- IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities The Group is currently assessing the impact of this standard on these financial statements.

- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 1 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on these financial statements.

4 New Accounting Pronouncements (Continued)

(iii) Standards, amendments and interpretations not effective yet and not relevant to the Group's operations.

- Amendment to IFRS 12, Income Taxes (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013).
- IAS 27, Separate Financial Statements (revised in May 2011 and effective for the annual periods beginning on or after 1 January 2013).
- IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

5 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's immediate parents and ultimate controlling parties are disclosed in Note 1.

For the purposes of these consolidated financial statements, related parties of the Group include its founders and companied under the control of the Government of the Republic of Kazakhstan and Government of China (the "affiliates").

At 31 December 2012, the outstanding balances with related parties were as follows:

In thousands of Kazakhstani tenge	**Founders**	**Affiliates**	**Total**
Cash and cash equivalents – bank deposits	-	-	-
Advances received	-	4,416,833	4,416,833
Accounts receivable	-	-	-
Trade and other payables	399,171	2,011,572	2,410,743

The income and expense items with related parties for the year ended 31 December 2012 were as follows:

In thousands of Kazakhstani tenge	**Founders**	**Affiliates**	**Total**
Revenue	-	54,028,156	54,028,156
Pipeline repairs and maintenance services	4,161,201	327,767	4,488,968
Security services	-	936,509	936,509
Other services	6,451	157,380	163,831

5 Balances and Transactions with Related Parties (Continued)

At 31 December 2011, the outstanding balances with related parties were as follows:

In thousands of Kazakhstani tenge	Founders	Affiliates	Total
Cash and cash equivalents – bank deposits (contractual interest rates: 0.5%-4.2%)	-	8,978,005	8,978,005
Advances received	-	4,825,756	4,825,756
Accounts receivable	-	736,310	736,310
Trade and other payables	1,326,044	3,423,759	4,749,803

The income and expense items with related parties for the year ended 31 December 2011 were as follows:

In thousands of Kazakhstani tenge	Founders	Affiliates	Total
Revenue	-	54,616,846	54,616,846
Pipeline repairs and maintenance services	3,624,450	296,299	3,920,749
Security services	-	1,041,611	1,041,611
Other services	1,060	50,115	51,175

Terms of related parties transactions. Services are rendered to related parties on the same terms as to the third companies. Outstanding balances as at the end of the year are not secured, and settlements are made in cash. Purchases from the related parties are made on the terms determined in the open tender.

The Group entered into oil transportation agreements with its related parties; guaranteed minimum volumes of oil supplied in 2013 on Atasu-Alashankou and Kenkiyak-Kumkol oil pipelines amount to 9,355 thousand tons and 5,224 thousand tons accordingly. The Governments of the Republic of Kazakhstan and People's Republic of China exercise a joint control over the Group. The Group decided to apply the exemption from individual disclosure of immaterial transactions and outstanding balances with the government and related parties, as permitted by IAS 24.

The Group purchases goods and services from a large number of parties related to the government. Such purchases are individually immaterial and, in general, are executed on market conditions. Transactions with the Kazakhstan government also include tax transactions disclosed in Notes 14, 15, 16 and 18.

At 31 December 2012 the Group had contractual liabilities with related parties on future investments for the total amount of Tenge 11,596,237 thousand and operating expenses for the total amount of Tenge 112,035 thousand.

Directors' compensation. Compensation paid to 6 directors for their services in full time executive management positions, is made up of a contractual salary and bonuses. Total directors' compensation included in general and administrative expenses in the consolidated statement of comprehensive income for 2012 and 2011 is Tenge 136,350 thousand and Tenge 129,840 thousand, respectively.

6 Property, Plant and Equipment

In thousands of Kazakhstani tenge	Land	Buildings and structures	Plant and equipment	Pipeline and other vehicles	Other	Construction in progress	Total
Cost at 1 January 2011	2,184	18,155,071	44,224,875	144,383,191	465,889	556,770	**207,787,980**
Accumulated depreciation	-	(1,600,837)	(7,014,419)	(12,614,792)	(237,428)	-	**(21,467,476)**
Carrying amount at 1 January 2011	**2,184**	**16,554,234**	**37,210,456**	**131,768,399**	**228,461**	**556,770**	**186,320,504**
Additions	3,177	2,237,210	112,203	274,016	46,138	11,853,838	14,526,582
Reclassification to a different category	-	3,856,707	7,931,599		2,264	(11,790,570)	-
Disposals	-		(12,510)	(18,545)	(44)	-	(31,099)
Depreciation charge	-	(942,941)	(4,419,047)	(4,752,908)	(93,392)	-	(10,208,288)
Impairment charge to profit or loss	-	(4,079,264)	(877,716)	(105,427)	(18,957)	-	(5,081,364)
Revaluation	-	3,677,801	20,829,187	24,094,285	130,842	-	48,732,115
Carrying amount at 31 December 2011	**5,361**	**21,303,747**	**60,774,172**	**151,259,820**	**295,312**	**620,038**	**234,258,450**
Revalued amount at 31 December 2011	**5,361**	**21,764,464**	**62,956,297**	**152,680,059**	**348,899**	**620,038**	**238,375,118**
Accumulated depreciation	**-**	**(460,717)**	**(2,182,125)**	**(1,420,239)**	**(53,587)**	**-**	**(4,116,668)**
Carrying amount at 31 December 2011	**5,361**	**21,303,747**	**60,774,172**	**151,259,820**	**295,312**	**620,038**	**234,258,450**
Additions	-	31,200	229,942	5,903,693	13,184	8,072,749	14,250,768
Reclassification to a different category	-	1,469,063	135,680	(15,757)	966	(1,589,952)	-
Disposals	-	(301)	(244,014)	(96,043)	(93)	(11,571)	(352,022)
Depreciation charge	-	(1,551,877)	(6,669,380)	(4,302,153)	(66,023)	-	(12,589,433)
Carrying amount at 31 December 2012	**5,361**	**21,251,832**	**54,226,400**	**152,749,560**	**243,346**	**7,091,264**	**235,567,763**
Revalued amount at 31 December 2012	**5,361**	**(23,271,560)**	**62,998,199**	**158,422,072**	**357,167**	**7,091,264**	**252,145,623**
Accumulated depreciation	**-**	**(2,019,728)**	**(8,771,799)**	**(5,672,512)**	**(113,821)**	**-**	**(16,577,860)**
Carrying amount at 31 December 2012	**5,361**	**21,251,832**	**54,226,400**	**152,749,560**	**243,346**	**7,091,264**	**235,567,763**

In 2012 the Group installed spare parts under the contract with the TC Company for the amount of Tenge 176,060 thousand (included to the 'Plant and Equipment'). Inventories for the amount of Tenge 317,813 thousand, representing the emergency reserve of equipment, were transferred to the property, plant and equipment within the 'Pipeline and Other Vehicles' category. For the purposes of emergency reserve resupply, there were additions for the total amount of Tenge 374,060 thousand included to the 'Pipeline and Other Vehicles'.

In 2012 works related to the construction and designing of service drives, OPS-8, OPS-10 and reconstruction of Alashankou Oil Metering Station (OMS) for the amount of Tenge 6,927,301 thousand, were carried out on Atasu-Alashankou pipeline. For the year the service drive on Almatinskaya oblast (30,355 km) for the amount of Tenge 1,062,075 thousand, the warehouses of emergency reserve and inventories for the total amount of Tenge 352,544 thousand were put into operation, and reconstruction of OPS-9 impellers for the amount of Tenge 118,148 thousand was made.

6 Property, Plant and Equipment (Continued)

The additions in column 'Pipeline and Other Vehicles' comprise the provision for asset retirement obligations in the amount of Tenge 5,165,335 thousand.

At 31 August 2011, the Group revaluated property, plant and equipment to the market value. The revaluation was performed by independent professional appraiser AppraisConsult LLP having the required professional qualifications and the appropriate experience in valuating properties similar to the evaluated property by location and category. The appraiser applied the cost approach and calculated the full value of assets replacement less any accumulated depreciation for buildings, structures and pipeline assets. The appraiser applied two approaches, cost and comparison, and two methods, replacement cost and comparative analysis, to valuation of plant, equipment and other property, plant and equipment, respectively. The economic obsolescence of the valuated property and its measurement by cost approach were based on the income approach procedure. The discount rate was 14.16%.

As a result of the revaluation, the carrying amount of certain items of "Buildings and structures", "Plant and equipment" and "Other" were reduced in aggregate by Tenge 5,081,364 thousand and written down to profit or loss for the year ended 31 December 2011 because property, plant and equipment were revaluated for the first time in pursuance of the Accounting Policies. The markup on the remaining property, plant and equipment in the amount of Tenge 48,732,114 thousand was recognized in equity within revaluation provision for the year ended 31 December 2011.

Accumulated depreciation in the amount of Tenge 27,606,374 thousand was eliminated against the carrying amount of property, plant and equipment, and the net amount was brought to the revaluated amount of property, plant and equipment.

At 31 December 2012 the depreciated value of property, plant and equipment, except for land, would be Tenge 188,707,962 thousand (2011: Tenge 190,911,285 thousand) if the revaluated property, plant and equipment, were recognised in the balance sheet at the historical acquisition cost less accumulated depreciation.

In thousands of Kazakhstani tenge	**Buildings and structures**	**Plant and equipment**	**Pipeline and other vehicles**	**Other**	**Total**
At 31 December 2011					
Cost	24,248,988	52,232,096	144,655,250	484,679	221,621,013
~~Accumulated depreciation~~	~~(2,337,397)~~	~~(10,458,608)~~	~~(17,609,816)~~	~~(303,907)~~	~~(30,709,728)~~
Net book value	21,911,591	41,773,488	127,045,434	180,772	190,911,285
At 31 December 2012					
Cost	25,755,248	52,305,161	149,596,056	491,981	228,153,807
Accumulated depreciation	(4,017,151)	(14,536,682)	(20,547,960)	(344,052)	(39,445,845)
Net book value	21,738,097	37,768,479	129,048,096	147,929	188,707,962

Depreciation charges are included into the following items:

In thousands of Kazakhstani tenge	**Note**	**2012**	**2011**
Cost of services	15	12,378,267	10,000,306
General and administrative expenses	16	178,376	162,917
Construction-in-progress		32,790	45,065
Total depreciation charges		**12,589,433**	**10,208,288**

7 Other Non-Current Assets

Other non-current assets consist of VAT refund on acquisitions and intangible assets. As at 31 December 2012 the Group recognized VAT refund in the amount of about Tenge 8,044,886 thousand (2011: Tenge 8,644,704 thousand). VAT amount is recorded at amortised cost. Depreciation charges are recorded in finance expenses (Note 17). The Group's management believe that VAT must be fully recovered in this amount or through return in cash form or offsetting against VAT payable (Note 19).

8 Inventories

In thousands of Kazakhstani tenge	**2012**	**2011**
Spare parts	208,068	660,126
Materials	193,371	130,193
Fuel	4,053	2,646
Total inventories	**405,492**	**792,965**

9 Other Current Assets

In thousands of Kazakhstani tenge	**31 December 2012**	**31 December 2011**
Term deposits with maturity of up to 12 months (0.5%-4.2%)	27,510,497	14,646,279
VAT receivable	626,968	496,901
Deferred expenses	9,177	231,646
Advances paid	24,370	63,307
Prepaid taxes	110,021	412
Other	322,827	149,176
Total other current assets	**28,603,860**	**15,587,721**

10 Cash and Cash equivalents

In thousands of Kazakhstani tenge	**2012**	**2011**
Cash at bank – Tenge	10,322,863	16,660,497
Cash at bank – USD	6,642,834	475,755
Cash on corporate cards	5,908	159
Cash on hand	222	254
Total cash and cash equivalents	**16,971,827**	**17,136,665**

11 Borrowings

In thousands of Kazakhstani tenge	**31 December 2012**	**31 December 2011**
Long-term borrowings		
Industrial and Commercial Bank of China and ING Bank N.V.	149,427,287	157,015,087
Bonds issued in 2005	47,787,717	47,176,744
Total long-term borrowings	**197,215,004**	**204,191,831**

Industrial and Commercial Bank of China and ING Bank N.V. On 12 August 2008, the Group signed a loan agreement with the Industrial and Commercial Bank of China and ING Bank N.V. The credit line amount was USD 1,180,000 thousand for 10 years with the possibility for extension up to 5 years. The loan was intended for financing of the construction of the Kenkiyak-Kumkol oil pipeline. The loan was disbursed in tranches with cash calls.

11 Borrowings (Continued)

As at 31 December 2009 the Group received four tranches for the total amount of USD 950 million. The Group's loan arrangement costs were Tenge 3,003,382 thousand (equivalent to USD 23.15 million).

In 2009, the Group unified payment schedules on all tranches, according to a new single repayment schedule, interest payments will be made on 2 September and 2 March on all tranches.

Interest rate for each interest period is the annual rate which includes 6-month-LIBOR and the bank margin. The interest capitalization period which terminated in 2011 is 36 months from the loan agreement execution date. Due to the expiration of the interest capitalisation period, the loan agreement principal amount was fixed at Tenge 153,311,743 thousand, i.e. USD 1,033,098 thousand.

The lending bank's margin increases from 2% to 4% after the expiry grace period for the principal repayment, which has been extended in 2011 to 54 months from the loan agreement execution date.

As a result of the aforementioned changes in the loan agreement terms and conditions, the Group recognised financial income in the amount of Tenge 4,476,276 thousand in profit or loss for 2011.

On 31 August 2011, the Group made the first interest payment. For 2012 and 2011 the Group repaid interests for the amount of Tenge 4,100,607 thousand (USD 27,655 thousand) and Tenge 217,634 thousand (USD 1,485 thousand) accordingly and repaid ahead of schedule a part of debt principal for the amount of Tenge 11,908,800 thousand (USD 80 million) in 2012.

In accordance with loan agreement, the Group has opened accounts in the Industrial and Commercial Bank of China in Almaty, to which cash from oil transportation via Kenkiyak-Kumkol oil pipeline is received. This cash shall be used further by the Group either for the repayment of interest or debt principal or for the operating expenses related to the Kenkiyak-Kumkol oil pipeline.

Bonds. On 22 September 2005 the Group issued notes for the amount of USD 300 million for the period of 15 years. Notes were issued at 7% for the first 4 years, subsequently 8.8% for the remaining period until full redemption. The notes were issued via subsidiary KCP Finance B.V. and guaranteed by CNPC. The interest rate changed from 7% to 8.8% due to the expiration of the CNPC guarantee. The interest on notes is payable twice a year. The Group's transaction costs related to the notes issue and floating were Tenge 429,787 thousand (equivalent to USD 3.21 million). These costs are amortised until full redemption of the notes, i.e. during 15 years

The carrying amounts of loans as at 31 December 2012 and 2011 approximate their fair values.

12 Provision for Asset Retirement Obligations

Movements in provision for asset retirement obligation at 31 December 2012 are as follows:

In thousands of Kazakhstani tenge	2012
Carrying amount at 1 January	-
Recognition	5,165,335
Changes in estimates for the period	(624,722)
Depreciation of discount for the period	77,641
Carrying value at 31 December	**4,618,254**

13 Trade Payables

In thousands of Kazakhstani tenge	31 December 2012	31 December 2011
Denominated in Tenge	2,147,984	1,175,073
Denominated in foreign currency	375,872	153,368
Total trade payables	**2,523,856**	**1,328,441**

14 Other Payables and Accrued Liabilities

In thousands of Kazakhstani tenge	31 December 2012	31 December 2011
Accrued liabilities	717,644	506,374
Corporate income tax payable by non-residents	383,875	762,153
Advances received	108,914	141,918
Reserves for unused vacations	92,828	92,179
Taxes other than income tax	40,822	154,747
Other payables	91,631	170,161
Total other payables and accrued liabilities	**1,435,714**	**1,827,532**

15 Cost of Sales

In thousands of Kazakhstani tenge	2012	2011
Depreciation of property, plant and equipment	12,378,267	10,000,306
Operational and technical maintenance	4,768,286	4,240,487
Taxes other than income tax	2,839,493	2,577,465
Security services	936,509	1,041,611
Communication systems maintenance	351,618	224,652
Power energy	340,348	232,605
Payroll	238,655	180,205
Inspection services	73,776	78,617
Social tax	15,944	11,188
Pipeline diagnostics	-	594,222
Other	737,064	738,130
Total cost of sales	**22,679,960**	**19,920,188**

16 General and Administrative Expenses

In thousands of Kazakhstani tenge	2012	2011
Payroll	1,124,864	1,028,630
Depreciation of property, plant and equipment	178,376	162,917
Social tax	97,186	90,940
Business trip expenses	92,309	82,127
Utilities	71,605	-
Taxes other than income tax	67,774	24,277
Technical inventory, state registration of real estate	47,900	-
Consulting services	31,723	48,453
Rent expenses	31,651	155,282
Communication	14,966	17,833
Penalties and fines	6,850	151,879
Other	179,253	203,279
Total general and administrative expenses	**1,944,457**	**1,965,617**

17 Interest Expense

In thousands of Kazakhstani tenge	2012	2011
Interest expense on loan	6,654,805	2,055,577
Interest expense on bonds	4,505,507	4,604,366
Unwinding of discount on provision for asset retirement obligations	77,641	-
Unwinding of the present value discount	35,308	-
Total interest expense	**11,273,261**	**6,659,943**

18 Income Taxes

Income tax expense comprises the following:

In thousands of Kazakhstani tenge	2012	2011
Current income tax expense	-	-
Deferred income tax expense	2,090,890	1,822,985
Income tax expense	**2,090,890**	**1,822,985**

Reconciliation between the expected and the actual taxation charge is provided below:

In thousands of Kazakhstani tenge	2012	2011
Income before tax	**16,130,737**	**20,154,218**
Theoretical tax credit at statutory rate of 20%	**3,226,147**	**4,030,844**
Changes in non-recognised deferred income tax assets	(1,332,769)	(2,362,717)
Non-deductible expenses	201,835	158,710
KCP Finance B.V. income	(4,323)	(3,852)
Income tax expense	**2,090,890**	**1,822,985**

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the tax rate of 20% (2011: 20%) applicable to the period of assets realisation or liabilities settlement.

In thousands of Kazakhstani tenge	1 January 2012	Charged to profit or loss	31 December 2012
Tax effect of deductible temporary differences			
Tax losses carried forward	4,453,087	(2,167,753)	2,285,334
Loans and borrowings	1,557,910	171,857	1,729,767
Provision for unused vacation	16,742	4,060	20,802
Gross deferred tax asset	**6,027,739**	**(1,991,836)**	**4,035,903**
Unrecognized deferred tax asset	(1,557,910)	1,557,910	-
Deferred tax asset, net	**4,469,829**	**(433,926)**	**4,035,903**
Tax effect of taxable temporary differences			
Property, plant and equipment and intangible assets	(19,083,973)	(1,627,770)	(20,711,743)
Taxes payable	35,477	(29,194)	6,283
Gross deferred income tax liabilities	**(19,048,496)**	**(1,656,964)**	**(20,705,460)**
Total deferred income tax liabilities, net	**(14,578,667)**	**(2,090,890)**	**(16,669,557)**

18 Income Taxes (Continued)

In thousands of Kazakhstani tenge	1 January 2011	Charged to profit or loss	Charged to capital account	31 December 2011
Tax effect of deductible temporary differences				
Tax losses carried forward	2,090,370	2,362,717	-	4,453,087
Loans and borrowings	1,017,194	540,716	-	1,557,910
Provision for unused vacation	18,028	(1,286)	-	16,742
Gross deferred tax asset	**3,125,592**	**2,902,147**	**-**	**6,027,739**
Unrecognized deferred tax asset	(1,017,194)	(540,716)	-	(1,557,910)
Deferred tax asset, net	**2,108,398**	**2,361,431**	**-**	**4,469,829**
Tax effect of taxable temporary differences				
Property, plant and equipment and intangible assets	(5,121,962)	(4,215,588)	(9,746,423)	(19,083,973)
Taxes payable	4,305	31,172	-	35,477
Gross deferred income tax liabilities	**(5,117,657)**	**(4,184,416)**	**(9,746,423)**	**(19,048,496)**
Total deferred income tax liabilities, net	**(3,009,259)**	**(1,822,985)**	**(9,746,423)**	**(14,578,667)**

19 Contingencies and Commitments

Political and economic conditions in Kazakhstan. Whilst there have been improvements in the economic situation in the Republic of Kazakhstan in recent years, its economy continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country and a low level of liquidity of the securities markets.

Additionally, the oil and gas sector in Kazakhstan is particularly impacted by political, legal, financial and regulatory developments in Kazakhstan. The prospects for future economic stability in Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, regulatory and political developments, which are beyond the Group's control.

The financial condition and future operations of the Group may be adversely affected by continued economic difficulties inherent to an emerging market as well because of global economic crisis impact. Management is unable to predict the extent and duration of the economic difficulties, nor quantify the impact, if any, on these consolidated financial statements.

Taxation. Kazakhstani tax legislation and practice is in a state of continuous development and therefore are subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open for review by the tax authorities for five years.

The Group's Management believe that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly as at 31 December 2012 no provision for potential tax liabilities had been recorded (2011: nil).

19 Contingencies and Commitments (Continued)

Tax audits. In 2009 tax authorities initiated an unscheduled complex audit of the Company. In March 2010 tax authorities initiated an audit in order to substantiate of 2009 VAT amounts claimed for recovery. However, the mentioned audits were suspended in April 2010 due to the fact that it was necessary for the Company to obtain a license to carry out activities associated with oil transportation. As at the reporting date, the Group's management believes that the tax reviews renewal issue will be positively resolved in favour of the Company, and tax audits will be completed in 2013, while VAT refundable will be fully refunded, except for amounts, upon which limitation of action expires. These amounts will be used for the settlement of VAT payable.

Capital expenditure commitments. At 31 December 2012 the Group had contractual capital expenditure commitments in respect of property, plant and equipment totalling to Tenge 23,247,845 thousand (2011: Tenge 282,183 thousand).

Oil for oil pipelines filling. The Group obtained technological oil for the oil pipelines filling required for its operation (Note 1). The Group is fully responsible for safety of this oil and will return it to PetroChina upon the expiration of rent contract. The term of return of technological oil to CNPC Aktobemunaigas is the termination of Kenkiyak-Kumkol pipeline operation.

Environmental and site restoration liabilities. In accordance with the Law of the Republic of Kazakhstan "Concerning Main Pipeline", enforced from 4 July 2012 the Group has the estimated legal liability on the elimination of environmental damage, caused as a result of its operating activity, and upon decommissioning of Atasu-Alashankou and Kenkiyak-Kumkol pipelines after termination of operation (Notes 3 and 12).

20 Financial Risk Management

Financial risk factors. The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Credit risk. The Group is exposed to credit risk, in particular the risk that a party to a financial instrument will cause financial loss to the other party due to the default on its obligation.

The maximum credit exposure of the Group by asset classes comprises the credit risk arising from cash and cash equivalents and term deposits, as well as the credit risk associated with VAT receivable.

At the reporting date, the Group's balance sheet states the accounts receivable on VAT receivable, including Tenge 4,873,556 thousand subject to refund and the remaining amount subject to offsetting against future payments of VAT payable.

For banks and financial institutions, only independently rated parties with a stable financial position and support from the State, as a consequence of the financial crisis, the Group could not rely on the ratings received by banks from independent agencies.

The table below shows bank ratings, which cash and cash equivalents are placed with at 31 December 2012 and 2011:

In thousands of Kazakhstani tenge	**Rating agency**	**Rating**	**2012**	**2011**
Industrial and Commercial Bank of China (China) in Almaty	Moody`s	D+	8,501,505	12,730,693
Halyk Bank of Kazakhstan (Kazakhstan)	Moody`s	D-	4,927,499	3,929,890
KazkommertsBank (Kazakhstan)	Moody`s	E	3,022,742	75
Deutsche Bank	Moody`s	C-	502,937	474,761
Bank of China (China)	Moody`s	D	16,922	833

20 Financial Risk Management (Continued)

The difference in cash and cash equivalents as disclosed on the face of statement of financial position relates to cash on hand (Note 10).

The table below shows the rating and balances with the bank where deposits that have original maturities of 3-12 months and over one year are placed as at 31 December 2012 and 2011:

In thousands of Kazakhstani tenge	Rating agency	Rating	2012	2011
KazkommertsBank (Kazakhstan)	Moody`s	E	10,510,497	9,600,679
Halyk Bank of Kazakhstan (Kazakhstan)	Moody`s	D-	17,002,640	5,047,880

Foreign exchange risk. The Group attracts long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated liabilities (Notes 11 and 12) give rise to foreign exchange exposure. Due to undeveloped market of financial instruments in Kazakhstan, the management does not hedge the Groups foreign exchange risk. As at 31 December 2012, if the US Dollar had weakened/strengthened by 10 percent against Tenge with all other variables held constant, after-tax profit for the year would have been Tenge 14,446,746 thousand higher/lower (2011: Tenge 15,574,132 thousand higher/lower). Since the Group does not hold any financial instruments re-valued through equity, the effect of change of exchange rate on equity would be the same as on post-tax profit.

Interest rate risk. Risk of change of interest rates of the Group arises from long-term loans and short-term bank deposits.

For the loans with floating interest rate Group is exposed to a potential market risk related to LIBOR changes. As at 31 December 2012, if LIBOR for the US dollars denominated loans with floating interest rate increased/decreased by one percent, other terms being equal, the borrowing costs for the year would have change by Tenge 965,507 thousand (2011: Tenge 523,186 thousand).

Liquidity risk. Surplus of cash held by the Group required for working capital management are controlled by the treasury department. The treasury department invests money surplus to interest-bearing current bank accounts, choosing the instruments with relevant maturities for providing enough liquidity. At the reporting date the Group had cash on current accounts and deposits amounting to Tenge 44,476,194 thousands (2011: Tenge 31,782,531 thousand).

The Group's objective is to maintain the balance between the continuous financing and flexibility using the bank deposits.

The table below analyses the Group's financial liabilities by the relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

In thousand of Kazakhstani tenge	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
At 31 December 2012					
Borrowings	26,942,410	27,671,816	94,017,840	93,246,616	241,878,682
Trade payables and payables to related parties	9,351,432	-	-	-	9,351,432
At 31 December 2011					
Borrowings	7,792,271	33,591,859	96,836,056	118,279,728	256,499,914
Trade payables and payables to related parties	10,904,000	-	-	-	10,904,000

20 Financial Risk Management (Continued)

Capital risk management. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. The Group's policy is to minimize the gearing ratio by retiring borrowings. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "trade and other payables" and "payable to related parties", except for advances received, as shown in the statement of financial position) less cash and cash equivalents and term deposits. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

In thousand of Kazakhstani tenge	**2012**	**2011**
Total borrowings	203,476,403	211,955,689
Less: cash and cash equivalents	(44,482,324)	(31,782,944)
Net debt	158,994,079	243,738,633
Total equity	60,366,796	45,749,617
Total capital	217,631,108	289,488,250
Gearing ratio	**72%**	**84%**

Financial instruments by category. In accordance with the accounting policies for financial instruments all classes of financial assets of the Group as of both year-ends represent loans and receivables and all classes of financial liabilities as of these dates represent financial liabilities measured at amortised cost.

In the management's view the risk profile of all trade payable balances does not vary significantly if analysed in the context of foreign suppliers/contractors versus local ones or in some other context. Classification of trade payables into foreign currency originated balances versus local currency originated balances is used for the estimation of a minimum exposure to currency risk.

21 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Cash and cash equivalents and accounts receivable are carried at amortised cost which approximates current fair value.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Estimated fair value of such instruments approximates the carrying value of the liabilities stated at amortized cost as at 31 December 2012 and 2011.