



ANNUAL REPORT

2011

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JSC NC "KazMunayGas"

2011

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WELCOME SPEECH



Dear colleagues and partners!

Over the past year the Republic of Kazakhstan continued to strengthen its presence in the global energy market having confirmed the ambitious plans on increasing its oil and gas potential and ensuring reliable and assured supplies of hydrocarbons to global consumers.

Over the past period the oil and gas sector of Kazakhstan has witnessed a number of milestone events. All of them, in some or other way, have a bearing on the national company "KazMunayGas" whose activity exercises a dominant influence over the trend data of the entire industry.

By signing important agreements in the field of exploration of the Kazakhstan shelf of the Caspian Sea, development of the large-scale onshore hydrocarbon deposits in Kazakhstan and transportation of raw materials, JSC NC "KazMunayGas" had an opportunity to exercise stricter internal control over implementation of major projects, and strengthened its role as a strategic integrated company in the global energy arena. These steps fully conform to the JSC NC "KazMunayGas" Strategy which aims to increase the Company's shareholder value and join the ranks of the world's top 30 biggest oil companies.

Indeed, the most important event of the last year for the oil and gas sector became the Agreement on Handling of Problematic Issues on the Karachaganak deposit signed in December by and between the Government of the Republic of Kazakhstan and the KarachaganakPetroleumOperatingB.V. International Consortium (KPO), which in 2012 ensured the "KazMunayGas" entrance to this huge investment project with the company's 10 per cent participatory interest. The volume of the already extracted raw materials in Karachaganak make up only 10% of the total estimated geological reserves of the deposit. From the beginning of the project and as of the end of the year 2011, 114 million tons of liquid hydrocarbons and about 136 billion cubic meters of gas were recovered. The Karachaganak potential is huge! Kazakhstan is expected to receive about USD 3,3-5 billion from its share in the project during 2012-2037. The arrangements reached will allow starting a new stage of the Karachaganak development associated with a significant increase in investments, volume of gas production and marketing and extension of a rate-plateau of liquid hydrocarbons.

"KazMunayGas" conducts active work at the existing offshore blocks located in the Kazakhstan sector of the Caspian Sea. The projects are "N", Zhemchuzhiny, Zhambyl and Satpayev. And we can already see the results. For instance, the prospects of oil and gas of the Zhemchuzhiny and "N" offshore blocks have been identified. A number of preparatory works for exploratory drilling under the Zhambyl and Satpayev projects are being conducted. To ensure own drilling capacity, "KazMunayGas" initiated the construction of drilling rigs which will be used for offshore operations in the future.

At the end of May 2012 the Government of the Republic of Kazakhstan and the contracting companies of the North-Caspian Project signed an Agreement on Handling of Certain Issues. In accordance with the arrangements reached, the parties approved an amendment to the Plan and the Budget

of the Kashagan development which allowed achieving commercial production from December 2012 to June 2013.

The abovementioned turns over a new leaf in the history of the oil and gas industry where the national company plays a leading role.

To ensure a reliable supply of Kazakh oil to the global energy markets, KazMunayGas since last year has been participating in the Project of Expansion of the Caspian Pipeline Consortium Capacity to 67 million tons a year. After its completion in 2015 this project will allow Kazakhstan to double oil transportation including deliveries through Russian and Ukrainian ports, by-passing the busy Strait of Dardanelles and Bosphorus.

Over the last period a significant progress was seen in the refining segment. On December 29, 2011 in Atyrau a ceremonial signing of an Agreement for Construction of an "Advanced Oil Processing Center" at "Atyrau Refinery" LLP controlled by JSC NC "KazMunayGas" was held. On September 10, 2012 the «Foundation Stone Laying» Ceremony dedicated to the Project construction start was held. As a result the volume of oil refining will be increased up to 5 500 tons per year and the processing depth will reach 84-85% with the quality of motor fuels enhanced in accordance with Euro-4 and Euro-5 standards.

In addition, in 2012 the Rompetrol Holding, wholly owned by KazMunayGas, completed an ambitious program of the Petromidia Refinery modernization, increased the volume of crude oil processing from 3.8 million to 5 million tons per year and optimized the oil products basket. Today it is one of the most up-to-date refineries in Europe whose processing depth is 96%.

Besides, last year we proceeded with a long-term program of the retail network development. This will result in increase in the number of petrol stations branded as "KazMunayGas" from 279 in 2010 to 348 in 2015. We expect that a share of the national company in the retail market of oil products in Kazakhstan should make up at least 19% in 2015 and 32% thereafter.

Thus, the national company came up to its 10-year anniversary, celebrated in 2012, with a quite solid "bundle". Today KazMunayGas facilitates almost 15% of the national oil production and about 8-10% of the country's GDP.

I am convinced that in the future JSC NC "KazMunayGas" will proceed with the announced Growth Strategy which will ensure the development of a highly competitive and integrated petroleum company conforming to the highest standards of safety operations.

Sincerely,
Chairman of the Management Board of JSC NC "KazMunayGas"
L.K.Kiinov.

CONTENT

OVERVIEW 8

COMPANY'S ORGANIZATIONAL STRUCTURE

BOARD OF DIRECTORS OF JSC NC "KAZMUNAYGAS"

MANAGEMENT BOARD OF JSC NC "KAZMUNAYGAS"

KEY FINANCIAL INDICATORS

KEY PERFORMANCE INDICATORS

ASSET STRUCTURE OF THE JSC NC "KAZMUNAYGAS" GROUP as for December 31, 2011

STRATEGIC OBJECTIVES

OIL AND GAS UPSTREAM 22

RESERVES

OIL PRODUCTION

GAS PRODUCTION

PARTICIPATION IN MAJOR OIL AND GAS PROJECTS

Tengiz Project

North-Caspian Project

GEOLOGIC EXPLORATION PROJECTS ON THE CASPIAN SHELF

ONSHORE EXPLORATION PROJECTS

REFINING 32

OIL REFINING

Atyrau Refinery

Shymkent Refinery

Pavlodar PCP

International operations in the oil refining sector

INVESTMENT PROJECTS TO DEVELOP THE REFINERIES

Modernization and reconstruction of the Atyrau Refinery

Modernization and reconstruction of the PKOP Refinery (Shymkent Refinery)

Modernization and reconstruction of the Pavlodar PC Plant

OPERATIONS IN GAS REFINING

PETOCHEMISTRY PROJECTS

Road Bitumens Production in the Aktau Plastic Plant

MARKETING AND SALES 40

OIL AND OIL PRODUCTS

GAS

OIL AND GAS TRANSPORTATION 44

OIL TRANSPORTATION BY MAIN OIL PIPELINES

DEVELOPMENT OF OIL SUPPLY EXPORT DIRECTIONS

Caspian Pipeline Consortium

Kazakhstan-China Oil Pipeline

Kazakhstan Caspian Transportation System

MARINE OIL TRANSPORTATION

TRANSPORTATION AND DELIVERY OF NATURAL GAS

EXPORT GAS PIPELINES PROJECTS

Kazakhstan-China Gas Pipeline

Beineu-Bozoi-Shymkent Gas Pipeline

**DEVELOPMENT
OF SERVICE PROJECTS 50**

**KAZAKHSTAN CONTENT
DEVELOPMENT 54**

CORPORATE SOCIAL RESPONSIBILITY 60

SOCIAL PARTNERSHIP, SPONSORSHIP AND CHARITY

SAFETY, HEALTH AND ENVIRONMENT

Occupational Health and Safety, Industrial Safety
Environment Protection

HR POLICY

Employment

Development of HR potential

Motivation System

CORPORATE GOVERNANCE 74

CORPORATE GOVERNANCE BODIES

INTERACTION WITH A SHAREHOLDER

INTERACTION WITH SUBSIDIARY AND DEPENDENT ENTITIES

DIVIDENDS

INITIATIVES UNDER UN GLOBAL COMPACT

INTEGRATED MANAGEMENT SYSTEM

RISK MANAGEMENT 80

MAIN 2011 EVENTS 84

INDEPENDENT AUDITOR'S OPINION 88

INFORMATION ON EXTERNAL AUDITOR

**CONSOLIDATED FINANCIAL
STATEMENTS 92**

CONSOLIDATED FINANCIAL STANDING REPORT

CONSOLIDATED TOTAL INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

REVIEW OF MATERIAL ASPECTS OF ACCOUNTING POLICY

APPENDICES 106

SUMMARY BUSINESS REPORT OF THE BOARD
OF DIRECTORS OF JSC NC "KAZMUNAYGAS" 2011

SUMMARY BUSINESS REPORT OF THE MANAGEMENT
BOARD OF JSC NC "KAZMUNAYGAS"

KMG'S INTERESTED-PARTY TRANSACTIONS

OVERVIEW

JSC NC "KazMunayGas" is the national company for exploration, production, refining and transportation of hydrocarbons, representing the state in Kazakhstan's oil-and-gas sector. 100 percent of its shares are owned by the Sovereign Welfare Fund "Samruk-Kazyna" JSC.

Joint Stock Company "National Company "KazMunayGas" was incorporated through the merger of National Oil and Gas Company "Kazakhoil" and National Company "Oil and Gas Transportation" based on Decree No.811 dated 20 February 2002 of the President of the Republic of Kazakhstan.



OVERVIEW



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Mission

To maximize the profits of the Republic of Kazakhstan through participation in the development of the national petroleum industry:

- increasing the company's long-term value, improving profitability and, ensuring the industrial safety;
- becoming an integrated oil and gas company competitive on the international market;
- socially-responsible conduct of business, support to domestic suppliers of goods, works and services and, human resources development.

Vision

KazMunayGas is a highly efficient, competitive and integrated oil and gas company meeting the highest standards of safety operations.

National Company "KazMunayGas" will pursue the strategy of a balanced growth the oil and gas upstream, gas transportation and marketing, oil transportation, oil refining, petrochemistry and marketing of oil and oil products.

The company will continue to develop the strategically important oil field services and dispose non-core and marginal assets in the service sector.

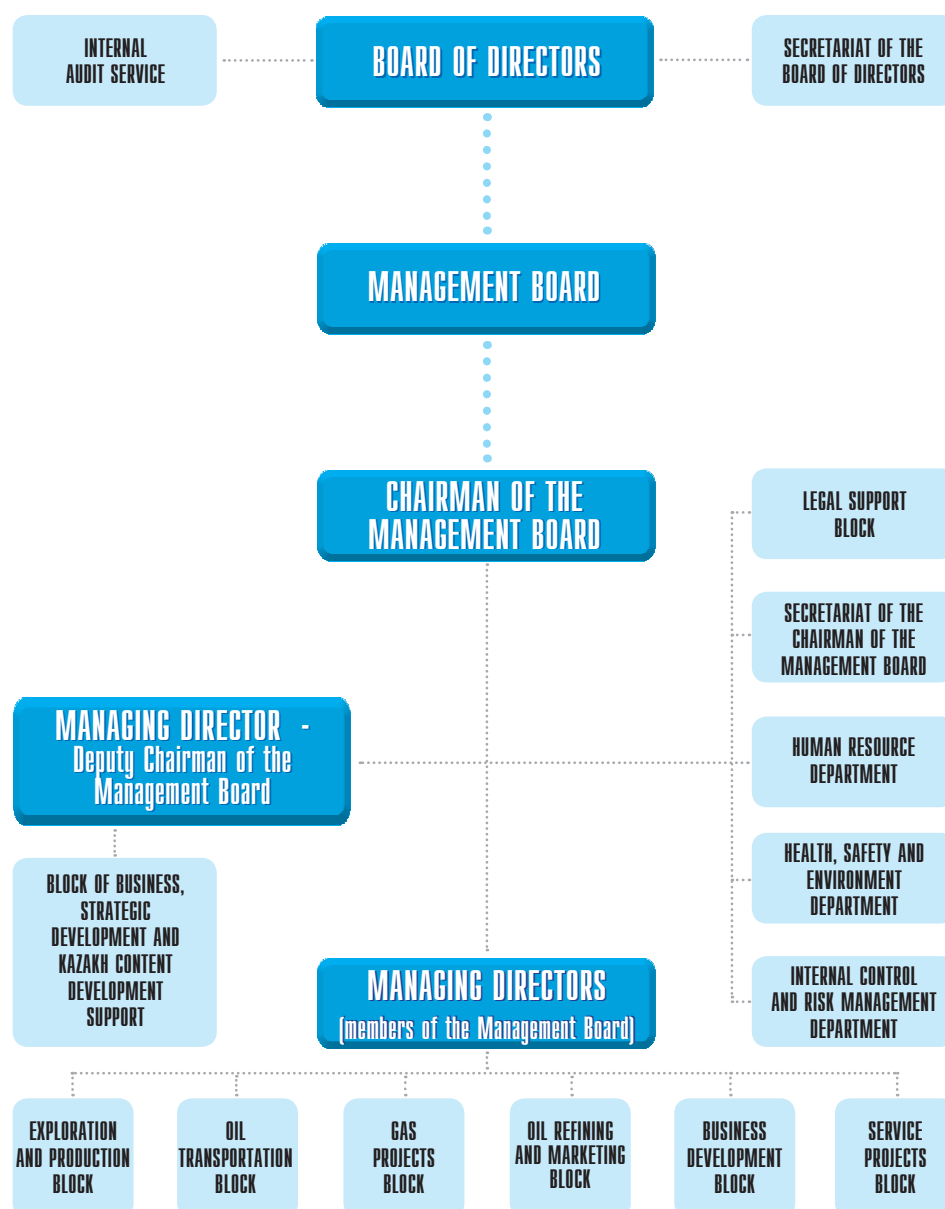
The core operations of National Company "KazMunayGas" are as follows:

- to participate in implementing the uniform public oil and gas policy;
- to ensure the efficient and rational use of national oil and gas resources;
- to participate in developing the strategy on management and enhancement of oil and gas resources;
- to represent state interests by participating in agreements with petroleum contractors on the obligatory shared basis;
- to participate in inviting the oil and gas tenders in Kazakhstan;
- corporate governance and monitoring of exploration, development, production, refining, sales and transportation of hydrocarbons as well as engineering, construction, operation of oil and gas pipelines and petroleum field infrastructure;
- in accordance with the procedure established by law, to participate in domestic and international petroleum projects of the Republic of Kazakhstan.



Company's Organizational Structure

as of December 31 2011



Board of Directors of JSC NC “KazMunayGas”

as of December 31 2011



KULIBAYEV
Timur Askarovich
*Chairman of the Board
of Directors of JSC NC
«KazMunayGas»*

• • •

Since 1992 has supervised various business structures. Held the positions of Director, Project Evaluation and Negotiating Directorate, State Investment Committee of the Republic of Kazakhstan; Vice President for Economy and Finance, CJSC “National Oil and Gas Company “Kazakhoil”; President, CJSC “NOTC “KazTransOil”; General Director, CJSC “National Company “Oil and Gas Transportation”, Senior Vice President, JSC “NC “KazMunayGas”; Advisor to President of the Republic of Kazakhstan; Deputy Chairman of the Management Board of JSC “Samruk” Kazakhstan Holding for State Assets Management”; Deputy Chairman of the Management Board of JSC “National Welfare Fund “Samruk-Kazyna”. Since April 12 2011 he has been appointed as Chairman of the Management Board of the following companies: JSC SWF “Samruk-Kazyna”. Mr.Kulibayev is Chairman of the Board of Directors in JSC “NAC “Kazatomprom”, JSC “NC “KazMunayGas”, JSC “NC “Kazakhstan Temir Zholy”, JSC “Kazakhstan Electricity Grid Operating Company” (KEGOC), JSC “Samruk-Energo”.

Receives no remuneration for his performance in the Board of Directors of JSC “NC “KazMunayGas”.



ABULGAZIN
Daniyar Rustemovich
*Managing Director,
JSC “Samruk-Kazyna”*

• • •

Held the position of Chairman of the Management Board in the 1st Kazakhstan Voluntary Pension Fund. Worked as Vice Minister of Finance, Vice Minister - Chairman, State Property and Privatization Committee under the RoK MoF. Worked as Vice President, Chief of Staff, NOC “Kazakhoil”; Deputy General Director, Caspian Industrial-Financial Group; Managing Director, Advisor to President of JSC NC “KazMunayGas”; General Director, Caspian Industrial-Financial Group; Advisor to Chairman, Management Board of JSC “SWF “Samruk-Kazyna”.

A Member of the Board of Directors of JSC “KEGOC” and JSC “Samruk-Energo”.

Receives no remuneration for his performance in the Board of Directors of JSC NC “KazMunayGas”.



SALIMGEREYEV
Malik Zhanabayevich
*Managing Director,
JSC “Samruk-Kazyna”*

• • •

Held the positions of Oil Diagnostics Operator, R&D Shop, Senior Geologist of the Reservoir Pressure Maintenance Administration, OGPD (Oil & Gas Production Department), Field Office “Komsomolskneft” of PA “Mangyshlakneft”, Head of the Production Engineering Department; Chief Geologist, Field Office “Karazhangasternmneft”; Vice President for Geology and Development, Vice President, JSC “Karazhanbasmunai”; Deputy General Director for Science and Technology, “NIPImunaigas” institute; Director, New Projects Department, CJSC “NOC “Kazakhoil”; Vice President for Production, OJSC “Kazakhoil-Emba” OJSC “Embamunaigas”; Deputy Director for Production, “Embamunaigas” PB, KazMunayGas EP JSC, Director, Oil Industry Development Department, MEMR of RoK, Director for Oil and Gas Assets Management, JSC “Samruk-Kazyna”.

Receives no remuneration for his performance in the Board of Directors of JSC NC “KazMunayGas”.

During his longstanding career (over 25 years) in the international financial institutions - such as ABN AMRO Bank and later on in the Royal Bank of Scotland (RBS), Mr. Kuijlaars led such important sectors of banking, as, for instance: Head of Corporate and Investment Banking Instruments in Belgium, Regional Bank Manager in Brazil, Country Manager in Russia and Argentine, Global Head of the Integrated Energy Block, Chairman of the Audit Committee, ABN AMRO Bank in Russia; Chairman of the Audit Committee, ABN AMRO in Argentine. Mr. Kuijlaars was also a member of Supervisory Boards in Russia, Kazakhstan and Uzbekistan. After his appointment as Corporate Executive Vice President in 2001, apart from the leadership of the Global Energy Business, he later on became a Member of Executive Committees for Europe, Central and Eastern Europe, Middle East and Africa, and the Head of the Block for Corporate and Investment Banking Instruments, determining the policy on financing, advising, placement and purchase of securities in independent, international and national energy companies Mr. Kuijlaars acquired a particularly high reputation for his contribution to bank franchising development on the energy markets, and for introduction of one of the world's leading types of energy franchising.

Receives a fixed fee at the rate of 100,000 US dollars per annum.



Frank C.W. KUIJLAARS
Independent Director

Peter Lane worked as Economic Advisor, UK Ministry of Finance. He worked in Royal Dutch Shell for 13 years, holding executive posts in a number of countries, including the position of Chief Executive Officer for East Caribbean and Director of Shell UK Oil. In 1994 he was appointed as Director of Lloyd's of London, and was a key person in the successful implementation of the Reconstruction and Renewal Program, that allowed the company to regain former position on the market. He also was Director of Lloyd's in Japan. After that, he was appointed as Managing Director of the Lloyd's in the US which allowed regaining Lloyd's position on this key market. Later he worked as Chief Executive Officer in the Exchange Transaction Insurance Company. Since 2008 he has been Chairman of the Management Board, Strathearn Capital Limited.

Receives a fixed remuneration at the rate of 100,000 US dollars per annum.



Peter William LANE
Independent Director

Oil and Gas Production Operator, Head of the Development Analysis Laboratory, Zhetysayneft Field Office. Instructor of the Industrial Transportation Department, Mangistau oblast Committee of the Party. Chief Engineer of the "Mangyshlakneftpromkhim" Territorial Production Administration. Head of the "Karazhanbasstermneft", "Komsomolskneft" Field Offices.

General Director of the "Mangyshlakneft" Production Association.

Akim of Mangistau Oblast. Deputy Minister of the Oil and Gas Industry, Republic of Kazakhstan. Deputy General Director of the Caspian Pipeline Consortium. CEO (President) of CJSC NC "KazMunayGas". Vice Minister for Energy and Mineral Resources, the Republic of Kazakhstan Minister of Oil and Gas.

Receives no remuneration for his performance in the Board of Directors of JSC NC "KazMunayGas".



KIINOV
Lyazzat Ketebayevich
Chairman of the Management Board, JSC NC "KazMunayGas"

During 2011 the KMG Board of Directors underwent the following changes :

- by the Resolution of the Management Board of JSC "National Welfare Fund "Samruk-Kazyna" as of 21 June 2011, Minutes No.27/11, the powers of Sauranbayev Nurlan Yermekovich, a Member of the Board of Directors, were terminated ahead of schedule on June 21 2011, and Malik Zhanabayevich Salimgereyev was elected for the period until the powers of the Board of Directors expire

- by the Resolution of the Management Board of JSC "National Welfare Fund "Samruk-Kazyna" of October 5 2011, Minutes No.42/11, the powers of Kabyldin Kaigeldy Maksutovich, Chairman of the Management Board of JSC NC "KazMunayGas", were terminated ahead of schedule on October 5, 2011;

- as per the above-said resolution of the Management

Board of JSC "Sovereign Welfare Fund "Samruk-Kazyna", Akchulakov Bolat Uralovich was elected as Chairman of the Management Board of JSC NC "KazMunayGas" and a Member of the KMG's Board of Directors for the period until the powers of the Board of Directors expire

- by the resolution of the Management Board of JSC "Sovereign Welfare Fund "Samruk-Kazyna" of 22 Dec 2011, Minutes №.50/11, the powers of Akchulakov Bolat Uralovich, Chairman of the Management Board of JSC NC «KazMunayGas» were terminated ahead of schedule;

- as per the above-said resolution of the the Management Board of JSC "Sovereign Welfare Fund "Samruk-Kazyna", Kiinov Lyazzat Ketebayevich was elected as Chairman of the Management Board of JSC NC "KazMunayGas" and Member of KMG's Board of Directors for the period until the powers of the Board of Directors expire

Committees of the Board of Directors

- **AUDIT COMMITTEE**
- **APPOINTMENT COMMITTEE**
- **REMUNERATION COMMITTEE**

Appointment Committee

Chairman: T.A. Kulibayev (Chairman of the Management Board of JSC "SWF "Samruk-Kazyna", Chairman of the Board of Directors)
Members: F. Kuijlaars, P. Lane (KMG's Independent Directors).

Remuneration Committee

Chairman: T.A. Kulibayev (Chairman of the Management Board of JSC "SWF "Samruk-Kazyna", Chairman of the Board of Directors)
Members: F. Kuijlaars, P. Lane (KMG's Independent Directors).

Audit Committee

Chairman: F. Kuijlaars (KMG's Independent Director)
Members: P. Lane (KMG's Independent Director),
S.N. Mynsharipova (Director of the Audit and Control Department of JSC "SWF "Samruk-Kazyna")

Management Board of JSC NC «KazMunayGas» *

as of December 31 2011



KIINOV Lyazzat Ketebayevich

Chairman of the Management Board, JSC NC "KazMunayGas"


BERLIBAYEV Daniyar Amribayevich
Managing Director, Gas Projects

Performed as General Director of the Intergas Central Asia JSC from 2005 to 2007, combining the functions of Senior Deputy General Director of JSC "KazTransGas". From 2007 to 2009 he held the position of Managing Director for Gas Projects of JSC NC "KazMunayGas". From 2009 to 2011 he was General Director of KazMunayGas-RM JSC, and later - General Director of JSC "KazTransGas". He held the position of Managing Director for Gas Projects of JSC NC "KazMunayGas".


BOZZHANOV Tolegen Jumadovich
Managing Director, Business Development

Performed as General Director of JSC "Trade House "KazMunayGas". He held the positions of Executive Director of JSC NC "KazMunayGas", Deputy General Director of "Kar-Tel" LLP, Managing Director of the Kazkommertzsecurities OJSC


MIRZAGALIYEV Magzum Maratovich
Managing Director, Service Projects

Performed as Drilling Mud Engineer, Head of the Aktau Branch of MI Drilling Fluids International, General Director, TenizService LLP.


TIYESSOV Daniyar Suyinshlikovich
Managing Director, Oil Refining and Marketing

Performed as Deputy General Director for Operations in JSC "TH "KazMunayGas", held various posts in LLP "Atyrau Refinery", CJSC "NC "KazMunayGas" and NOC "KazakhOil".


SHMANOV Nurtas Nuribekovich
Managing Director, Transportation

Performed as General Director of JSC "KazTransOil", Deputy General Director-at-Large of CPC-R, Regional Manager for Transportation in ChevronNefteGaz in Moscow and Almaty. Held various posts in ChevronMunaiGaz and Atyrau Oil Pipeline Administration.


ZHANGAULOV Yerzhan Arystanbekovich
General Manager, Legal Support

Worked in CJSC "NC "Oil and Gas Transportation". Held the position of head of the Legal Support Service and head of the Department of Legislation, Defense and Law Order Sector in the Administrative Department of the RoK President. Worked in the RoK Prime Minister's Office, in the Ministry of Justice, and RoK's Public Prosecutor's Office.

** Members of the Management Board receive no remuneration*

Key Financial Indicators

KZT mln.

	2011	2010	2009	2008	2011 / 2010
Income, total					
<i>including:</i>	2 781 728	2 252 197	1 955 526	2 022 475	23,5 %
Income from sales of and rendering of services	2 627 062	2 098 942	1 589 549	1 885 606	25,2 %
Expenses, total					
<i>including:</i>	2 684 430	2 065 663	1 765 068	1 678 475	30 %
Cost of sold products and rendered services	1 837 719	1 409 001	1 050 463	1 199 360	30,4 %
Corporate income tax expenses <i>(including sales tax)</i>	153 130	132 675	178 603	200 287	15,4 %
Total profit	422 498	305 309	110 904	298 291	38,4 %

Key performance indicators*

	2011	2010	2009	2008	2007
Oil and gas condensate production, thousand tons	21 105	21 969	18 701	18 052 ¹	16 689
Gas production ² , Mcm	4 850	4 912	4 332	3 786	3 532
Oil transportation by main oil pipelines ³ , mn tons	66,87	65,83	64,19	60,63	50,8
Marine oil transportation ⁴ , thousand tons	9 234	7 082	7 363	2 869	2 280
Gas transportation by main gas pipelines, bcm	110,55 ⁵	101,65	91,1	116,7	114,2
Hydrocarbons refining, thousand tons	15 326	14 766	12 758	10 993	5 734 ⁶
Year-end A, B, C ₁ (proven) oil reserves, mn tons	778,6	791,3	781,4	706	611,3
A, B, C ₁ natural gas residual reserves, bcm	394,9	395,6	374,6	343,2	236,5
Average headcount as of 31 December, people ⁶	83 302	64 660	57 087	54 768	52 829

* - may insignificantly differ from the approximated data of the production blocks

¹ - Consolidated oil uplift taking into account oil production by PetroKazakhstan.

² - Natural and associated gas. Includes the KMG EP and Kazgermunay volumes.

³ - Includes the volume of oil transportation by the main pipelines of JSC "KazTransOil" and transportation volumes of JSC "North-West Pipeline Company "MunaiTas" (51%) and LLP "Kazakhstan-China Pipeline" (50%).

⁴ - 2007-2008 - 50 % share of JSC «NMSK «Kazmortransflot».

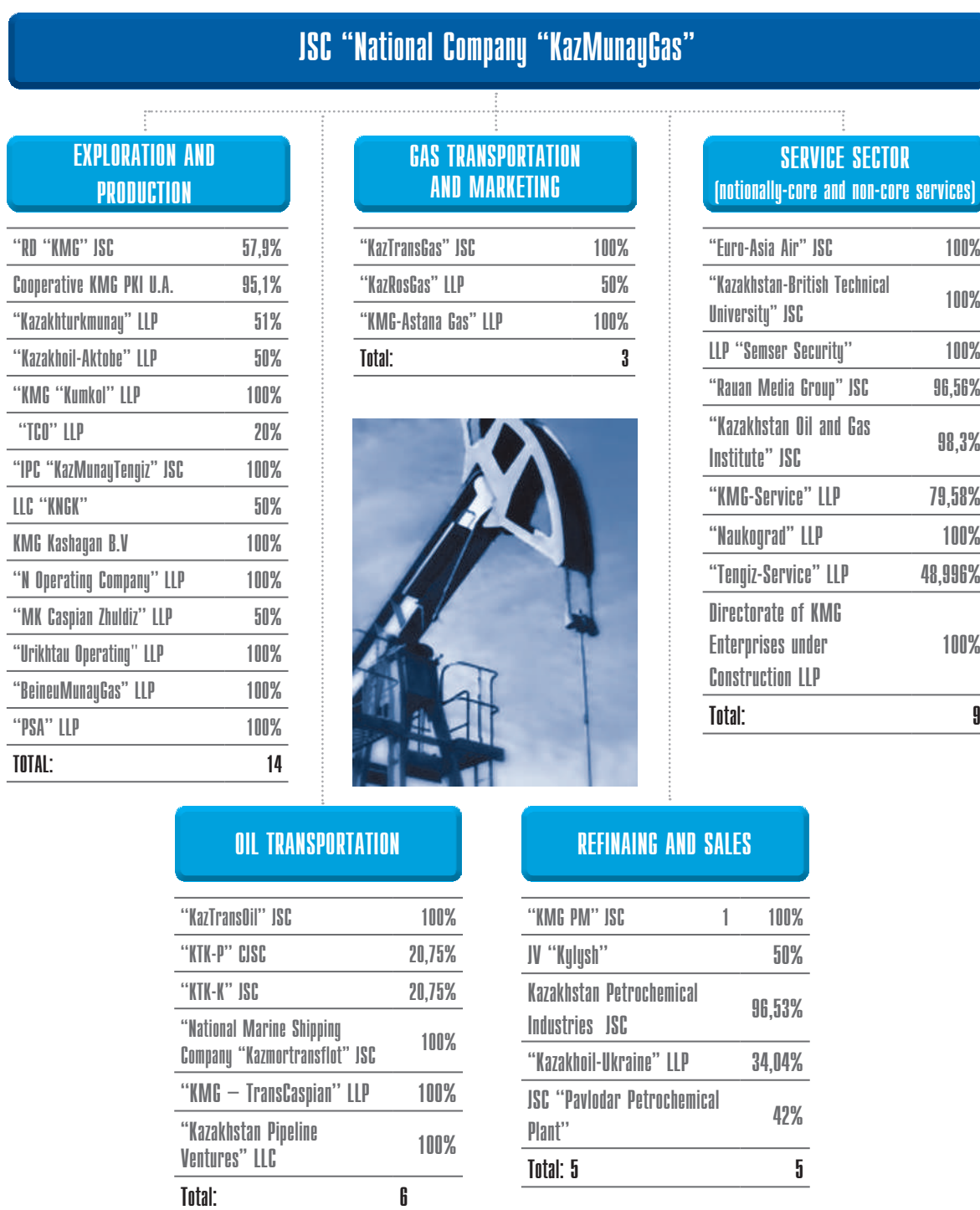
⁵ - Taking into account the 100% of the Asia Gas Pipeline LLP 15 bcm

⁶ - Consolidated indicator - taking into account the Shymkent Refinery throughput and the acquisition in July, 2007 of the 49.72% share.

⁷ - Historic data have been changed in accordance with the used consolidation method.

ASSET STRUCTURE OF THE JSC NC “KAZMUNAYGAS” GROUP

as of 31 December 2011



Assets of Subsidiary and Dependent Entities of JSC NC “KazMunayGas”

as of December 31 2011

Entity	KMG NC's Equity, %	Subsidiary and Dependent Entities	Share, %
KazMunayGas EP JSC	57.9	CEKB LLP	100
		Akniyet-Emba LLP	100
		Embaenergomunai LLP	100
		Embaokuortalygy LLP	100
		KRUZ LLP	100
		Zhondeu LLP	100
		Munaenergosservis LLP	51
		Ken-Kurylysservis LLP	100
		Ozen-Yeles LLP	100
		KMG EP Catering LLP	100
		KazGPP LLP	100
		UDTV LLP	100
		KazMunayGas-Service LLP	20.42
		Kazgermunai JV LLP	50
		KING JSC	1.7
		Kazakhstan Petrochemical Industries JSC	96.53
		Munaishy Holdings Limited	100
		Kazakhstan Petrochemical Industries Inc. LLP	51
		KMG EP NETHERLANDS ENERGY COOPERATIEF U.A.	95
		Munaishy Finance B.V.	100
		COOPERATIVE KMG EP U.A.	95.1
		KMG EP Norge	100
		NBK LLP	100
		SapaBarlau Service LLP	100
		KMG EP UK Limited	100
KazMunayTenz OOC JSC	100	Tyub Karagan Operating Company B.V. Branch	50
		Kurmangazy Petroleum LLP	100
		Atash Company LLP	50
		Caspi Meruerty Operating Company B.V. Branch	40
		Zhambyl Petroleum LLP	100
		Tenz Burgylau LLP	100
		Zhambai LLP	50
		Caspi Development Centre LLP	7
		Samruk-Energo JSC - in trust of JSC NWF "Samruk-Kazyna"	5.3
		"Samruk-Kazyna" Corporate University PE	5.5
KazTransGas JSC	100	KyrGazGas OsOO	50
		Beineu-Shymkent Gas Pipeline LLP	50
		Asian Gas Pipeline LLP	50
		Almaty Gas JSC	100
		LLP "Intergas Central Asia"	100
		KazTransGas-Aimak JSC	100
		KazTransGas Onimderi LLP	100
		Amangeldy Gas LLP	100
		Intergas Finance B.V.	100
		KazTransGas-Almaty JSC	100
		KazTransGas-Tbilisi OOO	100
JSC "KazTransOil"	100	KazTransOil-Service JSC	100
		"MunaGas" North-Western Pipeline Company JSC	51
		Kazakhstan-China Pipeline LLP	50
		"Accumulative Pension Fund of Halyk Bank of Kazakhstan" JSC	1
		Batumi Capital Partners (Cyprus)	50
		Batumi Industrial Holdings (Cyprus)	100
JSC "NMSK "Kazmortransflot"	100	Kazmortransflot UK LTD	100
		Kazmortransflot LTD	100
		Alatay Shipping Ltd	100
		Altay Shipping Ltd	100
		Mangistau Oblast Ship-Repair Yard LLP	30
		Kazmortransflot LTD	100
JSC "KazMunayGas-RM" Refining & Marketing»	100	KMG-Astana LLP (Astana)	100
		KMG-Alatau LLP (Almaty)	100
		KMG-Zhaiyk LLP (Atyrau)	100

Entity	KMG NC's Equity, %	KMG-Zhaiyk LLP (Atyrau)	100
		Kazkor-Transservice JSC (Aktau)	12.87
		TransMunai OOO (Kiev)	50
		PE "Samruk-Kazyna" CU (Astana)	9.9
		JSC "KMG-Ominder"	100
		TH KazMunayGas NV. (Amsterdam)	100
		Refinery Company RT	100
		Atyrau Refinery LLP	99.49
		Eurasia Munai Impex LLP	100
KazRosGas LLP	50	"KazRosGaz" AG	99
		KazRosGas Service OOO	100
"KazakhOil-Ukraine" LLP	34.0	"Ukrnefteprodukt" TH LLP	99.996
KMG-Service LLP	79.58	Borzhomi-Likani OOO	100
		"KMG-Georgia" OOO	100
		Aisir Tourism ve Inshaat anonym Shirketi JSC	75
		KMG-Kurylys LLP	100
		KazMunayGasService-Compass LLP	40
		AstanaEnergoservice JSC	0.065
Kazakhstan-British Technical University JSC	100	"Research and Development Center of the KBTU" LLP	100
		KBTU Business School LLP	100
		"D.V. Sokolsky Institute of Organic Catalysis and Electrochemistry" JSC	100
		"A.B. Bekturov Institute of Chemical Science" JSC	100
"Kazakh Institute of Oil and Gas" JSC	98.3	"NPI Kaspimunaigas" JSC	100
		KazNIPmunaigas JSC	100
		"Petrodata Kazakhstan" JSC	50
		Technip-Kazakhstan JV LLP	50
		KING RDC LLP	100
		AIRI LLP	40
		KPJV Limited	20
Rauan Media Group JSC	96.56	"Rauan" Publishing House LLP	100
		New Television-Kazakhstan LLP	100
		Izvestiya-Kazakhstan LLP	80
		"NS Radio-Nationwide Network" Television and Radio Broadcasting Company LLP	100
		"Television of the City of Astana" LLP	40
KMG-Kumkol LLP	100		
KazakhOil-Aktobe LLP	50		
Kazakhstan Pipeline Ventures LLC	100	CPC-K JSC	1.75
		CPC-R C.JSC	1.75
Teniz Service LLP	49	Kaz M-I LLP	51
CPC-K JSC	19		
CPC-R C.JSC	19		
Caspian Oil-and-gas Company OOO	50		
Tengizchevroil JV LLP	20	Tengizchevroil Finance Company	100
		Tengizchevroil International Bermuda Limited	100
"Kyllysh" Commercial Partnership	50		
Cooperative KazMunaiGaz PKI U.A.	95.1	KMG Hvalynskoye Finance B.V.	100
		KazMunaiGaz Finance Sub B.V.	100
		KazMunaiGaz Finance B.V.	100
		Mangistau Investment B.V.	100
"Euro-Asia Air" JSC	100		50
"Semser Security" LLP	100	"Semser Ort Sondirushi" LLP	100
"N Operating Company" LLP	51		
KMG-Transcaspi LLP	100		
Kazakhstan Petrochemical Industries JSC	50	"SAT Operating Aktau" LLP	100
		"SAT Operating Atyrau" LLP	100
		"JV "CASPI BITUM" LLP	50
"MK Caspian Zhuldyz" LLP	50		
Urlikhtau Operating LLP	100		
"KMG's Businesses under Construction Directorate" LLP	100		
Naukograd LLP	100		
PSA LLP	100		
AstanaGas KMG LLP	100		
BeineuMunayGas LLP	100		
JSC PPCP	42		

Strategic Objectives

Following the results of 2011, KazMunayGas is holding leadership positions in operating activities in the country's oil and gas sector. Shares held per Company's key operating sector are as follows:

Share of JSC NC "KazMunayGas" in Kazakhstan's Oil-and-Gas Industry

Line of activity		2011		2010		2009		2008	
			%		%		%		%
Reserves *	Year-end A, B, C ₁ C1 (proven) oil reserves, <i>mln tons</i>	778,6	20	791,3	20	781,4	20	706	18
	A, B, C ₁ natural gas residual reserves, <i>bcm</i>	394,9	20	395,6	20	374,6	20	343,2	18
Production	Oil and gas condensate production, <i>thousand tons</i>	21 105	26	21 971	28	18 701	24,5	18 051	25,5
	Gas production, <i>Mcm</i>	4 850	12	4 912	13,1	4 332	12	3 786	11,2
Oil transportation	By main oil pipelines ³ , <i>mln tons</i>	66,87	67	65,83	66	64,18	63	60,65	62
	Marine oil transportation from the port of Aktau, <i>thousand tons</i>	5,9	74	6,1	64	7,1	63	2,6 **	58
Natural gas transportation by main gas pipelines, <i>bcm</i>		110,5 ¹	93,7	99,4 ²	95,7	91,1	100	116,7	100
Processing	Of oil, <i>thousand tons</i>	11 423	83,2	11 392	83,2	8 193	67,5	6 079	49,5
	³ of sour gas, <i>Mcm</i>	6 840	99	7 901	50	8 266	50	7 916	50
Retail sales	Of oil products, <i>thousand tons</i>	917	13,6	543	9,0	295,7	9,0	361,7	10,0
	Of natural gas, <i>Mcm</i>	8 045	83,6	5 989	100	5 008	100	5 465	100

* - share of KazMunayGas in Kazakhstan's proven reserves (according to BP Statistical Review, 2012)

** - the 50 % share of JSC "NMSK "Kazmortalot" in ASCP

The top priorities of KazMunayGas in the oil and gas upstream sector are:

- replenish the resource potential of KazMunayGas;
- increase the volume of exploration works;
- develop a high-quality geologic-geophysical database;
- organize and develop the on-the-spot centre for acquisition, processing and interpretation of geologic-geophysical and field data;
- implement projects on increasing the volumes of production at the fields under development;
- ensure efficient design supervision of hydrocarbon field development projects;
- introduce new drilling technologies (for example, coil tubing, lateral drilling etc.);
- putting new fields on line.

¹ - The Asia Gas Pipeline JSC transported 15 bcm of gas to China in 2011

² - The Asia Gas Pipeline JSC transported 4.5 bcm of gas to China in 2010

³ - gas processing in the OGPP (Orenburg Gas-Processing Plant)

Top priorities of KazMunayGas in the sector of oil refining, petrochemistry and marketing of oil and oil products:

- increase oil refining volumes in Kazakhstan up to 19 mn tons annually by 2016 and maximize the returns of oil and oil products trading operations.

KazMunayGas plans to implement a number of large-scale investment projects as a part of the Program for Development of Oil and Gas Sector of the Republic of Kazakhstan for 2010-2014 approved by the Government of the Republic of Kazakhstan:

- modernize refining assets for the purpose of increasing the processing depth (to 89% starting 2016), and increase the quality of oil products (Euro-4,5 - starting 2016),
- develop the retail network with a view to increasing the KazMunayGas share on the retail market up to 15% by 2015.

In the gas transportation and marketing sector:

- to gain and use to the fullest extent the status of a unified operator for transportation, transit, exports, imports and distribution of gas;
- to complete forming a technically integrated gas-transportation system with further diversification of export and transit trends;
- to form a complete cycle of the value chain in the gas sphere through increment of own reserves and increase in the volumes of own natural and associated gas production, both in Kazakhstan, and in the adjacent countries;
- to conclude long-term agreements on guaranteed volumes of supply (import) of gas, agreements on gas swaps;
- to attract project financing and financing at the partners' expense for implementing the modernization and gas network projects in the regions of Kazakhstan;
- selective development of the electric power industry based on gas.

In the oil transportation sector:

- to increase the role of KazMunayGas as a unified operator of the domestic oil-transportation infrastructure which will allow strengthening own positions in the relations with partners and ensure the fullest protection of the state's economic interests;
- to complete forming a multiple-vector system of Kazakhstan's oil exports: implementation of the projects for expansion of the Caspian Pipeline Consortium and Kazakhstan-China oil pipelines, implementation of the KCTS project as far as Phase 2 of the Kashagan deposit is being developed;
- to develop national tanker fleet on the Caspian Sea

and in open seas with a view to increasing the market share, earning additional income from Kazakh oil transportation for exports and ensuring a reliable export corridor;

- to effectively manage oil-transportation assets and participate on a selective base in asset formation in other countries for the purposes of creating integrated transportation-and-logistical systems, gaining a guaranteed access to transit capacities, continuous transit of Kazakhstan oil, generating additional income from oil export transportation as well as securing the transparency of oil transportation and transshipment pricing.

In the Services Sector KazMunayGas is facing three top-priority tasks:

- to implement infrastructure and service projects as part of the Program of Petroleum Sector Development in the Republic of Kazakhstan for 2010-2014 approved by Decree of the RoK Government No. 1072 of October 18 2010.
- to create and develop service assets (insourcing) that may ensure integration of the core business in order to enhance presence in major petroleum projects;
- to implement the restructuring program for optimizing and creating efficient and transparent structure of the KazMunayGas service assets capable of increasing the economic viability of the service business area.

The main priorities in the occupational health and safety, industrial and fire safety, prevention of emergency situations:

- to prevent accidents and occupational illnesses, and breakdowns based on the efficient enterprise system for management of occupational health and safety, industrial and fire safety, prevention of emergency situations;
- to create an enterprise system for prevention and response to emergencies, including oil spills.

The main priorities in environmental protection and energy efficiency are:

- to improve the enterprise industrial environmental monitoring system;
- to decrease specific emissions of air pollutants;
- to develop and implement waste management programs;
- to introduce the system of greenhouse gas emissions management;
- to improve the energy efficiency of production operations.

OIL AND GAS UPSTREAM

In 2011 JSC NC “KazMunayGas” made purposeful efforts in the main strategic business area - buildup of the hydrocarbon reserves and production, The Company also continued its work on the “Integrated Study of Sedimentary Basins of the Republic of Kazakhstan” Project. As part of these efforts, the petroleum potential of 15 RoK sedimentary basins will be analyzed, earlier known oil-bearing regions and areas will be revaluated, and new territories will be identified based on the appraisal of hydrocarbon resources per sedimentary basin. The deliverables will allow performing quantitative evaluation of the RoK predicted hydrocarbon resources, optimizing economic performance of exploration, contributing to material increase in KMG NC’s resource base.

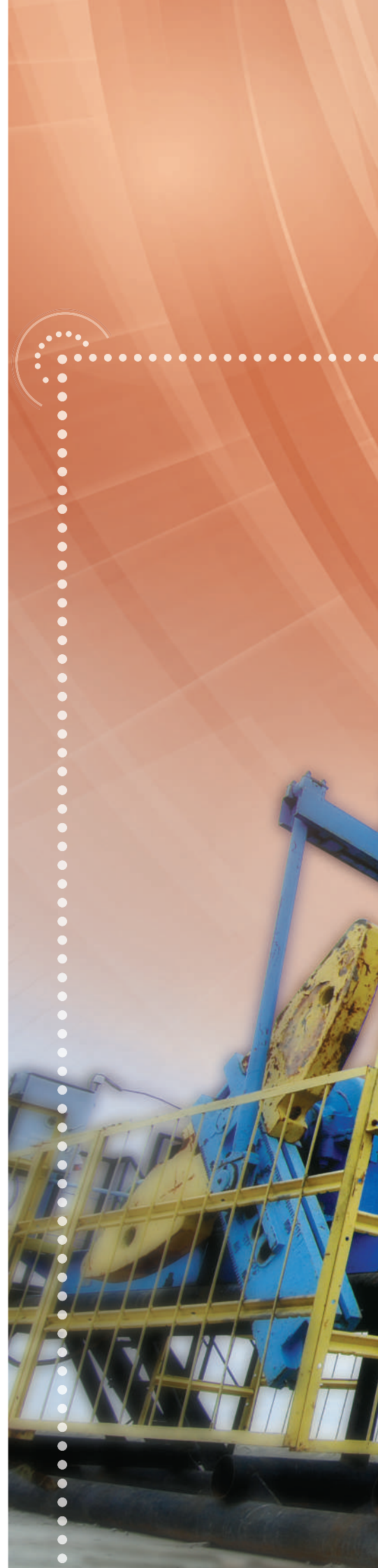
RESERVES

Whereas, as of 1 January 2011 the proven residual recoverable oil reserves of JSC NC “KazMunayGas” (taking into account the participatory interests) amounted to 791.3 mln. tons of oil, at the end of 2011 this indicator amounted to 778.6 mln. tons of oil. Decrease in the volume of residual recoverable oil reserves was due to production in 2011 (21.01 MMt), while increment in oil reserves amounted to 8.3 mln.t owing to recalculation and revaluation of field reserves of the producing assets.

A, B, C₁ Category Consolidated (Proven) Hydrocarbon Reserves of the “KazMunayGas” Group

Name	As of 1 Jan 2011	Total increment	Production	As of 1 Jan 2012
Oil, Mln. tons	791,3	8,3	21,01	778,6
Condensate Mln. Tons	15	-0,19	0,039	14,7
Natural gas, bcm	395,6	4,178	4,85	394,9

¹ - Calculated in accordance with the Regulations on the qualifications of reserves, future and expected oil and natural petroleum gas resources (approved by Order of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan of October 27, 2005 № 283).



OIL AND GAS UPSTREAM



2011

kmg.kz

Oil production

The consolidated uplift of oil and gas-condensate in the KazMunayGas group of companies amounted to 21,105 thousand tons in 2011, with the plan of 22,152 thousand tons (- 1,047 thousand tons) or 95.3% of the plan. As compared to 2010, the consolidated production of oil and condensate by the companies with a participatory interest of JSC NC "KazMunayGas" fell by 865 thousand tons or 3.9% in 2011. The decrease is coming from non-execution of the consolidated oil production plan in the KazMunaiGas EP JSC (91.5% of the plan).

In 2011 the consolidated volume of oil and condensate production, taking into account the participatory interest of the KazMunaiGas EP JSC, amounted to 12,353 thousand tons,

with the plan of 13,500 thousand tons (-1,147 thousand tons) or 91.5% of the plan. As compared to 2010, the consolidated production of oil and condensate by the companies with a participatory interest in the KazMunaiGas EP JSC decreased by 947 thousand tons (or 7.1%) in 2011. The decrease in the oil output is coming from the strike of the employees of the production-structure unit of the Ozenmunaigas PB during May-August, 2011, which led to an interruption of the normal mode of servicing the production operations of the Branch.

JSC NC "KazMunayGas" accounted for 26% of oil production in the republic as a whole. A total of 80 mln tons of oil were produced in Kazakhstan in 2011.

Oil and Gas Condensate Production in the entities taking into account the participatory interest of JSC NC "KazMunayGas"

th. tons

Name	2011	2010	2009	2008	2007	2006
KazMunayGas Exploration Production	7 911	8 780	8 978	9 486	9 548	9 551
KazTransGas (Amangeldy Gas)	22	24	26	26	26	-
Kazakhoil-Aktobe (50%)	570	488	468	380	435	509
Kazakhturkmunai (51%)	118	116	113	111	129	163
PetroKazakhstan (33%)	1 951	1 999	2 077	2 109	2 238	-
Kazgermunai (50%)	1 500	1 551	1 601	1 570	1 527	-
Karazhanbasmunai (50%)	990	970	933	914	-	-
Tengizchevroil (20%)	5 168	5 183	4 505	3 455	2 786	2 664
MangistauMunaiGaz (50%)	2 875	2 860				
TOTAL	21 105	21 971	18 701	18 051	16 689	12 887



Gas production

The consolidated production of natural and associated gas in the KazMunayGas group of companies amounted to 4,850 Mcm in 2011, with the plan being 4,977 Mcm (-127 Mcm) or 97.4% of the plan. As compared to 2010, the consolidated production of natural and associated gas in

the KazMunayGas group of companies in 2011 decreased by 62 Mcm or 1.3% of the plan. KazMunayGas Exploration Production JSC and LLP "Tengizchevroil" account for the bulk of gas production in the KazMunayGas group of companies

Gas Production in Entities with Participation of JSC NC "KazMunayGas"

<i>mln m³</i>						
Name	2011	2010	2009	2008	2007	2006
KazMunayGas Exploration Production	844	890	932	1018	1098	1181
Kazgermunai	259	258	260	262	276	118
Tengizchevroil	2 704	2 724	2 338	1 798	1 445	1 382
Kazakhoil-Aktobe	150	141	136	107	140	224
MangistauMunaiGaz	256	227				
Others	637	672	666	601	573	319
TOTAL	4 850	4 912	4 332	3 786	3 532	3 224

In accordance with the Program of Gas Industry Development in the Republic of Kazakhstan for 2004-2010, with a view to providing the consumers of the republic's south region with gas and ensuring energy security, JSC "KazTransGas" exploits the Amangeldy group of gas deposits in Zhambyl Province under the Hydrocarbons Exploration and Production Contract of 12 Dec 2009.

Within the framework of this project, the commercial exploitation of the Amangeldy field and development of other fields of the Amangeldy group is carried out, including a complex of exploration and seismic works, reserves

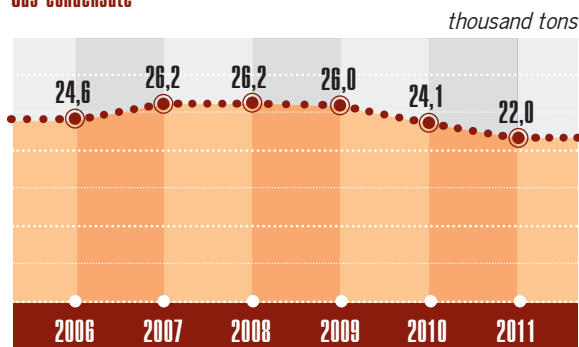
calculation, development of test production projects, projects for construction of producer wells and field surface facilities.

LLP "Amangeldy Gas" (a subsidiary of JSC "KazTransGas") is developing the Amangeldy gas and condensate field, located 170 to the north from the city of Taraz (administrative centre of Zhambyl Province in the south of Kazakhstan).

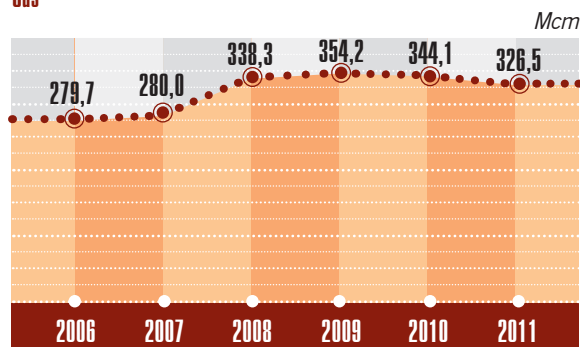
Development of the field began in 2001, first gas supply to consumers in Taraz was in 2003. Since the beginning of exploitation of the Amangeldy gas field, 2.4 bcm of gas and 200.1 thousand tons of condensate have been produced.

Natural gas and condensate production on the Amangeldy field

Gas condensate



Gas



Participation in major oil and gas projects

Tengiz Project

The Tengiz field discovered in 1979 is one of the largest in the world.

Agreement on the LLP "Tengizchevroil" Project (TCO) was signed on April 2 1993 between the Republic of Kazakhstan and Chevron. The hydrocarbon exploration and production license was issued to TCO in 1993 for a term of 40 years.

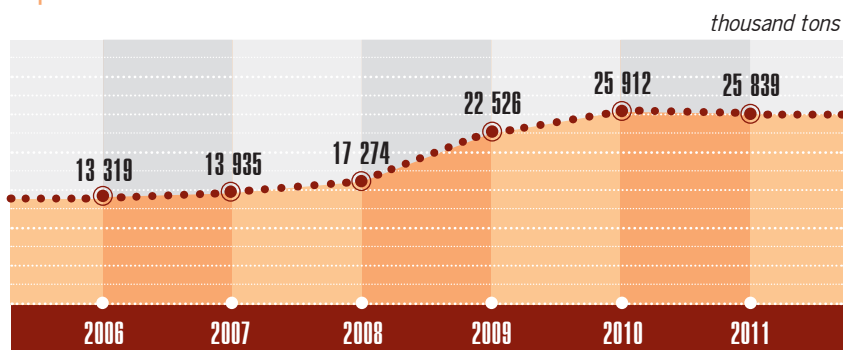
The TCO's core business is exploration, production and sales of hydrocarbons from the Tengiz and Korolevskoye deposits.

Currently, TCO's Partners are: Chevron (50 %), ExxonMobil (25 %), JSC NC "KazMunayGas" (20 %) and LUKArco (5%).

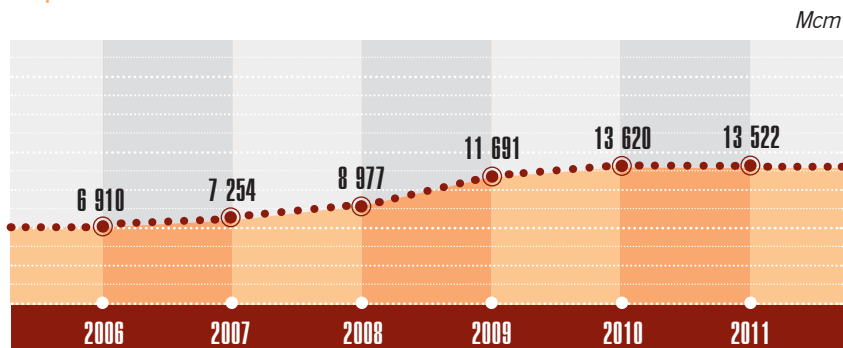
As part of the production capacity expansion, TCO implemented phased commissioning of the Second Generation Plant (SGP) in 2008. The principal objective of the project is increasing the field producing capacity and refining capacity to the level of 25 mn tons of crude annually.

In 2011 the total oil production by TCO amounted to 25.8 mn tons, gas production - 13.5 bn cubic meters.

Oil production



Gas production



North-Caspian Project

The North Caspian Production Sharing Agreement (PSA) was signed on November 18 1997.

Pursuant to the PSA, the contract area of the consortium is comprised of four structures: Kashagan, Kalamkas-Offshore, Aktoty, Kairan, Kashagan South-West. C1 proven recoverable oil and condensate reserves of the North-Caspian Project placed on the books of the Republic as of 1 Jan 2012 are 781.8 mn tons of oil (Kashagan, Kalamkas-Offshore, Kairan), 14.9 mn tons of condensate (Aktoty); the share of NC «KazMunayGas» is 131.4 mn tons of oil and 2.5 mn tons of condensate.

At the moment, the participatory interests in the PSA are distributed among KazMunayGas, ENI, Total, ExxonMobil, Shell - 16.81% apiece, ConocoPhillips - 8.40 %, Inpex - 7.56%.

According to the new operational model, North Caspian Operating Company B.V. has been the Operator of the North-Caspian Project since 22 January 2009.

The Kashagan field is at the stage of implementing Pilot Commercial Development (PCD), the following works were carried out in 2011:

- Drilling and construction works,
- Works for process tie-in of the offshore and onshore complex facilities,
- Commissioning work.

To boost the performance of the PCD facilities, additional capacity for disposition of associated gas are required. In this regard, currently the project for construction of a separate compression center island is being considered, works for development and obtaining approval of a separate

Amendment to the KDP&B and preparation for early basic engineering are being planned.

Phase II of the Kashagan development is at the stage of concept selection. Research for optimization and consideration of the concept alternatives has been completed, following the outcomes of which the Operator has recommended to the Contracting Companies the "Midi 1 Stop" alternative, with 1 processing train (200 thousand bbl of oil/day or 25 thousand tons of oil/day) and offshore gas treatment unit, as the Stage II concept. The Contracting Companies have approved the option of further works proposed by the Operator.

Resumption of Stage II works is planned after approval by the Committee for Geology of the oil and gas reserves redetermination report based on the new reservoir model (July, 2011), further obtainment of coordinate approvals and approval of a corresponding Amendment to the KDP&B by the Authority.

In August, 2011 the Operator submitted Amendment No. 4 to the Kashagan Development Plan and Budget to the Management Committee. In Amendment No.4 a time reserve for contingencies was included, the planned date of Kashagan commercial production was postponed from December, 2012 to June, 2013; in addition, the cost of PCD implementation is supposed to increase. Negotiations to settle controversies between the Republic and the Contractor started with respect to the presented Amendment No.4. Following the outcomes of the negotiations, a draft Settlement Agreement was drawn up. Currently, discussion of the draft is nearing its closing phase.



Geologic exploration Projects on the Caspian Shelf

JSC NC “KazMunayGas” links further buildup of the hydrocarbon feedstock reserves to the resource potential of the Kazakhstan sector of the Caspian Sea.

Exploration projects on the Caspian and in the coastal areas are one of the top-priority business areas of JSC NC “KazMunayGas” and its subsidiaries - JSC OOC “KazMunayTeniz”, N Operating Company LLP, and JSC “Atyraumunaygas”.

Successful search and exploration of hydrocarbons will enable the company to ensure increasing of the consolidated oil reserves up to 1.6 bn tons by 2020, i.e. more than twofold of the current level, and the consolidated oil uplift - up to 40 mn tons annually.

“KazMunayGas”, jointly with foreign companies, is carrying out a set of prospecting and research works on a whole group of blocks of the Caspian Sea, including Khvalynskoye, Centralnaya, Zhemchuzhiny, Tuyb-Karagan, Zhambai, Zhambyl, N project, Satpayev and other areas.

Following the results of the performed seismic surveys, new prospects and deposits on the KSCS exploration areas have been found (Makhambet, Bobek, Satpayev, Zhambyl projects), drilling of which is envisaged in 2012-2013.

In 2011 planned seismic prospecting and drilling was conducted on the contract areas and new sub-soil use contracts were developed to be signed by the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan.

Within the “Khvalynskoye” Project in May 2011 the RF’s Minister of Energy signed the order for creation of the Inter-Ministerial Commission (this order was registered with the RF’s Ministry of Justice on June 10 2011). In the second half of 2011 three meetings of the Inter-Ministerial Commission were held. In addition, in October-December, 2011 a number of meetings of working groups of the Inter-Ministerial Commission and the investor’s representatives were held. Currently, work on the comments and proposals of the representatives of the RF’s governmental authorities relating to the economic parameters of the project and the PSA text is underway.

Within the “Centralnaya” Project, the parties have been coordinating the issue of the business legal structure of the project cooperation.

Our own technical-and-economic assessment has been prepared based on the available materials; in this respect, the economics of the project, taking into account the existing C2 reserves risks, is negative.

Export permit from the RF’s Competent Authorities has been obtained, and geologic-and-geophysical materials have been partially collected (primary field seismic data acquired in 1996-1999 and 2001, final stacked and migrated sections of the 1996-1999 surveys, reports on soil surveying, engineering-and-environmental, engineering-and-hydrometeorological surveys etc.)

JSC NC “KazMunayGas”

Within the “N” Project 8 prospects have been allocated as a result of the performed exploration works: Rakushechnoye More, Nursultan, Al-Farabi, Samal, Ulytau, and others. 3D field seismic prospecting in the volume of 205 km² were carried out at the Rakushechnoye More structure in 2011. Analysis and integration of the field data based on the results of drilling R-1 exploration well on the Rakushechnoye More structure was performed. Based on the results of the production log tests, potentially oil-bearing reservoir beds were identified in the Lower Cretaceous and Upper Jurassic accumulations. The second stage of soil surveying on the N-1 well construction site were conducted.

Within the “Satpayev” Project field geochemical works were completed. Total number of sample points is 300. Laboratory tests of the selected samples were carried out. Detailed 2D seismic prospecting in the amount of 1,284 lin.km was completed, 2D seismic data processing and interpretation completed.



Within the “Zhambyl” Project integrated interpretation of the seismic prospecting and gravity study data, including all historical 2D seismic acquisition data was completed Coordinated approval

ISC OOC “KazMunayTeniz”

Within the “Zhemchuzhiny” Project works for «test» reprocessing of 3D seismic data on the Khazar area are underway. Preparatory works for drilling the Naryn-1 well with the target depth of 2,440 m were carried out. Works for preparing Hydrocarbon Reserves Assessment Report for placing them on the balance sheet of the RoK's State Reserves Committee were continued. Works for selection of the concept for development and facilities construction of the Khazar field were performed.

Within the “Tyub-Karagan” Project approval of the RoK Ministry of Oil and Gas for extension of the exploration period by 2 years (2011-2012) in accordance with the PSA terms was received. Drilling of the No.2 TK well with a 2,150 bottom-hole was completed on 16 May 2011. The horizon identified is Triassic. Following the results of drilling, no petroleum reservoirs were found. 7 core samples were collected. A complete package of soil well logging was performed, including MDT and VSP. The well was abandoned.

ISC “Atyraumunaygas”

Within the “Makhambet” Project processing and interpretation of 2D seismic data in the volumes of 1,500 lin.km, processed in 2010 was completed during the reporting year. For the purpose of refinement of the drilling location of exploration wells for Mesozoic and Paleozoic deposits, 3D seismic surveys in the amount of 800 sq. km have been recommended.

KMG new Projects

Within the “C1, C2, Godina-Offshore” Projects as part of the TSA between the KMG NC JSC and Petrovietnam EP signed on 18 October 2010, works for joint study of the C1, C2, and Godina Offshore sea blocks have been completed. Preliminary analysis and assessment of the hydrocarbon potential of the areas under study with defining prospective deposits have been performed. Following the outcomes of the works carried out, Petrovietnam considers these blocks commercially unprofitable.

Under MoU No. 1059-11 of 25 May 2011 and confidentiality agreement No. 1168-11 of 7 June 2011, the data and materials on the “Zhenis”, “C1, C2, Godina Offshore”, and «Ustyurt» projects have been transferred to the EP JSC.

Within the “Issatai-Shagala” Project draft PreEIA has been developed, public consultations in Aktau held, and positive environmental impact statement on the draft PreEIA

for a drilling point of 1 exploration well was obtained. Field soil surveying on the construction site of wildcats No.1 Zhambyl (ZB-1) and well No.2 Zhetysu (ZT-1) on the Zhambyl area were completed.

Within the “Atash” Project the measures to wind-up the Partnership and return the contract

area according to the Winding-up Measures Procedure have been completed. Reports have been filed with the Competent Authorities.

Within the “Kurmangazy” Project works for the project and closures of the Kurmangazy Petroleum LLP are nearing completion. Preparation of the final geological report and return of the contract area.

Within the “Zhambai” Project Construction of the YeS-1 exploration well on the Yedil North structure has been suspended in connection with the contractor's being late with fulfillment of the obligations assumed by it due to the limited navigation season and the peculiarities of the preserved area. The Zhambai LLP has notified the competent authority on force majeure, pursuant to clause 23.2 of the PSA (letter No.149 of 17 March 2011).

On the “Bobek” Project 2D field seismic shooting in the amount of 600 lin.km have been performed. Processing and interpretation of the acquired lines have been started.

obtained.

Draft Prospecting Works have been prepared.

Application filed with the RoK MOG with a view to obtaining the subsoil use right, work with the RoK MOG on the matter of obtaining the subsoil use right started.

Works with a strategic partner on coordinated approval of the term sheet for joint implementation of the project is underway.

Within the “Abai” Project the Heads of Agreement on Cooperation between KMG and Statoil (Strategic Partner) has been made.

Application filed with the RoK MOG with a view to obtaining the subsoil use right, work with the RoK MOG on the matter of obtaining the subsoil use right started.

Work with Statoil on preparation of package of transaction documents and sale of an interest in the Abai project in favor of Statoil has started.

Onshore exploration Projects

Within the "Integrated Study of the RoK Sedimentary Basins" project (ISRSB), comprehensive research on 15 sedimentary basins of the Republic of Kazakhstan has been conducted under Agreement №. 1-09-ҰБС//207-33 of 3 July 2009. Works under this agreement were generally adopted on the Science and Engineering Council of the "Oil Upstream" section of JSC NC "KazMunayGas" (SEC). The deadline for full completion of reports taking into account comments and recommendations is 31 March 2012.

Within the "Aerial Magnetic Mapping of the RoK's Sedimentary Basins" project, field works have been completed, a total of 95,000 lin. km of high-precision aerial magnetic mapping lines have been completed, works for data interpretation completed, a status report on the results of works for 2011 prepared.

JSC NC "KazMunayGas" associates the buildup of reserves with the resource potential of the Urikhtau oil-and-gas-condensate deposit. This onshore project appeared to be one of the high-priority business areas of JSC NC "KazMunayGas" and its subsidiary - LLP "Urikhtau Operating".

Within the Urikhtau Project drilling of the U-1 well at the target depth of 4,000 m has been completed. 4 targets within the 3670-3738 m, 3601-3607 m, 3478-3518 m, 3100-3122 m intervals have been tested in the U-1 well. In 3 intervals oil and gas have been produced to the well bore, and discovery of oil-and-gas occurrence in the second carbonate mass KT-2 has been made. Completion of the works for testing the 4th target in the 3100-3122 m interval is planned. Drilling of the U-2 well at the depth of 4,070 m has been completed. Preparatory works for testing 8 approved targets in the U-2 well have been started. Drilling of the U-3 well with the target depth of 4,300 m has been completed. Following the results of the GES and well logging in the U-3 well, pays have been

found in the KT-1 mass. VSP surveys have been performed in the U-1 and U-2 wells. The report "Analysis and integration of the results of drilling U-1, U-2 and U-3 exploration well on the Urikhtau field" has been completed.

Within the "Adai" Project a Memorandum of Understanding on the Adai project has been made between KMG and Repsol.

During 2011, work with the Committee for Geology was conducted for obtaining geologic-and-geophysical information on the Adai project for study and making a decision on the project.

Within the "Ansagan" and "Ustyurt" Projects in 2011 applications were filed with the RoK's MOG with a view to obtaining the subsoil use right. As of today, the applications have been withdrawn.

Within the "Shagyrlы-Shomyshtы" Project, in 2011 direct negotiations with the RoK's MOG were held for granting the subsoil use right.

The Statement of Intent with KazAzot (potential strategic partner) was executed.

During 2011, negotiations with KazAzot on the main principle of cooperation, there is a number of disagreement between the parties.

Currently, the implementation of the project is suspended.

In accordance with the address of the KazMunayGas Exploration Production JSC and resolution of the RoK IDC (Inter-Departmental Committee), works on transferring the subsoil use right to the Teresken, Karaton-Sarkamys, Uzen-Karamandybas projects to the KMG EP JSC has been completed.

KazMunayGas EP JSC (Embamunaygas PB + Uzenmunaygas PB)

JSC NC "KazMunayGas" links further buildup of the hydrocarbon reserves to the supplementary exploration of the license blocks by its subsidiary KazMunayGas Exploration Production.

Uzen-Karamandybas Project

In 2011 exploration works in connection with securing Contract No.3579 for exploration of hydrocarbons on the territory adjacent to the Uzen and Karamandybas fields started. Drilling of exploration well No.1 on the Bodrai structure has been completed. The bottom-hole is at 2,200 m. Well testing of 4 targets in the Middle Jurassic with thickness of 8-16 m is planned.

"Liman" Project

Drilling of exploration well No. G-3 on the Novobogat South-East structure is planned, the actual depth is 1,400 m. Oil flow to the surface has been obtained during testing of targets I and II. Drilling of exploration well No.G-4 has been completed. The actual depth is 1,650 m. The well has been abandoned

due to geological problems. 3D-CDPM field shooting on the Novobogat SE structure in the amount of 165 km² have been completed. Processing and interpretation of the 3D field data have been completed, a preliminary report has been obtained.

P-9 Project

Drilling of exploration well No. 100 on the Yestolai structure is planned, the actual depth is 1,396 m. Testing of targets I and II completed. Following the results of the testing, the well has been abandoned. Drilling of wells No.102 on the Kyzylkala South-East structure, total depth - 2,900 m. No.100 Kamyskol South - well bottom-hole 1,350 m; No.100 on the Masabai North structure - bottom-hole 2,240, and No.100 on the Kamyskol North structure - bottom-hole of 1,350 m. has been completed. The wells have been abandoned due to geological problems. 3D field shooting on the Shokat structure have been completed. 224 km² has been completed. Processing and interpretation of the 3D field data have been completed, a preliminary report has been obtained.

“Taisoigan” Project

Drilling of exploration wells No.20 and No.13 on the Kondybai area has been completed. The total depths are 600 m and 700 m respectively. The wells have been abandoned due to geological problems. Drilling of exploration well No.3 on the Bazhir East structure has been completed. The total depth is 1,212 m. The well has been abandoned due to geological problems. 3D-CDPM field shooting on the Kondybai and Uaz structures in the aggregate amount of 150 km² has been completed. Processing and interpretation of the 3D field data have been completed, a preliminary report has been obtained.

S. Nurzhanov Deposit

Drilling of well No.509 has been completed; the bottom-hole is 3,380 m. T-IV horizon in the 3,177-3,197 m interval has been tested. Oil flow to the service obtained with the flow rate of 66,8 m³/day on a 7 mm choke. The well has been moved to the balance sheet of the Field Office. Well No.707 - drilling completed, the horizon is Valanginian, bottom-hole - 2,000 m. Following the results of testing two

lower intervals, water with oil film has been received, testing of the third target is underway.

Makat East Field

Additional reservoir exploration is underway near the drilled well No.101, the bottom-hole is 1,500 m. In well No.105 - following the results of testing two lower intervals, water with oil film has been received, testing of the third target is underway.

West Prorva Field

Drilling of well No.402-R completed, bottom-hole - 3,560. Core with HC indicators in the Triassic has been collected. Based on the well logging, 4 targets were identified for testing. Testing of target 1 is underway. The well is flowing with high gas flow rate. Insignificant influx of oil with gas with gradual increase in pressure from 120 to 185 atm. has been recorded.

Novobogat West Field

Drilling of a 2,500 m well completed. Testing is planned.

Acquired assets of KazMunayGas EP JSC**Zharkamys East - 1 Block**

Field 2D shooting in the amount of 610 linkm and 3D-CDPM in the amounts of 200 linkm completed, processing and interpretation of the acquired data completed. Drilling of a sub-salt well on the Tuskum North structure, the depth is 4,750 m.

Temir Block

Field 2D seismic shooting in the amount of 975 linkm at the Akkuduk and Akkum areas completed. Processing and interpretation completed, a preliminary report obtained.

Teresken Block

Processing and interpretation of 900 linkm of 2D seismic acquisition data completed.

Rozhkovskaya (Fyodorovsky Block)

Drilling of wells No.21, No.22, and No.23 completed; target depth is 4,500 m. The total depth is 4,500 m. Suspension (testing postponed until 2012). Processing and interpretation of 3D in the amount of 747 km² completed

Kazakhoil Aktobe LLP**Alibekmola Field**

Multi-azimuthal VSP in wells A-314, A-64, A-300 and development 2D seismic prospecting at the Alibekmola field. Revaluation of public water supply reserves in the Alibekmola field (Kumzhargan sands protective zone) in the amount of 1,200 m³/day.

Kozhasai Field

Processing and re-interpretation of 3D seismic data acquired at the Kozhasai field in 2002-2011 completed. Since March, 2011 well K003T, K004T and K005 have been maintained as technical water supply intake, according to the approved engineering diagram.

Kazakhturkmunay LLP

Works for return of the Northern area of block IV of the Yelemes West field contract area are nearing completion. Perforation carried out in the Saztobe E -1A, and bringing the well to operating conditions is in the process. Research is being carried out on the cores taken out of the newly drilled

wells. Following the results of construction of well No.40 at the Laktybai field, C2 pay zones giving commercial oil influxes have been tapped and tested. Perforation of the intervals in order to involve them in development of the overlying beds is planned.

JSC “KazTransGas”**Amangeldy Project**

Works for recovery of exploration well No.4G of the Airakty field completed. Well logging performed. Reservoir fracturing carried out. Within the Zharkum field, according to

the additional exploration materials, JSC “NIPneftegaz” has completed reserves calculation and registered with the RoK SRC.

OIL REFINING

The company's consolidated oil refining throughput grew to 15.1 mn tons in 2011, as compared to 14.8 mn tons in 2010.

Oil Refining Volumes in the Refineries of the KazMunayGas Group

	2011	2010	2009	2008	2007	2006	2005
Atyrau Refinery	4 471	4 300	4 004	3 925	3 701	3 746	3 514
Shymkent Refinery	2 302	2 292	2 004	2 154	1 011 ¹	-	-
Petromidia Refinery	3 730	3 367	3 878	4 237	-	-	-
JSC PPCP	4 649	4 807	2 185	-	-	-	-
Total	15 152	14 766	12 071	10 316	4 712	3 746	3 514

¹ - The consolidated figure - taking into account the 49.72% interest and the refining volume in the Shymkent Refinery and the period since the acquisition in July, 2007.



REFINING

2011

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Atyrau Refinery

Atyrau Refinery (AR) was commissioned in 1945. The oil refining capacity is 4.3 mn tons annually. After the full-scale modernization and reconstruction of the refinery (the first stage of the refinery reconstruction project was implemented in 2006), the oil processing depth increased up to 61 percent. Sulfur content has seen a considerable decrease, in gasolines - from 1,000 ppm to 30 ppm, in diesel

- from 2,000 ppm to 50 ppm, oil content in the effluent water - from 205 thousand tons per year to 154 thousand tons per year, water consumption from the river of Ural from 99,500 thousand cubic meters per year to 3,500 thousand cubic metres per year.

AR accounted for 32.58% of Kazakhstan' total oil refining volume in 2011.

Production of main oil products

	2011	2010	2009	2008	2007	2006	2005
Gasoline	568	601	553	493	470	493	509
Diesel	1 330	1 259	1 191	1 175	1 019	995	958
Jet fuel	46	66	51	47	21	5	21
Fuel oil	1 786	1 953	1 698	1 566	1 096	1 343	1 345
Other products	489	254	205	330	747	569	466
TOTAL	4 220	4 133	3 698	3 611	3 353	3 405	3 299

thousand tons

The following projects are being implemented within the framework of the second stage of the Atyrau Refinery reconstruction:

- reconstruction of the vacuum block of the CDU-AVDU-3 unit and the delayed coker - will allow increasing the primary and secondary processing capacity, the processing depth - up to 72 %, and production of additional volumes of target added value oil products;
- construction of the aromatics production complex - aimed to improve the environmental attributes of motor gasoline by means of extracting benzene and aromatic hydrocarbons

from the gasoline cut. It is proposed to use the aromatic hydrocarbons received (benzene and paraxylene) as basic petrochemical feedstock for the "Petrochemical Complex Based on Benzene and Paraxylene" project;

At the third stage implementation of the project for construction of the deeper oil conversion complex is underway. Implementation of this project will allow transforming residual heavy oil products into high quality motor fuels, meeting the Euro-4 and Euro-5 standards, and increasing the processing depth up to 87%.



Shymkent Refinery

Shymkent Refinery was commissioned in 1985. Shymkent Refinery is controlled by LLP "PetroKazakhstan Oil Products" (PKOP), 49.72 % in which are held by JSC "KazMunayGas -

Refining & Marketing" since July, 2007. The oil refining capacity is 5.25 mn tons annually. PKOP accounted for 33.55% of Kazakhstan' total oil refining volume in 2011.

Production of main oil products

	2011	2010	2009	2008	2007	2006	2005
Gasoline	996	978	828	843	853	837	843
Diesel	1 338	1 337	1 276	1 408	1 381	1 287	1 276
Jet fuel	218	234	240	275	159	183	133
Fuel oil	989	931	694	635	552	565	767
Other products	888	947	765	886	853	905	656
TOTAL	4 429	4 427	3 803	4 047	3 798	3 777	3 675

thousand tons

Within the framework of executing the Program for Development of RoK Oil and Gas Sector for 2010-2014, the project for reconstruction and modernization of the Shymkent Refinery is being implemented, the main objectives of which

are recovery of the designed oil distillation capacity to 6 mn tons annually, increasing the processing depth to at least 90%, improvement of the quality and environmental indexes of the Euro-4 and Euro-5 motor fuels.

Pavlodar PCP

Pavlodar PC Plant was commissioned in 1978.

On 4 August 2009 JSC "KazMunayGas - Refining and Marketing" (through TH "KazMunaiGaz N.V.") signed the Agreement on Sale and Purchase of the 100% participatory interest in the authorized capital of the Refinery Company RT LLP, which owns the

property complex and is a holder of 58% of shares in JSC "Pavlodar Petrochemical Plant". The owner of 42% of JSC "Pavlodar Petrochemical Plant" is JSC NC "KazMunayGas".

PPCP accounted for 33.87% of Kazakhstan' total oil refining volume in 2011.

Production of main oil products

	2011	2010	2009	2008	2007	2006	2005
Gasoline	1 194	1 314	1 225	1 155	1 287	1 015	996
Diesel	1 395	1 478	1 328	1 314	1 425	1 107	1 056
Jet fuel	123	190	82	80	77	80	90
Fuel oil	885	887	747	794	752	1 242	1 251
Other products	635	598	438	392	371	218	316
TOTAL	4 232	4 467	3 820	3 735	3 912	3 662	3 709

thousand tons

Within the framework of executing the Program for Development of RoK Oil and Gas Sector for 2010-2014, the project for reconstruction and modernization of the Pavlodar PC Plant is being implemented, the main objectives of which

are recovery of the designed oil distillation capacity to 7.5 mn tons per year, increasing the processing depth to at least 90%, improvement of the quality and environmental indexes of the Euro-4 and Euro-5 motor fuels.

International operations in the oil refining sector

The production operations of the Romanian oil and gas company The Rompetrol Group (TRG), finally acquired by JSC NC "KazMunayGas" in 2009, are on.

Rompetrol includes two refineries (Petromidia and Vega), a petrochemical complex (Rompetrol Petrochemicals) and over 1,000 service stations in the European countries (Romania, France, Spain, Moldova, Ukraine, Bulgaria, Georgia). Rompetrol effects wholesale deliveries of oil products to Turkey, Ukraine, Croatia and other European countries. Rompetrol is a leading producer of polyethylenes and polypropylenes both on Romania's domestic market, and on the Eastern European market. The company's headquarters are in the Netherlands, the majority of operations and assets are located in Romania, France, Spain and South-East Europe. At present Rompetrol has over eight thousand highly-knowledgeable employees in 13 countries of the world.

Petromidia Refinery is TRG's key asset, the biggest and most integrated refinery in Romania. The refinery's designed processing capacity is 5.0 mln tons annually, which is around 29 percent of Romania's total refining capacity; the refinery is capable of processing heavy oils with high sulfur content. The refinery was built in 1974-1979, upgraded in the 90s and in 2005, it is located on the coast of the Black Sea, 225 km from Bucharest and 20 km from Romania's biggest port - Constanta. It has one of the highest Nelson complexity indexes -12.

3,730 mln tons of crude oil were processed in the refinery in 2011. Commercial output of products meeting the 2009 standards of the European Union (Euro-5 standard) has been set up in the refinery. 90% of diesel and 70% of motor gasolines produced in the Petromidia Refinery meet the Euro-5 standards

Vega Refinery is a specialized refinery, located over an area of 70 ha in the vicinity of Bucharest in the city of Ploesti. Built in 1905, upgraded in the 70s. The designed refining capacity is 500 thousand tons per year. Vega is specialized in processing alternative feedstocks (naphtha, heavy hydrocarbon fractions, fuel oil). The refinery's technology allows producing a wide range of solvents according to the specified properties, various bitumens and other specialized products. In 2011 the refining throughput was 337 thousand tons. The products turned out are used in the chemical, petrochemical, rubber, textile and footwear industry.

PCC Petrochemical - the Petrochemical petrochemical complex is integrated with the Petromidia Refinery. The existing facilities of the complex with the rated capacity of 220 thousand tons produce polypropylene, HDPE (high-density polyethylene) and LDPE (low-density polyethylene) of various brands. The source of feedstock is propylene produced in the Petromidia Refinery and purchased ethylene. The refining throughput of PCC Petrochemical amounted to 222 thousand tons in 2011.

Within the framework of joint activities, National Company "KazMunayGas" is interested in building a common vertically



Rompetrol consists of two refineries (Petromidia and Vega), petrochemical complex (Rompetrol Petrokemikals) and more than 1 000 service stations in Europe

integrated international level company, carrying out both production, and refining of oil, relying on TRG's experience on the European oil products market.

KazMunayGas and TRG intend to effect cooperation in the sphere of oil production and refining services, services in KMG's production assets, actively engage highly-knowledgeable specialists.

TRG's priority areas of development are expansion of the oil products retails sales network and implementation of the Petromidia modernization project (Project-2010) with the launch of new units. Implementation of this project will enable TRG to meet the environmental standards of the European Union to motor fuels introduced in the EU on 1 January 2009 (Euro-5) and achieve well-balanced operation of process units with the refinery's maximum capacity up to 5.0 mn tons annually.

INVESTMENT PROJECTS TO DEVELOP THE REFINERIES

In compliance with the Program of Oil and Gas Sector Development in RoK for 2010-2014 approved by Resolution No.1072 of October 18 2010 of the RoK Government, investment projects for development and modernization are being implemented in all three refineries of the republic.

Objectives of projects: Kazakhstan's requirement for high-

octane gasolines, jet fuel, and diesel will be fully satisfied. Organization of basic petrochemistry products production.

As a result of reconstruction and modernization, the oil refining capacity will be increased up to 19 mn tons annually by 2016, and production of the main types of oil products will exceed their consumption, new products will emerge - benzene, paraxylene.

Modernization and reconstruction of the Atyrau Refinery

- Within the project "Reconstruction of the Vacuum Block of the CDU-AVDU-3 Unit and the Delayed Coker", main process units were commissioned in 2011.
- An EPC-contract on a turnkey basis on the project "Construction of Aromatics Production Complex" was made with Sinopec Engineering (China) on 29 October 2009. Financing of the Project will be carried out under the master loan agreement signed by and between the Development Bank of Kazakhstan JSC and Eximbank of PRC on account of a tied loan (with the participation of Chinese companies). The contractor is completing development of the engineering documentation, works for purchase of large-size long-lead equipment, have been carried out, civil works on the process units and offsite facilities are underway.
- On the "Deeper Oil Conversion Complex Construction" project the design-and-estimate documentation has been developed, and a turn-key EPC contract was made with the consortium of contractors: Sinopec Engineering/Marubeni/JSC OGCC KazStroyService (PRC/Japan/Kazakhstan). Currently, the work on determining the financing terms is underway, the plans are to proceed to construction after execution of loan agreements in the second half of 2012.

Modernization and reconstruction of PKOP Refinery (Shymkent Refinery)

Italian Technip S.p.A. has prepared the FS for the Shymkent Refinery reconstruction and modernization project. A positive statement on the FS of the project was obtained from RSE «State Expert Project Review» on 24 November 2011. On 19 January 2012 inclusion of the Project in the list of prospective projects of KMG's Investment Program as a type S project was

approved by a resolution of KMG's Management Board; Project transition to the stage of development of design-and-estimate documentation. Currently, the analysis of the proposals from potential developers of design-and-estimate documentation is performed, and works on selection of process units' licensors are underway.

Modernization and reconstruction of Pavlodar PC Plant

Italian Eni S.p.A has developed the FS for the Pavlodar PC Plant modernization project under the "Cooperation Agreement between KMG and Eni". A positive statement on the FS of the project was obtained from RSE "State Expert Project Review" on 31 October 2011. In 2011, comparative assessment of technical-and-commercial

proposals from licensors of process technologies was completed. During the first quarter of 2012 licensors were selected. The plans are to sign licence agreements with licensors for development of the design-and-estimate documentation of the Project in the second quarter of 2012.

OPERATIONS IN GAS REFINING



Under the Agreement between LLP “KazRosGas” and LLC “GasProm Dobycha Orenburg”, processing of sour gas from the Karachaganak field in the amount of about 8 bcm annually is carried out by the Orenburg Gas Processing Plant (OGPP). Commercial gas is transferred to the domestic market of Kazakhstan and for exports as well.

Under the Agreement on Cooperation of 3 October 2006 between the Governments of the Republic of Kazakhstan and the Russian Federation, a joint venture (JV) on the basis of the OGPP was intended to be established for processing gas and condensate from the Orenburg (Russia) and Karachaganak fields.

One of the conditions necessary for creation of the JV was achievement of the annual volume of sour gas delivery to the Orenburg GPP of not less than 16 bcm annually, which had been envisaged in case of transition to Stage 3 of the Karachaganak Field development.

Due to the revision of the further development concept of the Karachaganak field by the Contractor of KPO B.V. and failure to provide a notice of confirmation of the transition to stage 3, the measures on the establishment of the JV on the basis of the Orenburg GPP were been suspended.

A working group has been established in KMG, whose activity is comprehensive analysis and working out the key issues of the Karachaganak GPP project, in accordance with the Nation-wide Action Plan to implement the “Message of Head of State to the People of Kazakhstan”.

Owned by OJSC “Gazprom”, the Orenburg Gas-Processing Plant has been created on the basis of the Orenburg gas-condensate deposit, discovered in 1966. The main conversion products are stripped gas, stable condensate and stabilized oil, technical sulfur, broad fraction of light hydrocarbons, odorizer, liquefied gas, and fuel gas.



Processing of sour gas from the Karachaganak field in the amount of about 8 bcm annually is carried out by the Orenburg Gas Processing Plant (OGPP). Commercial gas is transferred to the domestic market of Kazakhstan and for exports as well.

PETROCHEMISTRY PROJECTS

Within the framework of the Republic of Kazakhstan Petrochemical Industry Development Program approved by the

Resolution of the Government of the Republic of Kazakhstan, the projects for road bitumen production are being implemented.

Road bitumen production in the Aktau Plastic Plant

The project provides for production of high quality road bitumens in order to satisfy the republic's requirements for road construction, and is implemented on the production site of the existing plastic plant in the city of Aktau in the Mangistau oblast.

On 3 June 2010 the EPC Contract for the construction of the Project facilities was signed with the consortium of Contractors - JSC "OGCC "KazStroyService" and LLP "CITIC Construction". On 28 September 2010 a loan agreement with

the Bank of China was executed.

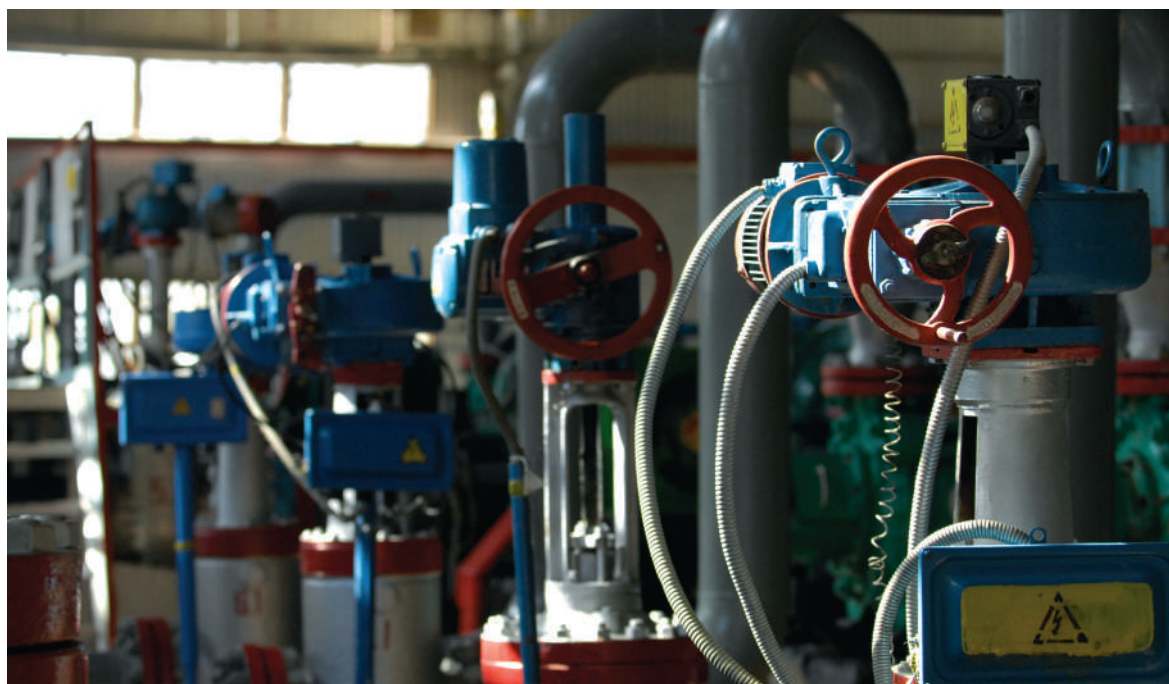
JSC "KING" performed adaptation of the DED, developed by NJPEC institute, to correspond to the RoK legislation and on 23 November 2010 it received a positive opinion from RSOE "GosExpertiza".

The consortium of Contractors is effecting deliveries of equipment and construction and assembly works at the bitumen plant construction site.

Key indicators of the project

"Road Bitumens Production in the Aktau Plastic Plant"

Products	Production ('000 tpa)	Location	Construction completion date
Road bitumen	406,5	Aktau Plastic Plant, Aktau	December, 2012
Petrol-diesel fraction	225,4		
Vacuum gas oil	330,3		



MARKETING AND SALES

Oil and oil products

Marketing and sales of oil and oil products to the domestic or external markets is carried out by a subsidiary of JSC NC "KazMunayGas" - JSC "KazMunayGas - Refining & Marketing (KMG-RM).

The bulk of KMG-RM's export shipments is crude, produced by the KazMunaiGas Exploration Production JSC. Virtually all KMG-RM's export deliveries are made through the Russian system of main oil pipelines of OJSC "Transneft" and the oil pipeline of the Caspian Pipeline Consortium (CPC). These routes are most optimum from the perspective of the economics of oil transportation to the world energy markets and full use of the available oil pumping quotas.

Key directions of oil exports by KazMunaiGas EP JSC in 2011

Oil volume, tons	Direction	Purpose
2 236 867	CPC	Exports
3 521 175	Novorossiysk	Exports
1 812 156	Atyrau Refinery	Domestic market



MARKETING AND SALES



2011

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KMG-RM's total oil export volumes were 5,758,042 tons in 2011.

Retails sales of oil products on the domestic market are made through the network of "KazMunayGas" service stations, located in the cities of Astana, Almaty, Western, Northern and Eastern regions of Kazakhstan. KMG-RM sells a wide range of oil products, including high quality gasoline, diesel and jet fuel.

Implementation of the own retail network expansion program under the KazMunayGas trade mark is underway, and as at 31 December 2011 KMG-RM owned 299 service stations.

The program of the own retail network expansion under the KazMunayGas trade mark is carried out both through construction of new service stations, and through acquisition and re-equipment of the existing stations. In construction of service stations KazMunayGas applies the best world practice: modular complexes, up-to-date fuel-dispensing units, leading-edge software are installed. This allows increasing the labour efficiency and improving the quality of consumer service. The plans are to increase KMG-RM's retail network to 323 service stations by 2011.

Annually, during the spring sowing and harvesting works, supply of POLs at reduced prices is made to agricultural producers. 469.1 thousand tons of diesel were supplied for the needs of the agricultural industry in 2011.



Retails sales of oil products on the domestic market are made through the network of "KazMunayGas" service stations

Sales pattern of the Atyrau Refinery products by JSC "KazMunayGas - Refining & Marketing" in 2011

	Volume, thousand tons	Domestic market	Exports
Gasoline, total:	232,8	232,8	—
Ai-80 gasoline	122,4	122,4	—
Ai-92 gasoline	104,0	104,0	—
Ai-95 gasoline	6,40	6,40	—
Diesel	550,0	550,0	—
Fuel oil	539,7	539,7	—
Calcined coke	46,40	46,40	—
TS-1 jet fuel	259,6	259,6	—
Heating oil	52,7	52,7	—
White spirit	0,30	0,30	—
Propane	8,20	8,20	—
Sulphur	0,60	0,60	—
TOTAL	1 690,2	1 690,2	—

Gas

Marketing of natural gas on the domestic market is carried out by subsidiaries of JSC "KazTransGas" - JSC "KazTransGas Aimak" and JSC "KazTransGas-Almaty". The functions of these companies include wholesale purchase of natural gas for the domestic market, gas transportation through regional gas-distributing networks, operation of gas-distributing facilities and networks and sales of natural gas on the domestic market.

Gas exports to external markets and sales of gas for Kazakhstan's domestic market requirements, including swap operations, are carried out by LLP "KazRosGas", established on a parity basis by JSC NC "KazMunayGas" and OJSC "Gazprom" in 2002. LLP "KazRosGas" receives volumes for sale under the "15 Years Karachaganak Deposit Sour Gas Purchase Agreement". LLP "KazRosGas" makes purchases and does marketing of gas from the Karachaganak deposit, and gas from the Tengiz deposit.



Marketing of natural gas on the domestic market is carried out by subsidiaries of JSC "KazTransGas" - JSC "KazTransGas Aimak" and JSC "KazTransGas-Almaty".

OIL TRANSPORTATION BY MAIN OIL PIPELINES

KazMunayGas carries out oil transportation by Kazakhstan's main oil pipelines through the systems of JSC "KazTransOil" (KTO) and the Caspian Pipeline Consortium (CPC).

In 2011 the consolidated volume of oil transportation by KTO's main pipelines amounted to 66.9 mln tons, which exceeds the planned value by 4 percent, and is 2 percent higher than the level of 2010. The oil throughput volume amounted to: through Atyrau-Samara - 15.4 mln tons (a 1% increase vs 2010), CPC - 28.2 mln tons (corresponds to the level of 2010), including the system of JSC "KazTransOil" - 3.9 mln tons (a 5% decrease vs 2010), Kazakhstan-China - 10.9 mln tons (an 8% increase).

JSC "KazTransOil" managed to exceed the planned annual figures thanks to:

- an increase in the oil output and oil deliveries by hydrocarbons producers to the oil pipeline system;
- measures to increase the efficiency of operation of the pipeline network, including use of turbulent viscosity reducing additives.

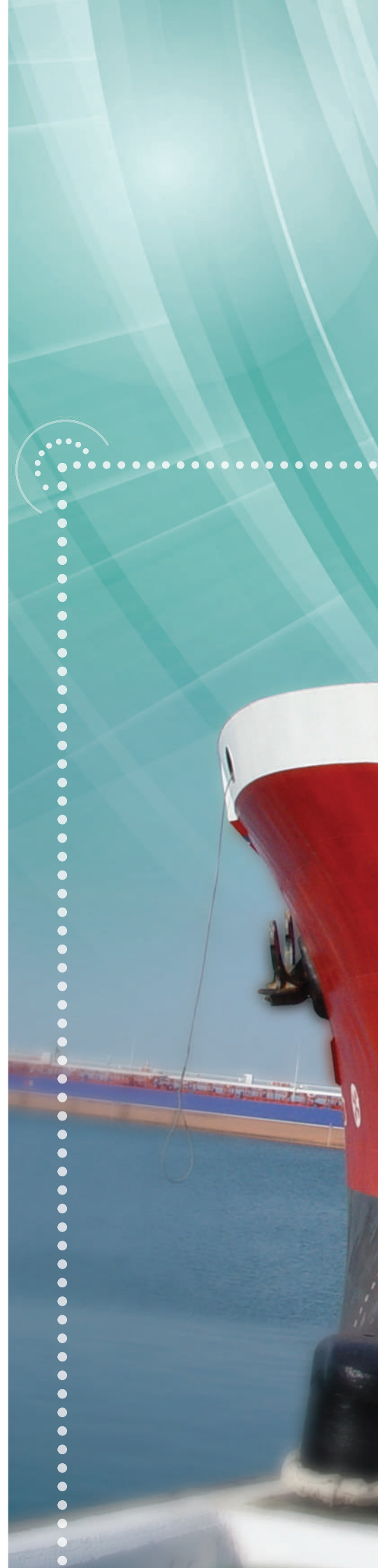
On the whole, KTO's main oil pipeline network is comprised of over 5 thousand kilometres, the company has a tank farm with the total volume of over 4 mn cubic meters, 39 pump stations, 4 production loading facilities. The length of the CPC oil pipeline is 1,510 km, the length of the Kazakhstan section being 452 km.

JSC "KazTransOil" is a shareholder in the following oil-transportation companies: JSC "North-West Pipeline Company "MunaiTas" ("Kenkiyak-Atyrau" oil pipeline), LLP "Kazakhstan-China Pipeline" ("Atasu-Alashankou" and "Kenkiyak-Kumkol" oil pipelines, and "Batumi Industrial Holdings Limited" and "Batumi Capital Partners Limited" (Batumi oil terminal).

JSC "KazTransOil" consolidated oil transportation volume

mln tons

Name	2011	2010	2009	2008	2007	2006	2005
KazTransOil (100%)	54,0	52,51	50,88	47,46	45,68	43,26	38,18
Kazakhstan-China Pipeline (50%).	5,45	5,05	3,85	3,06	2,4	0,88	-
MunaiTas (51%)	2,05	2,16	3,04	2,95	2,75	2,71	2,8
Batumi oil terminal (100%)	5,35	6,12	6,41	7,16	-	-	-
TOTAL:	66,87	65,83	64,18	60,63	50,83	46,85	40,96



OIL AND GAS TRANSPORTATION



2011
kmg.kz

DEVELOPMENT OF OIL SUPPLY EXPORT DIRECTIONS

Diversification of the Kazakhstan oil transportation directions is of particular concern to KMG, since it enables the company to select the most cost-effective routes of hydrocarbon resources transportation to the world markets and serves as a safeguard to ensure energy security.

Caspian Pipeline Consortium

The CPC oil pipeline with the total length of 1,510 km. connects Kazakh oil field "Tengiz" with the oil terminal "South Ozereyevka" on the Black Sea, next to the port of Novorossiysk. Since the beginning of operation of the oil pipeline (2001) 276.2 mn tons have been transported, including 232.7 of Kazakhstan's oil. In 2011 31.8 mn tons were transported through CPC, including 28.2 mn tons of Kazakhstan's oil.

In the context of the increasing oil uplift at the Tengiz and Karachaganak oil deposits and the scheduled placing in operation of the Kashagan deposit, one of the actual issues of the CPC Project is the oil pipeline capacity expansion.

On 15 December 2010 CPC shareholders made the unanimous final investment decision on the CPC Expansion Project. Pursuant to the decision, the financial-and-economic and technical parameters of the Expansion Project were determined, including the matters of industrial safety and environmental protection. The project provides for an increase in the CPC oil pipeline capacity from 28.2 MMtpa to 67 MMtpa, including an increase to 52.5 MMtpa at the Kazakh section.

The ground breaking ceremony on the Expansion Project has held on 1 July 2011 in Atyrau.

In July-August, 2011 all construction contractors for the Kazakh section completed pre-mobilization measures, having complied with all CPC's requirements for this stage (preparation of regulatory plans and procedures, obtainment of permits, making sub-contracts, terrain studies etc.), and proceeded to mobilization of equipment and labour resources.

In late September, 2011 construction and assembly works on the CPC Expansion Project at Kazakhstan's section were started.

It is planned to implement the expansion in three stages, fully completing the Project in 2015.

Kazakhstan-China Oil Pipeline

Construction of the Kazakhstan-China oil pipeline is carried out in two stages by the Kazakhstan-China Pipeline LLP, established on parity basis between JSC "KazTransOil" and China National Oil and Gas Exploration and Development Corporation.

Within the framework of the first stage the Atasu-Alashankou oil pipeline was built and put into operation (first start-up - in 2006, full completion of construction - 2008). The length of the oil pipeline is 962, throughput capacity is 10 MMtpa.

Realization of the first line of the second stage of the project - construction and commissioning of the Kenkiyak-Kumkol oil pipeline - was fully completed in December, 2010. The length of the oil pipeline is 794 km, the throughput capacity at the first stage is 10 mn tons of oil annually. 4.1 mn tons of oil were transported by the Kenkiyak-Kumkol oil pipeline in 2011.

As part of implementing the second train of the second stage of the project in 2011, construction of PS-11 of the Atasu-Alashankou oil pipeline was completed. The commissioning of PS-11 has made it possible to increase capacity of the Atasu-Alashankou oil pipeline to 12 MMtpa. 10.9 mn tons were transported by the Atasu-Alashankou oil pipeline in 2011.

Currently, the Kazakhstan party is having discussions with the Chinese party, under the existing bilateral agreements, on the terms of expansion of the Kazakhstan-China Oil Pipeline to 20 MMtpa, including the matters of availability of a guaranteed resources base, tariff-setting and the price of oil at the border with the PRC.



Kazakhstan Caspian Transportation System

The purpose of creating the Kazakhstan Caspian Transportation System (KCTS) is securing exports of Kazakhstan oil mainly from the Kashagan field across the Caspian Sea to the international markets through the Baku-Tbilisi-Ceyhan system and/or other oil-transportation systems located on the territory of the Azerbaijani Republic and other transit countries.

KCTS is comprised of the following segments:

1. Yeskene-Kuryk oil pipeline.
2. Trans-Caspian System/Projects (TCP), including: oil terminal on the Kazakh coast, tankers and ships, oil-discharge terminal on the Azeri coast, and connections to the Baku-Tbilisi-Ceyhan system.

The throughput capacity and the stages of development of the system will be determined proceeding from the oil output at the Kashagan field (phases 2, 3); it is assumed that it will amount to 23 MMtpa at the initial stage, and will increase to 35-36 MMtpa during further stages.

Due to a significant change in the schedule of the North-Caspian Project, a decision to suspend implementation of the KCTS project was made in 2011.

According to the preliminary assessment, commissioning of the KCTS facilities is essentially expected by the beginning of commercial production as part of phase 2 of the Kashagan field development - not earlier than 2020.

MARINE OIL TRANSPORTATION

Marine oil transportation is effected by a subsidiary of JSC NC "KazMunayGas" - JSC "National Marine Shipping Company "Kazmortransflot".

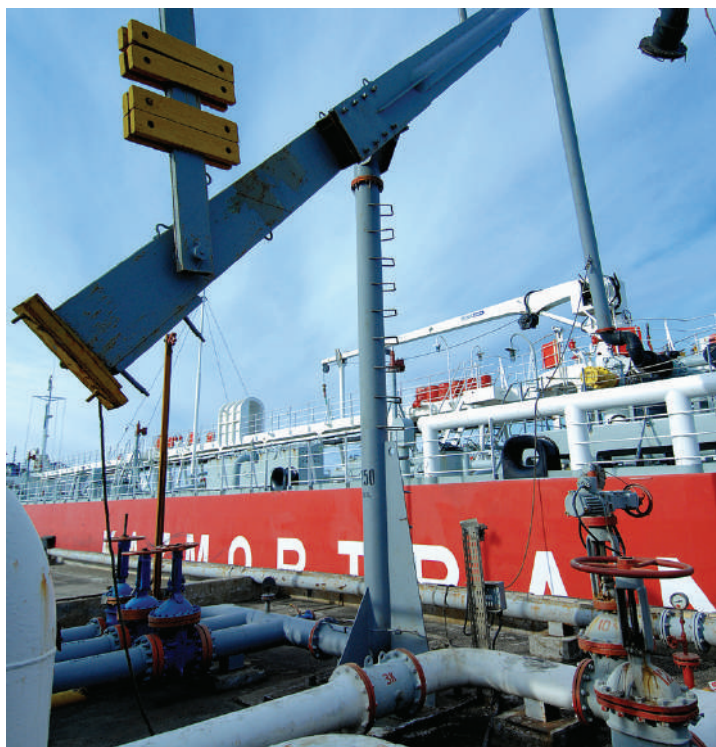
In April, 2011 JSC "NMSK "Kazmortransflot" was appointed national marine carrier of the RoK in accordance with the RoK's Merchant Shipping Act.

JSC NMSK "Kazmortransflot" has its own tanker fleet in the Caspian Sea, consisting of 6 crude oil tankers with the deadweight of 12-13 thousand tons.

Oil transportation was carried out from the port of Aktau in the direction of the ports of Makhachkala, Neka, Baku and on the Black Sea.

Taking into account the increasing volumes of Kazakh oil going to the Black Sea and other open seas, in December, 2011 JSC NMSK "Kazakhstan" purchased 2 Aframax crude oil tankers with the deadweight of 115 thousand tons - "Alatau" and "Altai".

On the whole, at year-end of 2011 KMTF transported 9,234 thousand tons of oil or 92 % of the plan (10,155 mn tons of oil), if compared to 2010, the oil transportation increased by 31% (2,152 mn tons).



Marine oil transportation is effected by a subsidiary of JSC NC "KazMunayGas" - JSC "National Marine Shipping Company "Kazmortransflot".

TRANSPORTATION AND DELIVERY OF NATURAL GAS

JSC "KazTransGas" is within JSC National Company KazMunayGas and controls the country's main network of transporting pipelines with the length of over 14 thousand kilometers with the annual throughput up to 190 bn cubic meters.

Natural gas transportation by main gas pipelines was 110.5 bn cubic meters in 2011.

Gas transportation volumes by main gas pipelines over 2006-2011

Transit type	2011	2010	2009	2008	2007	2006
International transit ¹	89	77,5	73,2	97,7	97,9	107,6
Kazakh gas transportation for exports	11,9	13,5	10,0	9,6	8,3	7,8
Gas transportation for domestic consumers	9,6	8,5	7,9	9,4	8,0	6,5
Transportation of gas for domestic consumers	110,5	99,4	91,1	116,7	114,2	121,9
TOTAL²						

bcm

The total gas transportation by the main gas pipelines of JSC "Intergas Central Asia" from 2001 to 2011 amounted to 1,235.3 bcm. At the end of 2010 the "Kazakhstan-China" main gas pipeline was commissioned, which transported a total of 15 bcm in 2011.

JSC "KazTransGas" (through its subsidiaries - JSC "KazTransGas Aimak" and JSC "KazTransGas Almaty") supplies gas to the consumers of Zhambyl, South-Kazakhstan, Kyzylorda, West-Kazakhstan, Aktobe, Almaty and Kostanai oblasts, and the city of Almaty.

Zhambyl (partially), South-Kazakhstan, Kostanai, Almaty oblasts and the city of Almaty are supplied with imported natural gas, purchased from OJSC "Gazprom" and its affiliates under the Agreement on Counter-Delivery of gas of 27 December 2006. The remaining regions are supplied with Kazakh gas.

The gross volume of gas deliveries to the market of the Republic of Kazakhstan was around 9.6 bcm in 2011. Of them KazTransGas Aimak sold 7.8 bcm of gas, KazTransGas Almaty sold 1.2 bcm of gas.

The total gas transportation by the main gas pipelines of JSC "Intergas Central Asia" from 2001 to 2011 amounted to 1,235.3 bcm. At the end of 2010 the «Kazakhstan-China» main gas pipeline was commissioned, which transported a total of 15 bcm in 2011.

¹ - The Asia Gas Pipeline JSC transported 15 bcm of gas to China in 2011

² - in case of rounding, the values may differ



EXPORT GAS PIPELINES PROJECTS

Kazakhstan-China Gas Pipeline

The Kazakhstan-China Gas Pipeline construction project ensures transportation of the transit gas from Turkmenistan across the territories of Uzbekistan and Kazakhstan to PRC, increases the transit potential, allows diversifying export routes of the Kazakh gas, and improves the country's energy security through provision of the domestic market with the own gas.

Implementation of the project for construction of the Kazakhstan-China gas pipeline is effected by special purpose vehicle Asian Gas Pipeline LLP (AGP LLP), established on parity basis by JSC "KazTransGas" and Trans-Asia Gas Pipeline Limited (CNPC's affiliate) on 15 February 2008.

On 9 July 2008 construction of the gas pipeline commenced, the first stage of which was completed ahead of the work

schedule, in record-setting time for the international practice.

1st line of the Kazakhstan-China main gas pipeline, 1,310 km, in length was launched on 12 December 2009.

In October, 2010 the 2nd line of the Kazakhstan-China gas pipeline was brought on line.

Over 9 thousand people were engaged in the construction.

As of 31 December 2011, around 20 bcm of transit gas had been transported by the gas pipeline in the direction of China.

The gas pipeline's capacity is planned to be brought to 30 bcm annually by the end of 2012. Further development of the gas pipeline to 40 bcm per year will be implemented in package with the "Beineu-Shymkent" Main Gas Pipeline Construction project.

Beineu-Bozoi-Shymkent Gas Pipeline

For the purpose of sustainable meeting of the requirements for gas of the RoK's southern regions, lowering the dependence on the imported gas and ensuring the RoK's energy security, implementation of the "Beineu-Bozoi-Shymkent" main gas pipeline construction project is envisaged.

The gas pipeline route runs across the territories of Mangistau, Aktoobe, Kyzylorda and South-Kazakhstan Provinces and has the following technical specifications: throughput - up to 6 bcm/year (First phase - 2011-2014), 10 bcm/year (Second phase - 2014-2015), length - 16477 km, diameter - 1,067 (1st line).

In order to implement the project, the following documents were signed and the following works performed during 2010-2011:

- Memorandum on performance of preparatory work on the project of Second section of the Kazakhstan-China gas pipeline between KMG and CNPC of 4 February 2010.
- Heads of Agreement on construction and operation of the Kazakhstan-China gas pipeline during the official visit of Chairman of PRC Hu Jintao to Kazakhstan of 12 June 2010 (the HOA).
- The meeting of founders of the Special Purpose Vehicle was held on 16 December 2010, where the matters of establishing the Special Purpose Vehicle, determining the size of its authorized capital, entering into the foundation

agreement, approval of the articles of association, election of General Director and Senior Deputy General Director, and the matters of registration with the governmental authorities of the Republic of Kazakhstan were resolved.

- The consortium of design institutes JSC "KING" and CPPEI completed works for adjustment of the FS and DED, and obtained the relevant positive statements of RSE "State Expert Review".
- The ceremony of welding the first joint of the linear part of the "Beineu-Bozoi-Shymkent" gas pipeline was held on 6 September 2011 in Turkestan.
- On 26 September 2011 Supplementary Agreement No.1 to the HOA was signed that determines the terms of the completion guarantee of the parties (50% each) of the project financing amount for the period of construction of the Second Section.
- Works on forming the authorized capital of the "Beineu-Shymkent Gas Pipeline" LLP by the Kazakhstan party were completed.
- Agreements on purchase of tubular goods were concluded with the "Asia Pipeline Consortium" LLC and China Petroleum Technology and Development Corporation on 7 November 2011. For the moment, (16 April 2012) about 600 km of tubular goods have been supplied to the territory of the RoK.

DEVELOPMENT OF SERVICE PROJECTS

Implementation of Program of Oil and Gas Sector Development in the Republic of Kazakhstan for 2010-2014

In accordance with the Program of Oil and Gas Sector Development in the Republic of Kazakhstan for 2010-2014, in 2011 the KAZ M-I LLP (the JV of the TenizService LLP and MI SWACO) completed the construction of the Drilling Muds Plant on the territory of the Offshore Oil Operations Support Base of the TenizService LLP.

The drilling muds plant will render it possible to produce oil-based drilling muds, and salt drilling muds in the amount of up to 84,000 tons annually. The target sales market is Kazakhstan. Supply of drilling muds and specific reagents will be ensured for the needs of drilling operations on the Caspian Sea shelf.



DEVELOPMENT OF SERVICE PROJECTS



2011

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Project for construction of the North-Caspian Oil Spills Response Environmental Base

One of the crucial aspects of development of Kashagan and other fields of the northern Caspian is ensuring environmental safety of production operations. Near the township of Damba in the Atyrau Province works are underway for construction of the North-Caspian Oil Spills Response Environmental Base (NCERB), intended for maintenance, storage and deployment of equipment for the second level oil spills response during the development of the Kashagan field.

For the moment, the works for development of the FS and PreEIA for the North-Caspian Environmental Response Base (NCERB) have been completed. Positive statements from the state regulatory bodies, the Opinion of the state environmental expert review for the PreEIA have been obtained, and the Opinion of the state project expert review for the FS, including the PreEIA was obtained in April, 2011. Development of the DED, including EIA was completed. Positive statements from the regulatory bodies, the Opinion of the state environmental expert review for the EIA have been obtained, and the Opinion of the state project expert review for the DED, including the EIA was obtained in June, 2011. Development of engineering documentation completed. In July, 2011 construction of the NCERB was started.

Industrial infrastructure project being implemented jointly with Eni S.p.A.

Work on project implementation is continued as part of the Cooperation Agreement between KMG and Eni Sp.A. Main 2011 results of projects:

- Dry dock/shipyard construction project - the FS package formed, state expert review is taking place.
- Gas turbine power plant construction project - the FS package formed, state expert review is taking place.
- Pavlodar Refinery modernization project - the FS package formed, opinion of the State Expert Review obtained
- Gas-processing plant construction project - the FS package formed, state expert review is taking place

«Research and Development Centre of JSC “Kazakh Institute of Oil and Gas” Project

JSC “Kazakh Institute of Oil and Gas” is implementing the project for creation of a world-class dedicated research-and-development complex, meeting the up-to-date requirements, with maximum utilization of synergy for scientific-and-technical and industrial-and-innovation-based development of the oil and gas industry of the Republic of Kazakhstan, and ensuring training and retraining of highly-knowledgeable staff for the group of companies of JSC NC “KazMunayGas” and the oil-and-gas industry of the Republic of Kazakhstan.

Main 2011 results of the project:

- On 10 August 2011 the KING RDC LLP was registered with the judicial authorities, and the tax department of the PIT FTZ.



- On 12 August 2011 agreement No.34 "On Carrying on Business on the Territory of PIT FTZ" and the KING RDC LLP was registered as a participant of the PIT FTZ.
- The starting composition of the laboratory complex has been determined. The composition and technical facilities are being worked out based on the results of studying the global experience. The concept of laboratory premises has been approved.
- The land rental agreement has been signed and registered.
- A competitive tender for development of the FS and DED for the project was held on 30 Dec 2011 (the "Almatygioprogor-1" Design Institute company has subsequently appointed as

the contractor).

Currently, the DED is under consideration by the state expert review.

Besides, JSC "Kazakh Institute of Oil and Gas JSC" became one of the participants of the KPJV Limited joint venture in 2011. KPJV's main goal is carrying out works for Front End Engineering and Design and the set of works for Engineering, Procurement, Construction and Management of a project (EPCM) (Master Contract) as part of TCO's "Future Growth Project" in the Republic of Kazakhstan.

Project: «Purchase of Two Agusta Westland-139 Helicopters» (JSC «Airline «Euro-Asia Air»)

The airline made a contract with the manufacturing plant for purchase of two Agusta Westland-139 helicopters on 21 October 2011. The objective of the project is to increase the company's value and maintain dominant positions on the market of air service to offshore

operations. The 1st aircraft arrived in Kazakhstan in November, 2011, the arrival of the 2nd one is planned for the 4th quarter of 2013. Currently, the 1st Agusta Westland-139 helicopter has been put into operations under a contract with Agip KCO.



The 1st Agusta Westland-139 helicopter has been put into operations under a contract with Agip KCO

KAZAKHSTAN CONTENT DEVELOPMENT

Following the results of 2011, the total amount of purchases in the KazMunayGas group of companies amounted to KZT 1,498.9 bn., the Kazakhstan content in the purchase being 49 % or KZT 733 bn.

Among other things, of the total amount of purchased goods for the amount of KZT 739.9 bn, the share of the Kazakh suppliers was KZT 261 bn., or 35.3 % of the Kazakhstan content.

The total volume of work agreements made amounted to KZT 338.6 bn., the Kazakhstan content being 57.3 % or KZT 194 bn.

A total of KZT 420.8 bn was spent on services, which includes KZT 277.8 bn. for services from the domestic suppliers, the Kazakhstan content in the service purchases amounted to 66 %.

Basic areas of implementation of JSC NC “KazMunayGas” Program for development of the local content:

- Increase in the volume of procurement of the products the production of which was set up in previous years and currently such products are produced in lots
- Assistance to OTP in arranging the production of new types of commercial products which are being imported now
- Increase in Kazakh local content upon implementation of major oil and gas projects
- Creation of Business Development Center
- Organization of service and engineering assets



KAZAKHSTAN CONTENT DEVELOPMENT



2011
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Making efforts to improve the local content, KMG focuses on organizing new production facilities through entering into long-term agreements and memoranda with goods producers. As part of the KMG group of companies efforts

to create new production facilities based on the existing production capacity of 11 domestic goods producers, 16 production facilities for new goods items were organized in 2011. In this respect, 101 new jobs were created.

Long-term agreements on works and services in the main KMG's SDEs

Name	Sum of agreements made in 2011, mln KZT
KazMunayGas EP JSC	-
JSC "KazTransGas" (ICA, KTG Aimak)	13 885
JSC "KazTransOil"	-
JSC "KazMunayGas Refining & Marketing"	5 037 *
TOTAL:	18 922

* - exclusive of the agreement on the project for construction of the Deeper Oil Conversion Complex in the Atyrau Refinery

Long-term agreements on goods in the main KMG's SDEs

Name	Sum of agreements made in 2011, mln KZT	Product Description
KazMunayGas EP JSC	-	Production strings, drill rods, rod couplings, seamless pipes, drive belts, batteries
JSC "KazTransGas"	-	Ball valves, gate valves, back flow valves, cable, stator blades for the GT-750-6 unit, rotor blades for the GT-750-6 unit, filters
JSC "KazTransOil"	3 334	chassis-based specialized machinery, chassis-based crew buses, signs, lifting gear
JSC "KazMunayGas Refining & Marketing"	134	heat insulation materials, electrical equipment, pipe fittings, tube-rolling products, cabling and wiring products etc.
TOTAL:	3 468	

Implementation of the "Program of Assistance by JSC NC "KazMunayGas" to Development of the Petroleum Mechanic Engineering in the Republic of Kazakhstan" continued in 2011. The purchases from Kazakhstan machine-building enterprises stipulated in the Program were carried out in full. 53 Kazakhstan enterprises - manufacturers of the saleable products for the oil and gas industry have been involved in the Program.

In accordance with the Program, Kazakhstan's plants year over year set up production of new types of oil and gas equipment, machinery and materials, which have never

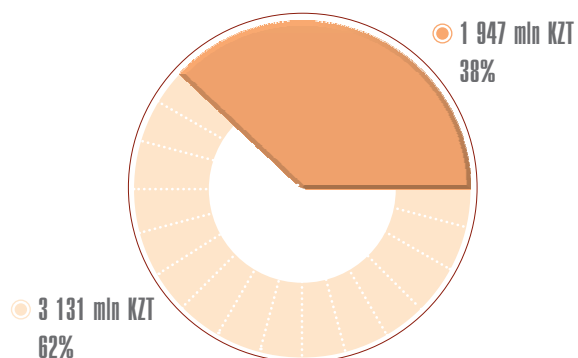
been produced in Kazakhstan earlier. Since the beginning of implementation of the first Program in 1998, Kazakhstan's plants have set up production of over 300 items of equipment on the largest positions.

As part of the Program the purchases of oil and gas equipment, machinery and materials in 2011 amounted to over KZT 33 bn.

The share of equipment purchases by KMG Group of companies from the machine-building enterprises, specializing in manufacturing products for the oil and gas complex, increases yearly.

Notably, in 2011 the volume of the KMG Group's purchases from JSC "West-Kazakhstan Machine-building Company" (ZKMK) amounted to KZT 1.947 bn. or 38 percent of the total production volume of the enterprise.

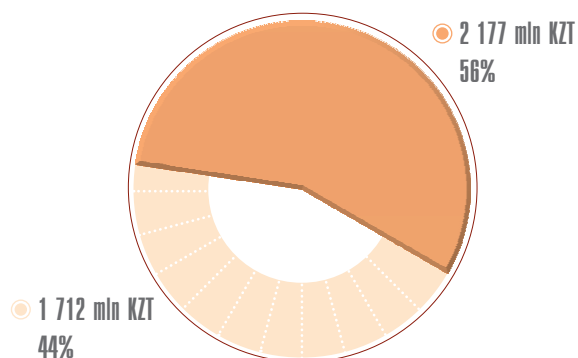
"ZKMK" JSC



The share of KMG's purchases from LLP "KSP Steel" amounted to 33%, the procurement of the pipe products from this enterprise amounting to KZT 10.386 bn

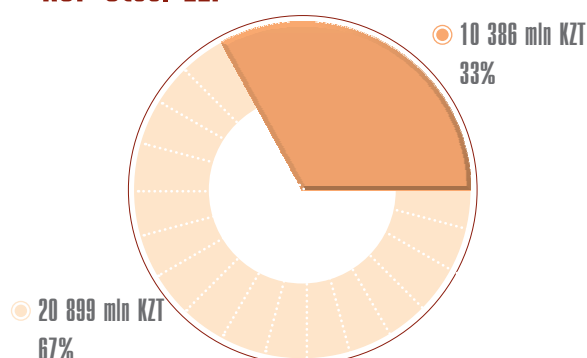
The share of purchases from LLP "Prikaspiysky Machine-Building Plant" amounted to 79% or KZT 2.177 bn.,

PMBK LLP



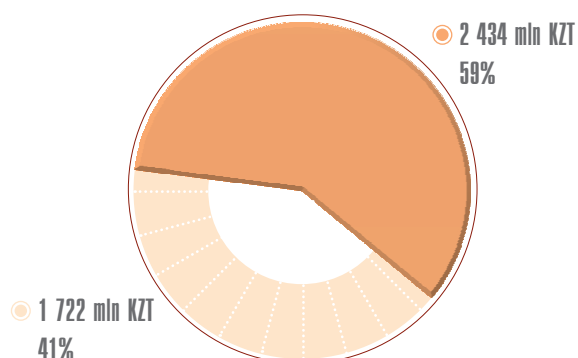
from JSC "Aktyubinsk Oil Equipment Plant" - 59%, which amounts to KZT 2.434 bn.

KSP Steel LLP



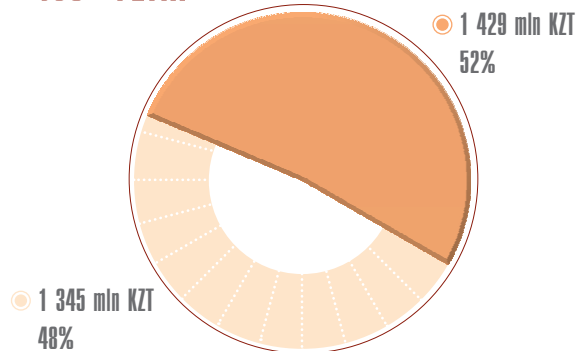
The purchases from JSC "Petropavlovsk Plant of Heavy Machine Building" amounted to KZT 1.429 bn. or 52% of the total production volume of the plant.

AOEP JSC

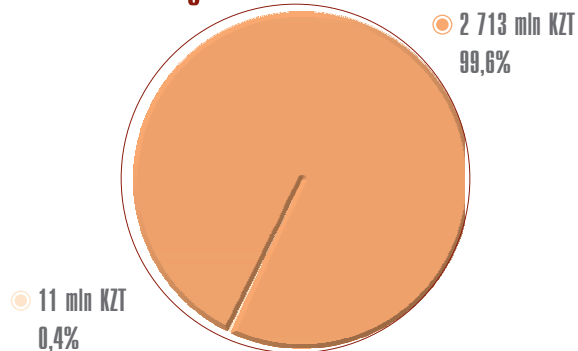


"JSC "Munaymash" executes the orders for virtually exclusively for KMG in the amount of KZT 2.713 bn.

JSC "PZTM"



JSC "Munaymash"



For the purpose of informational support to domestic manufacturers on the scheduled procurement of goods, works and services in the short-term and long-term the procurement plans for goods, work and services for the forthcoming year were regularly posted on the corporate web-sites of the KMG group of companies in 2011, including the catalogue of goods planned for purchase in 2012-2016.

A group of KazMunayGas specialists held a number of meetings with business representatives in all regions of the country. During these meetings the cooperation issues were discussed and information on the Procurement Rules and existing preferences for the domestic manufacturers was presented.

Kazakhstan Content in major oil and Gas Projects

In order to improve Kazakhstan content in major oil and gas projects, work is continued within the framework of joint working groups, created in 2011 on KMG's initiative jointly with the Association of Legal Entities "Union of Machine-Builders of Kazakhstan" with participation of Tengizchevroil, NCOC and KPO B.V.

For example, within the Tengiz Project the analysis of over 6.5 thousand items of goods to be purchased by TCO was performed, technical audit of over 20 Kazakhstan plants with respect to compliance of the output products with TCO's technical requirements has been carried out, companies meeting TCO's requirements have been determined who received orders, and companies recommended for participation in TCO's tenders have been determined.

As a result of the conducted work, in 2011 the total amount of payments to Kazakhstan companies for services and goods in the TCO project was 16569 mln USD or 63%.

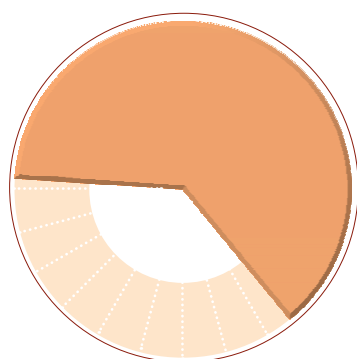
TCO's Payments for Purchases of Kazakh Goods and Services

\$ mln. USA

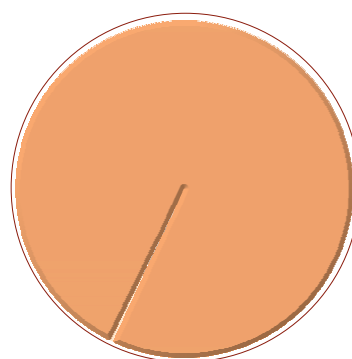
Types of payments	Categories	2011	Kazakhstan content, %
Services	Total expenses in the RoK	2 116,7	73%
	Amount for KC	1 553,2	
Goods	Total expenses in the RoK	355,6	4%
	Amount for KC	15,7	
Total	Total expenses in the RoK	2 472,3	63%
	Amount for KC	1 569,2	



TCO expenses in Kazakhstan, millions of U.S. dollars



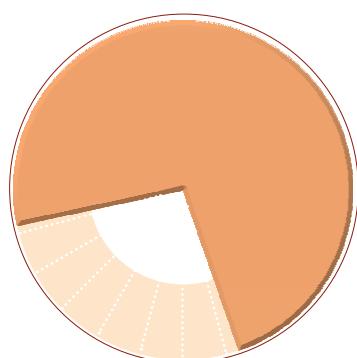
- 1 569 USD mln / 63%
Kazakhstan content
- 903 USD mln / 37%
Without Kazakhstan content



- 1 553 USD mln / 99%
Kazakh producers' services
- 16 USD mln / 1%
Kazakh manufacturers' goods

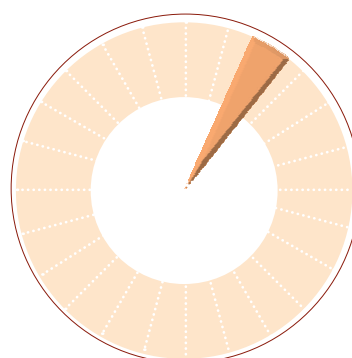
TCO expenses for goods and services in 2011, millions of U.S. dollars

Services - 86% Total expenses



- 1 553 USD mln / 73%
Expenses for kazakh suppliers' services
- 564 USD mln / 27%
Expenses for foreign suppliers' services

Goods - 14% Total expenses



- 15 USD mln / 4%
Expenses for kazakh producers' products
- 340 USD mln / 96%
Expenses for foreign producers' products

As a result of the conducted work, in 2011 the total amount of payments to Kazakhstan companies for services and goods in the TCO project was 16569 mln USD or 63%.

CORPORATE SOCIAL RESPONSIBILITY

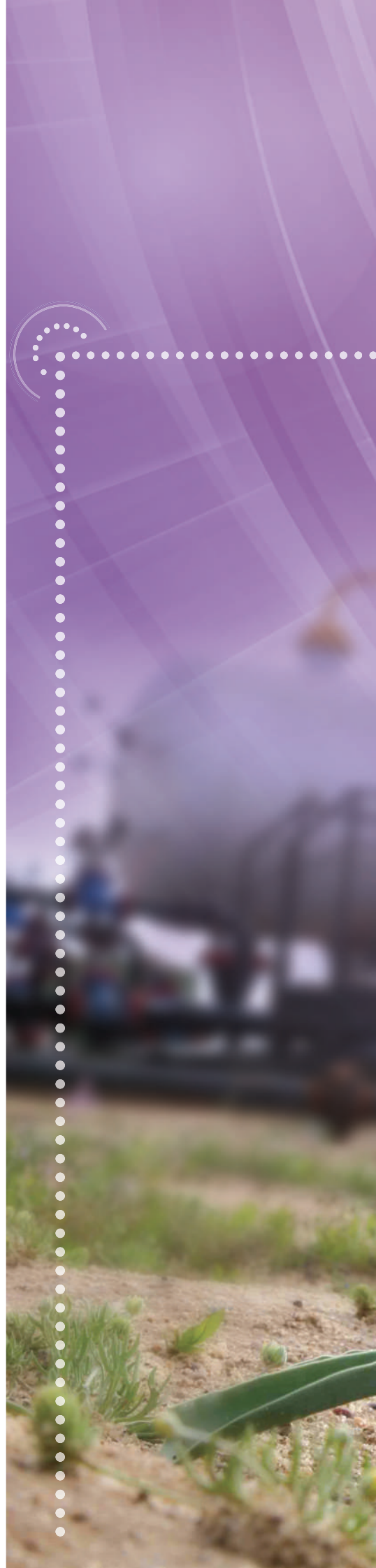
Corporate social responsibility means accomplishment of voluntarily assumed obligations which correspond to the interests of the society, state and business.

National Company KazMunayGas deems its social responsibility as a voluntary contribution to the development of the society in social, economic and environmental spheres, as related directly to the main activity of the Company and realized beyond the minimum requirements established by the law in accordance with the company's capacity.

KazMunayGas, as a socially responsible company, is committed to the ongoing implementation and improvement of the quality of social activities in the following main directions:

- External Social Responsibility
 - Social partnership, sponsorship and charity
 - Environment Protection
- Internal Social Responsibility
 - Development of HR Potential
 - Motivation System
 - Healthcare
 - Work Safety

The strategy of the KazMunayGas company in the sphere of corporate social responsibility and relations with parties concerned consists in securing long-term and mutually beneficial cooperation in the implementation of the most actual and socially significant projects aimed at social-and-cultural and social-and-living development of the regions of the republic.





CORPORATE SOCIAL RESPONSIBILITY



2011

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SOCIAL PARTNERSHIP, SPONSORSHIP AND CHARITY

Sponsorship and charitable activity of JSC NC “KazMunayGas” was carried out taking into account the following principles and priorities:

- objective necessity and advisability
- transparency and responsibility in decision-making
- compliance with the priorities of rendering sponsorship and charity
- practical efficiency of measures
- availability of finance
- positive effect on the improvement of the Company's image
- control over spending of funds as per their intended purpose

priorities of sponsorship:

- measures under the instruction of President of the Republic of Kazakhstan, Prime Minister of the Republic of Kazakhstan, Chief of Staff of President of the Republic of Kazakhstan, the management body of JSC “Sovereign Welfare Fund “Samruk-Kazyna»
- individual sports and sporting events
- socially important projects
- organizational-and-practical measures related to the Company's operations (international conferences, forums, investment summits, round tables etc.)

Priorities for provision charity support of:

- statutory activities of organizations of veterans, the disabled, orphanages, centers and other nonprofit organizations within social sphere
- pensioners, registered with the Company, in accordance with collective agreements concluded
- activities related to emergencies caused by natural and man-made disasters occurred on the territory of the Republic of Kazakhstan

The 20th anniversary of Independence of the Republic of Kazakhstan, the 100th anniversary of Dossor deposit, the 50th anniversary of Mangystau oil, the 25th anniversary of Kumkol deposit were considered as the significant events of “KazMunayGas” Company in 2011, after which “KazMunayGas” group of companies implemented a number of major social projects.

Opening ceremonies of the Health and rehabilitation center and Children's health camp for 250 seats in recreation area “Kenderli”, Mangystau region, the Art School and kindergarten for 280 seats in Zhetybay area, Mangystau region, a high school for 1 200 seats and the Alley of drillers in Zhanaozen, Mangystau region, kindergarten “Botakan” for 80 seats in Dossor, Atyrau region, were conducted, the presentation of medical equipment purchased for the Children's Hospital in Kyzylorda region with a consultative and diagnostic clinic was conducted.

Also, as a part of commemorative events in Dossor, Atyrau region, reconstruction and capital repair of the building and stadium of the Sports and recreation center, the House of Culture “Munayshi”, the building and hotel of OGPD “Dossormunaygas” were implemented, five sports-grounds with artificial turf on the territory of 4 schools in Dossor and five children's playgrounds with small architectural forms were installed. On the occasion of the 20th anniversary of Independence of Kazakhstan CF “Presidential Fund for the state language development” delivered sponsor support to implement six projects aimed at developing the state language; Republican and city-wide children and junior tournaments for Cup “KazMunayGas” on mini-football, mini-tennis and judo among students of Astana, Almaty, Pavlodar and Shymkent were conducted. A number of other projects was implemented.



The Company strives to maximize the benefits from its activities for the State and society, annually investing heavily in solving issues of socio-economic development of regions.

Being one of the largest national companies of Kazakhstan and realizing the social responsibility of business, "KazMunayGas" group of companies implemented a number of social projects, as well as major events of nationwide and international importance.

At that, the following large projects could also be noted: construction of a Health Resort offering climatotherapy and therapeutic muds therapy on the shore of the Balkhash Lake, the British affiliate of school "Haileybury Astana", multi-purpose sports complex in Pavlodar and Kazakhstan History Museum in Astana.

In 2011, "KazMunayGas" completed the Program of Multi-Purpose Recreation Ground Construction. Over three years of this Program 50 playgrounds have been built throughout Kazakhstan.

Due to flooding in West Kazakhstan region in 2011, "KazMunayGas" Group of Companies delivered charity support to Akimat of West Kazakhstan region in the amount of 3.9 billion tenge for construction of 106 residential buildings in Zelenovsk district, 72 houses in Taskalinskiy district and 3 90-apartment buildings in the 5th district of the regional center. Also, the employees of "KazMunayGas" Group of Companies actively participated in the activities to assist the affected population by organizing voluntary collection of funds from salaries. In total the Akimat of West Kazakhstan region received more than 4 billion tenge at through charity and voluntary transfers from the wages of employees of "KazMunayGas" Group of Companies.

Among other social events are as follows:

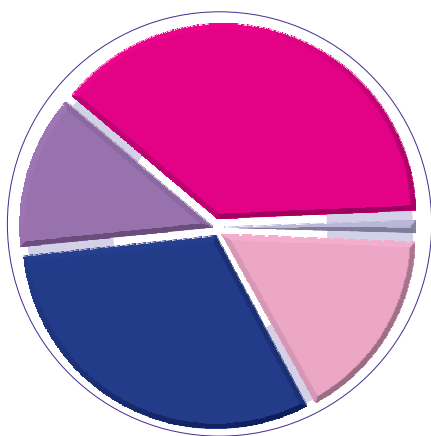
- sponsor support to enhance sport results, further development and participation of national teams in the international competitions in such sports as football, boxing, tennis and judo as well as implementation of the project on establishing the World Academy of Boxing (AIBA) in Almaty;
- Individual support to vulnerable groups - Children's Home "Svetoch" (Astana), Veterans Organization of the Republic of Kazakhstan (Central Council and the branch in Astana, "Komek" Veterans Organization affiliated to Government of the RK), "SOS Children's Villages of Kazakhstan" Corporate Fund, Society of Disabled Children in Astana, "Munayshi" Social Fund named after N. Marabayeva and other specialized Social Charity Funds;
- Sponsor support of the annual Charity Ball in Almaty the goal of which for 2011 was to raise public awareness and provide targeted assistance to address the problems of children with disabilities in the Republic of Kazakhstan;
- Sponsor support of significant nationwide events, significant events to enhance youth policy (Astana Economic Forum, Eurasian Media Forum, Eurasian Forum KAZENERGY, Republican and International Conferences "Human Resource Management: Innovation in HR" and "Labor Market and Prospects for Development of Technical and Vocational Education" and other

significant events at the national level to strengthen the prestige and authority of our country in the international arena);

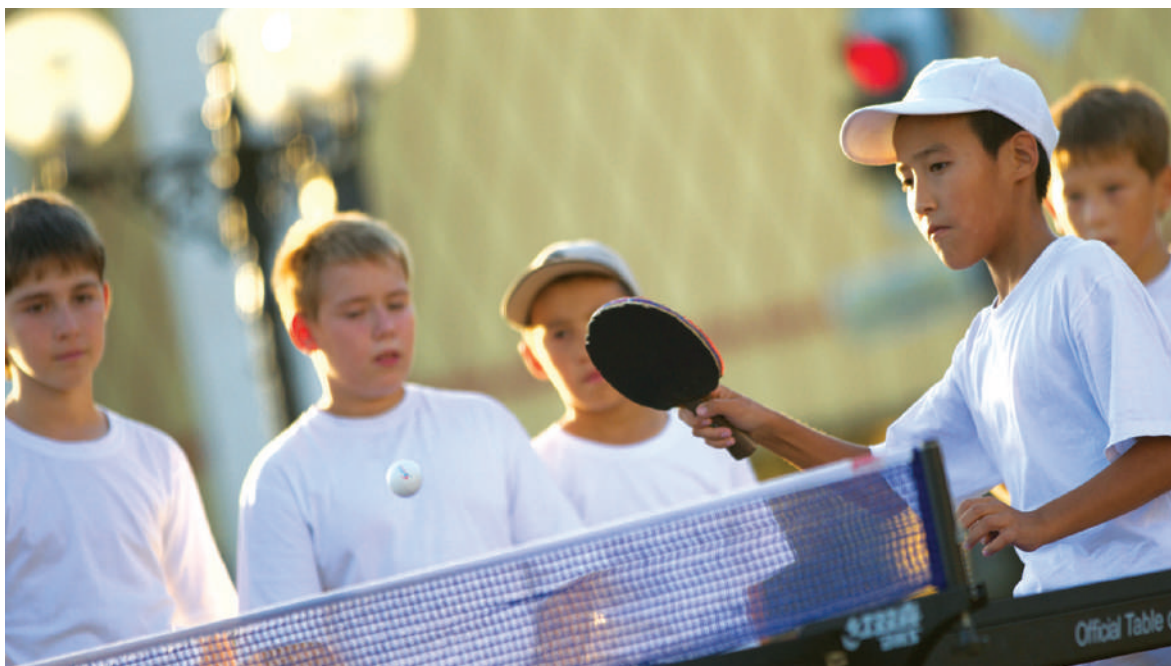
- Support to development and promotion of knowledge and creativity of talented young people, within which there is a competition of journalistic excellence "The Power of a Pen", which aims to revive the best traditions of Kazakh journalism, increase creativity and journalistic skills of the media, and promote more complete awareness of the general public of major events little-known before, interesting facts, as well as personalities from history of oil and gas industry; the project of "KazMunayGas" and KAZENERGY "Scholarship named after S. Utebayev", under which scholarships and grants named after Safi Utebayev are provided to the best students and teachers of institutions of higher education studying and teaching oil and gas disciplines; a series of "open lessons" on petrochemicals is conducted, and a cabinet of chemistry and biology is equipped in the Kazakh-Turkish Lyceum, Astana, the purpose of which is concluded in executing professional orientation work among gifted children, exciting of interest among students to studying chemistry and scientific research, bringing them to the oil and gas industry. Recognizing urgency and importance, the Company delivered sponsor support to the children's dance group "Tumar", television project "Intellectual Olympiad";
- within development of the capital of the Republic of Kazakhstan and support of the state initiative on cultural and historical heritage, and pursuant to instructions of the Head of State and Government, "KazMunayGas" is implementing the project on construction of "Museum of History of Kazakhstan" in Astana;
- implementation of various social projects aimed at supporting young people, development of the state language, culture and socio-economic development of regions.
- issuing books, newspapers, magazines, movies, website:
- book of Daniel Yergin, "Production: World history of the struggle for oil, money and power" (reissuing the book in Russian);
- A series of video documentaries about history of oil and gas industry;
- book "Elbasy zhane memlekettik til" cognitive information newspaper "Altyn Alash", economic website www.economika-qun, popular scientific website www.kazmunay.kz, educational website for teens www.balbulaq.kz;
- animated video for studying Kazakh, Russian and English languages;
- book of Abay "In the expanses of the three giants" and "Memories";
- special issue of the journal "Madeni Mura - Cultural Heritage", dedicated to the 100th anniversary of Dossor, the 50th anniversary of Uzen and Zhetybay, the 25th anniversary of Kumkol.

In total in 2011 "KazMunayGas" Group of Companies delivered sponsor and charity support in the amount of more than 24.5 billion tenge.

Major Directions of Sponsor and Charity Support of “KazMunayGas” Group of Companies for 2011



- 9 481 mln. KZT - to support individual sports and sport events
- 261 mln. KZT - to support the organizational and practical activities related to the Company's activities
- 3 987 mln. KZT - due to emergencies caused by natural and man-made disasters
- 7 620 mln. KZT - to support the socially significant events, statutory activities of the Veterans Organizations, the disabled, orphanages, centers and other nonprofit organizations within social sphere and assistance to pensioners registered with the Company in accordance with collective agreement
- 3 154 mln. KZT - to support events on the instructions of State Administration Bodies



In total in 2011 “KazMunayGas” Group of Companies delivered sponsor and charity support in the amount of more than 24.5 billion tenge.

SAFETY, HEALTH AND ENVIRONMENT

The principal objective of JSC "National Company "KazMunayGas" (KMG) in this area is formulation, coordination and control over the implementation of KMG's common policy on occupational safety and environment, industrial and fire safety, civil defense and emergency situations (CD&ES), with giving recommendations to the subsidiary and dependent entities (SDEs) for development of measures aimed at improving the situation.

The matters of occupational safety and environmental protection, industrial and fire safety, CD&ES are regularly heard at meetings of KMG's Management Board and Board of Directors.

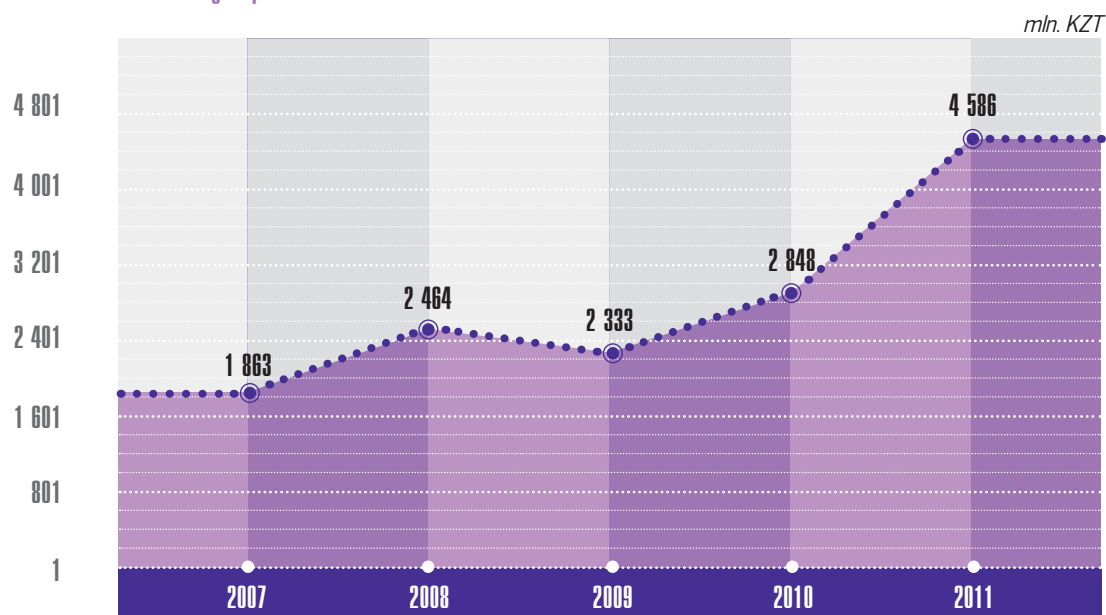
In accordance with the approved work plan, KMG's HSED carried out inspections of SDEs on the matters of compliance with the legislative requirements on occupational safety and environmental protection, industrial and fire safety, CD&ES.

Occupational Health and Safety, industrial Safety

Organizational work in the sphere of occupational health and safety is conducted in KMG in compliance with the requirements of the Labor Code of the Republic of Kazakhstan

and the "Uniform Occupational Safety Management System" guidelines approved by resolution No.24 of 30 March 2005 of the KMG NC JSC's Management Board.

Occupational Health and Safety Expenditures



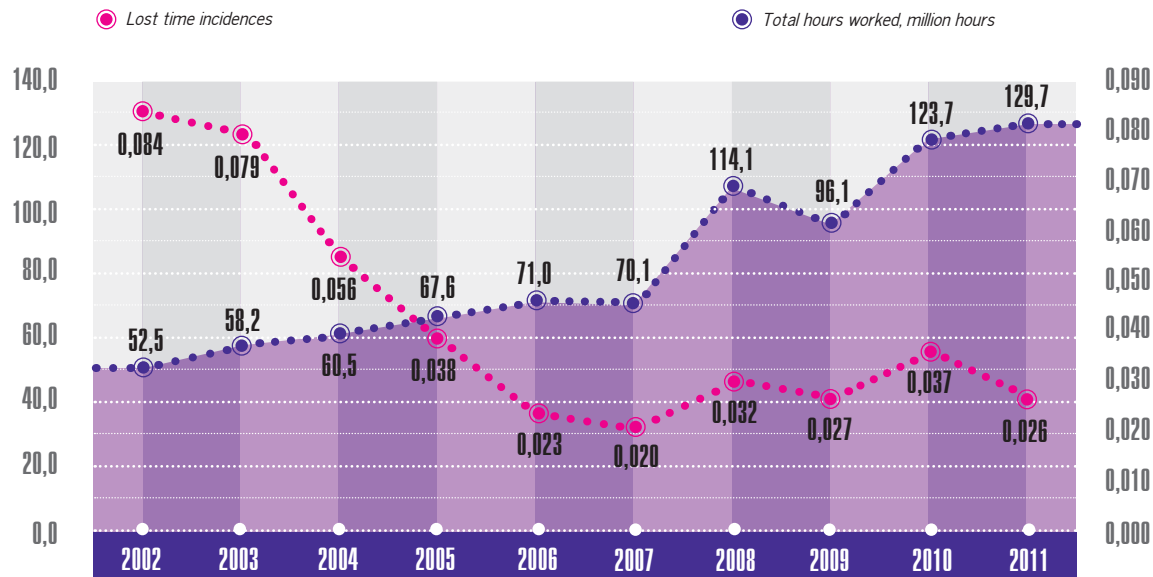
Every year, SDEs of KMG spend necessary financial funds for the measures to ensure occupational health and safety and to decrease the number of accidents at work. 4,586 mln. KZT were directed to these purposes in 2011, which is 1,738 mln. KZT or 38% higher versus 2010.

In compliance with the approved Action Plan to Improve Corporate Governance System in JSC NC "KazMunayGas" for 2011-2012, the list of performance indicators of JSC NC "KazMunayGas" in the sphere of corporate social responsibility and sustainable

development was approved by the resolution dated 13 December 2011 of KMG's Board of Directors (minutes No.8/2011).

One of these approved indicators is the industrial injuries frequency rate (Riif) adopted in the international practice. This is the number of lost time accidents multiplied by 200,000 (50 work weeks, 40 hours each for 100 employees), attributable to the aggregate hours worked in an entity. As compared to the previous year's period, this industrial injuries frequency rate decreased from 0.037 to 0.026.

Frequency coefficient of industrial injuries, critical flicker frequency



To increase the responsibility of the SED's heads and to decrease traumatism rates the lowering factors have been included into key performance indicators of the SED for admission of accidents.

To introduce unique effective methods and approaches on safety and labour protection management at the corporate level, targeted to protect the offices from injuries and professional deceases, KMG developed a Comprehensive Safety and Labour Protection Program for 2012-2016.

Main goal of this Program is to decrease the level of accidents and injuries in KMG and its SED up to zero level by 2016 with aim to provide life and health protection of the personnel, exclusion of damages and preservation of valued assets, increase of image and reputation of KMG.

Main priority components of this Program are:

- Ensuring the safe working conditions at work areas and in production units through prevention, identification and elimination of industrial risks;
- Increasing the industrial safety and safe conduct culture by the personnel based on adherence to goal and objectives in the field of safety and labor protection;
- Promotion of leadership skills, safety and labour protection management by the heads of all levels;
- Ensuring incentives for the personnel on safe industrial operations and its involvement into risk management process;
- Introduction of effective approaches and practices on labour safety and protection during arrangement of industrial processes and observation of working procedures;
- Involvement of the personnel into process of identification,

assessment, analysis and management of industrial and behavioral risks, investigation of occurred accidents and emergencies;

- Application of effective and effectual management methods and systems on labour safety and protection (communication, information, alarming system);
- Constant development and training for the personnel of all levels to improve labour safety and protection;
- Equipping with collective and individual protective devices;
- Monitoring, efficiency assessment of corporate management system on labour safety and protection (LSP), its review for improvement.

This program is developed based on standards and recommendations of International Labour Organization accepted and successfully applied in the international praxis, but considering the legal requirements of the Republic of Kazakhstan.

By results of peer assessment, DuPont Sustainable Solutions provided a positive response to draft Program and made recommendations for its stage-by-stage execution.

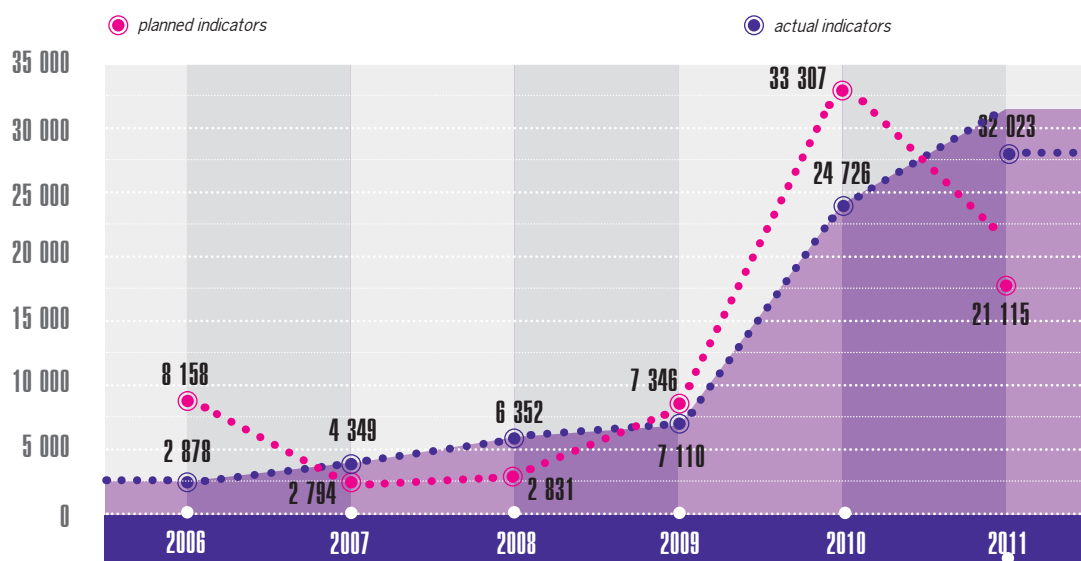
In 2011 a corporative informational data management system on labour and environment protection, industrial and fire safety, prevention of emergency situations was developed and stagewise introduced in KMG. This information system as a system of corporative management system on labour and environment protection should ensure automated compilation, registration, search, analysis, systematization, processing and keeping of KMG's SED based on up-to-date technologies and software to make effective managerial solutions at corporate level.

Environment Protection

In accordance with KMG's Development Strategy, a Comprehensive Environmental Program of JSC NC "KazMunayGas" was developed and approved by the Management Board for 2006-2015 (CEP), the main objective of which is to en-

sure a systemic approach to environment protection in the KMG group of companies. Total amount of financial assets targeted for execution of CEP was 32 023 mln. tenge in 2011 against the planned 21 115 mln.tenge, at that overdelivery was 34 %.

Implementation of the Comprehensive Environmental Program, million KZT



Work is continued for the creation of an efficient KMG's Corporate Industrial Environmental Monitoring System, which has been determined as one of the main priorities of the Company's strategy and has been approved by the Company's Board of Directors on 19 January 2009.

In order to implement KMG's long-term strategy, works on aerocosmic environmental monitoring at KMG's sites of responsibilities, including Kazakhstan sector of Caspian Sea, have been continued.

In 2011, the trend of decreasing impact of the activities of the main subsidiaries on the environment remained.

Thus, volume of pollutant emissions into atmosphere decreased by 9 766 tons or by 5,3 % against the last year. Reduction of emissions volume happened due to taken measures aimed to reduce emissions and to reduce volumes of gas transportation through gas pipelines of KazTransGas JSC.

Moreover, despite the increase in overall production for the last years there is a sustainable decrease in specific volumes of emissions by exploitation, oil refining and oil\gas transportation.

For example, specific volumes by oil refining in "Atyrau ORP" Ltd. and "KazMunayGas - Refining and Marketing" JSC decreased from 1,05 to 0,99 kg per tons of refined oil.

Volume of waste water discharge decreased by 1 409 thou.m³, or 17 %, in comparison with last year when this value precipitously increased thanks to acquisition of two oil refinery

plants (PKOP, PNKhZ).

Considering that the bulk of waste water volumes is belonging to ORP of KMG-Refining and Marketing JSC, decrease of volumes is related to efficiency of introduced technologies on water purification and water waste regaining, including installation of biologic purification of waste waters at Atyrau ORP.

Waste volume from production and consumption have been increased by 58 675 tons or 44,8 % in comparison with last year. Increase of waste volume from production and consumption is related to recultivation of historical pollutions and their placement for utilization at temporary storage facilities.

Works on liquidation of oil contaminated lands and recultivation of polluted areas, including the method of biologic purification. Thus, for reporting period Exploitation and Production JSC "KazMunayGas" refined 10 956 tons of oil contaminated land. And for reporting period the amount of KZT 1 778 mln. was assigned for these purposes.

Works on development of corporate GHG emissions management system have been continued. Within the Memorandum of Understanding with Norwegian Company Carbon Limits several technical and economical reviews were made and some potential projects - considered. In total, 3 projects were selected according to which the documents with project ideas are currently under preparation (PIN). Mostly, these projects

are aimed to reduce methane emissions by transporting and distributing gas pipelines of "KazTransGas" JSC.

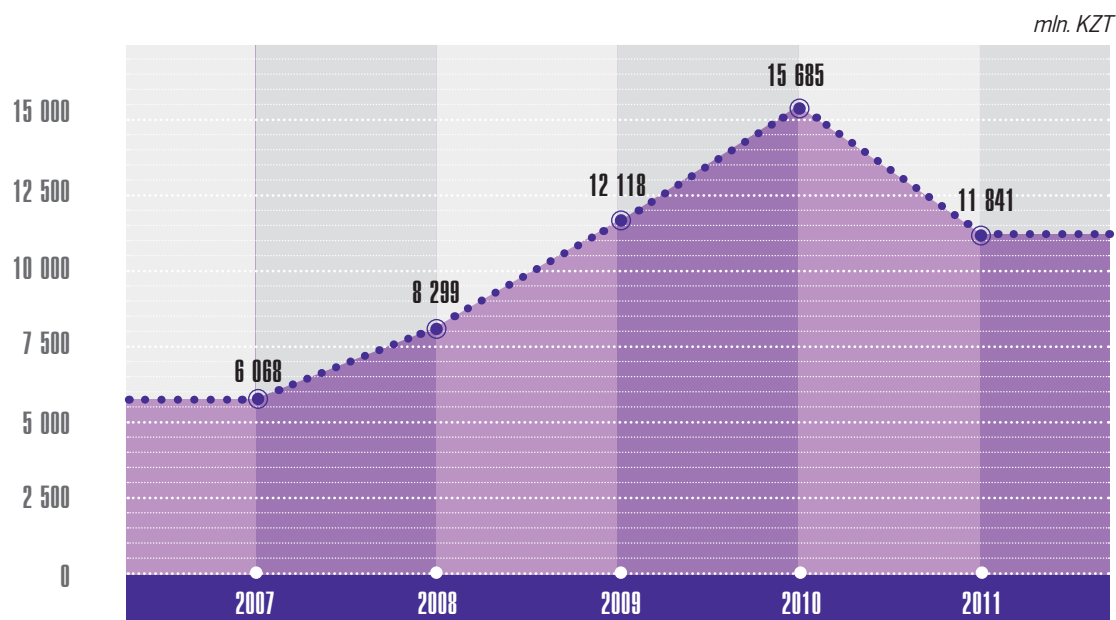
By results of GHG inventory in 2011, the forecast total volume of GHG emissions by KMG's SED was 8,18 mln tons in equivalent to CO₂.

Indicator of production energy density, considering the consumption of all fuel and energy resources in KMG's SED, was 782,7 in 2011. In 2012 it is expected to increase this indicator till 1055,1 or 25,8% due to expansion of production capacities and increase of fuel and energy resources consumption.

Payments for environment pollution calculated KZT 1 629 mln. which is KZT 205 mln. or 12,5 % more than the last year.

In 2011 for execution of nature protective measures KMG's subsidiaries assigned over KZT 11 bln. Total costs of nature protective measures in KMG's SED were KZT 47,1 bln. A significant part are the costs assigned by KMG's SED within the Programs and intended for utilization of drilling gas (APG) ("Kazakhoil-Aktobe" Ltd. - KZT 25 663 mln, "Mangistaumunaigas" JSC - KZT 8 794 mln.) and for reconstruction ("Atyrau ORP" Ltd. - KZT 5 089 mln).

Costs Associated with Environmental Measures By Main Subsidiaries



HUMAN RESOURCES POLICY

Employment

There are main approaches to the employment process fixed with HR Policy of JSC NC "KazMunayGas" for 2011-2015 - transparent selection procedure on competitive basis that gives equal opportunities to all candidates who meet the specified requirements to gain objective evaluation of their professional skills.

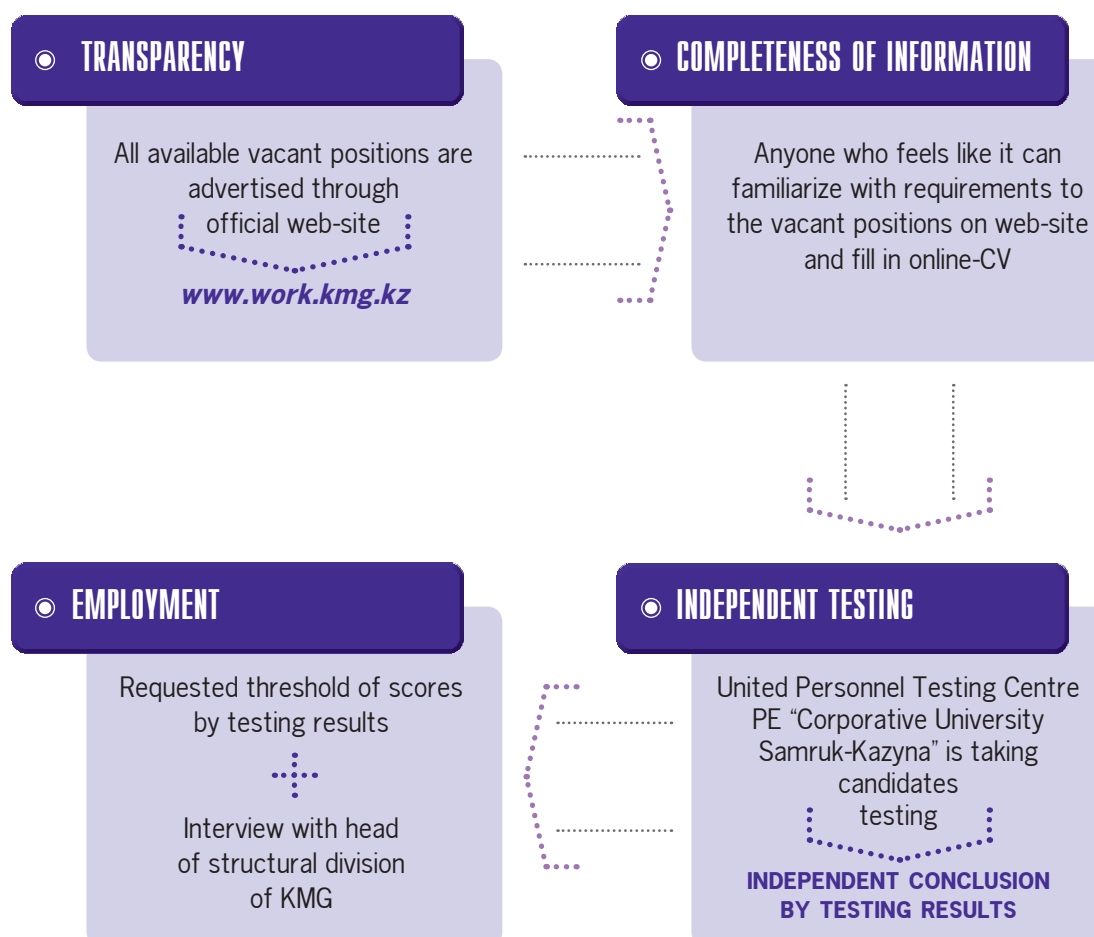
In 2011 KMG enforced the systems of electronic compilation and keeping CVs from external candidates. To fill

in online application, the candidates are asked to follow the link <http://work.kmg.kz>.

All CVs filled in online automatically inserted into KMG's database which enables us to get the list of the best candidates within the shortest time, to analyze these CVs and invite the candidates for further selection procedures.

Over the period 2010-2011, 227 candidates passed testing in KMG's Corporate Centre and 120 of them were employed.

Selection and Employment Procedure



Development of HR potential

KazMunayGas pays special attention to the issues of training and human resource development providing different trainings both at the workplace and in the training rooms.

Personnel training and development is based on the following principles:

- Consistency - all elements of vocational training and development should be subject to KMG's strategic goal;
- Dynamism and flexibility - correction of goals and amendment of KMG's objectives should lead to amendments into the goals, directions, priorities, training methods and forms;
- Consistency and contiguity - training and development should not have episodic nature but systemic and planned one;
- Effectiveness - training and development should be accompanied with precise measureable assessment criteria of achieved results;

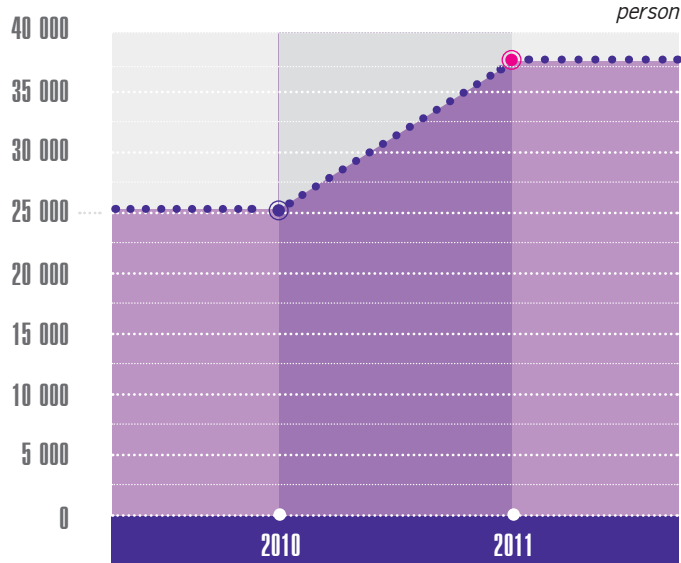
- Practical directivity - training and development should be oriented, first of all to creation of professional and business skills;
- Joint responsibility - responsibility for training efficiency rests with the trainee, trainer (lector), head of subdivision and HR Department.

Within the execution of Calendar Training Corporate and Individual Plan for officials of the KMG's Central Office for 2011, 160 trainings were held and attended by 939 officials. Among them, 120 trainings were held in corporate format, i.e. arranged specially for KMG's personnel, KMG Group of Companies or Fund.

Set of trainings aimed to gain the corporate knowledge and skills instead of traditional individual training made it possible to train 37 862 officials in KMG Group of Companies.

Number of trained personnel

- 2010
Administrative and managerial staff - 35%
Professional retaining - 65%
- 2011
Administrative and managerial staff - 20%
Professional retaining - 80%

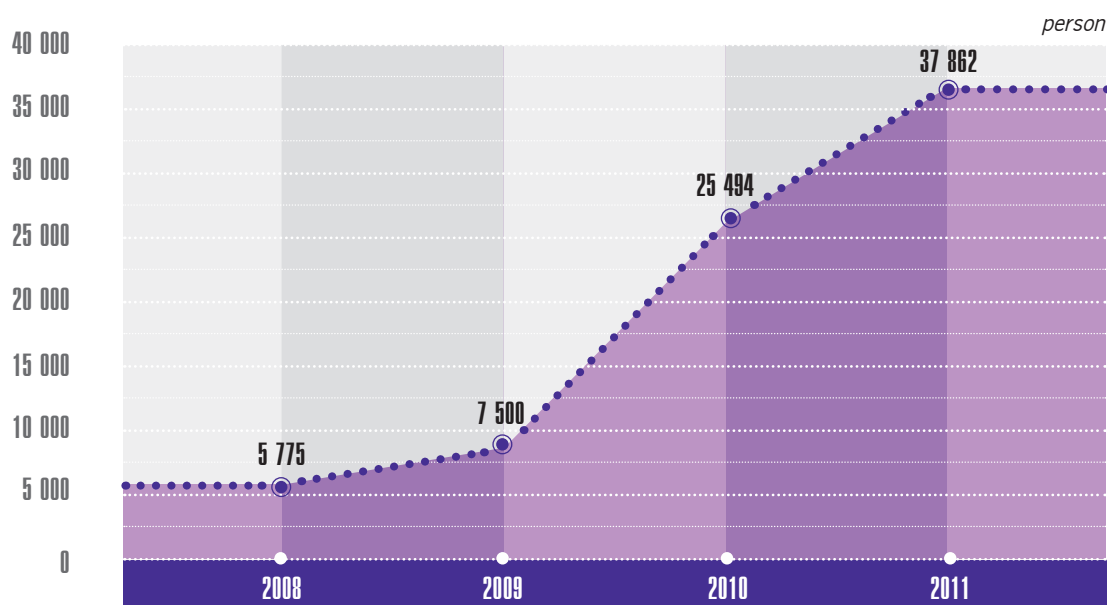


In 2011 trainings for the employees of the KazMunayGas Group of Companies were held mainly on the territory of the Republic of Kazakhstan for the purposes of the Kazakhstan content development in the services purchased and support to the domestic training suppliers. Workshops and courses in the engineering specialties in the absence of similar offers from the domestic suppliers, programs for the development of the succession pool and discharge of obligations on long-term agreement were an exception.

In frames of corporate training development, the resources of Training Centres of KMG Group of Companies are applied

and based on cooperation with long-term partners on joint HR development. A significant assistance to the solution of this issue is provided by Corporate University "Samruk-Kazyna" PE (earlier named Unified Human Resource Development Center PE), which organizes training for the employees of the KazMunayGas Group of Companies, and develops its own training programs both for KazMunayGas, and other national companies, which are part of JSC NWF "Samruk-Kazyna". Development of universal curricula, especially related to managerial skills, allows forming unified requirements towards the knowledge and skills of the administrative and managerial personnel, as well as engineers and technology employees.

Number of Trained Employees of KMG Group of Companies



Internal trainer's institution is actively developing and main goal of which is ensuring the share of professional knowledge and skills inside of the Company to solve any industrial and managerial issues. Internal trainers are our professionals which have achieved definite level and are familiar with training subject, ready to share knowledge and to disseminate the best practices. This initiative allows us:

- Minimizing the external training;
- Adapting the training to the needs of the Company in maximal;
- Increasing efficiency of training and reducing the costs at that time;
- Using internal potential effectively.

In 2011 there was start-up for development of multimedia courses for our employees. The main focus of these is a training of current valid processes of the Company. These curriculums are available to employees in free access through internal KMG's web-site.

To support the links between the generations and with aim to give a possibility to access an information directly from the veterans and recognized heads of the sector, as well to study the success stories of significant heads of the sector, KMG is conducting master classes for fresh specialists of KMG Group of Companies on regular basis.

Workshops-meetings are held regularly for KMG Group of Companies. In this case the subdivision-initiator is sharing the experience and information with the supervising SED's

subdivision and establishing more close business contacts. It allows sharing the knowledge and know-how, dissemination of leading experience by KMG's Group of Companies, joint discussion of work issues with SED and finding the effective solution ways.

Besides systematic implementation of short-term training and retraining programs, a constant work is done on training the succession pool for managerial positions.

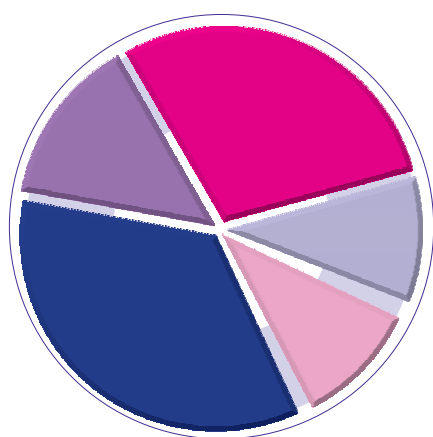
With aim of selection for the Common Administrative Succession Pool of KazMunayGas Group of Companies new up-to-date assessments methods are applied through a multistage selection (testing, essay analysis, assessment center). Currently, 17 employees are included into succession pool.

Professional and leadership competencies of the reservists is developed within the approved carrier development plans. With this aim such methods as secondment, internship and master program training are actively applied for personnel development.

Reservists' Development Curriculums is based on participation in the SMART MBA module training, held by the Corporate University Samruk-Kazyna PE under which 13 KMG's employees are taking their trainings.

Every year in compliance with the approved Rules for Formation and Arrangement of Succession Pool, the reservists are passing reports on execution of individual development plans based on which and due to staff changes the succession list is updated.

Data on Reservists Development and Staff Shifts for 2010-2011 (%)



- 35% - Training under master programs in universities of far and nearest abroad
- 12% - Promotion at work in JSC NWF "Samruk-Kazyna" and KMG SDO
- 12% - Promotion at work
- 42% - Smart MBA Training
- 15% - Labour contracts terminated

Employees are seconded under the projects which are jointly implemented with international partners (Tengizchevroil) and to the newly created structures and operating companies (Kazakhoil-Aktobe, KPC, Caspi Bitum, and others).

Currently three KMG employees and two employees of the Corporate University PE Outsourcing Centre have been seconded under the specified companies to represent and protect KMG's interest.

Moreover, every year, under the partnership on these projects, as well as in framework of the relations established with oil companies in foreign countries (JCCP, JOGMEC, Chevron, Energy Charter Secretariat, Eni, etc.), employees are sent for traineeship to international offices of the partner-companies to share experience with the leading oil and gas companies.

Data on Promotion Measures with Partner Companies

Organization	Number of persons	Occasions
JCCP	more 150 (for the whole cooperation period)	Training courses
JOGMEC	4	Training courses
Chevron	9	Internship
Energy Charter Secretariat	2	Internship
Eni	3	Master's Program

The employees, who are sent for secondment or traineeship, enjoy the possibility to learn the experience of the leading oil and gas companies.

Moreover, to implement project business goals of KMG's functional blocks, the reservists are sent to be graduated under masters programs in the leading foreign universities (The Robert Gordon University, Oil & Gas University, The University of Warwick).

At the same time, as part of the project, JSC NWF "Samruk-Kazyna" is forming a pool of management candidates for the development of succession plans for occupation of the key management positions within the group of companies of the Samruk-Kazyna Holding Company.

Selection into managerial succession pool is made through testing (verification) sessions to get objective and comprehensive assessment of candidates' potential.

Senim 2011 Contest

Senim-2011 Awards is supported by the Ministry of Labor and Social Protection of the Republic of Kazakhstan and National Economic Chamber "Soyuz Atameken".

By results of 2011 NC KazMunayGas JSC took the 2d place in the nomination "The Best HR-project" with its Project "Development of Sectoral Vocational Standard" among the national companies.

Innovation methodic on development of sectoral vocational standard is based on the best international practices and existing skills reference book (Skills reference book and Standard Wage-Rates and Skills Reference Book). Based on

this methodic draft vocational standards have been developed for all main oil and gas sectors: oil and gas exploitation, drilling of oil and gas wells, oil and gas production, oil and gas transportation, oil and gas refining, sales of oil, oil products and gas.

Enforcement of sectoral vocational standard allows qualitative HR-managing considering the business interests (assessment, training and development, carrier growth, wages, personnel reserves) and changing the situation at labour market for the best (regulating the export issues of foreign labour and, personnel nationalization)

Motivation system

Engagement, retention and motivation of the KazMunayGas employees are the main objectives the company establishes in the sphere of HR Management. Currently, KMG's employee motivation includes the following components:

Compensation - monetary funds paid by the employer to the employee for the services rendered;

Benefits - programs used by the employer as additional compensation paid to the employee;

Performance and recognition - employee performance contains approval and subsequent assessment of actions of

individual employees, teams and the company as a whole in achieving business goals leading to the company's success;

Development and career opportunities - development includes training aimed at the expansion and deepening of skills and competences of employees. Career opportunities mean planning which helps employees in achieving their goals of career building.

The system of motivation of KazMunayGas employees has been built in accordance with the legislation of the Republic of Kazakhstan, and the policies and practices developed by the Sole Shareholder - "National Welfare Fund" Samruk-Kazyna JSC.



CORPORATE GOVERNANCE

The system of corporate governance of JSC NC "KazMunayGas" is based on the respect to the rights and legitimate interests of the Sole Shareholder and the key stakeholders - the state, strategic partners, employees of the Company, and is oriented to lowering investment risks, increasing investment attractiveness, decreasing the cost of debt and own capital and increasing the Company's value.

The major principles of corporate governance in JSC NC KazMunayGas are as follows:

- protection of rights and interests of the Sole shareholder;
- efficient management of the Company by the Board of Directors and the Management Board;
- independent functioning of the Company;
- transparency and objectiveness of the disclosed information about the Company's activities;
- legality and etiquette;
- efficient dividend policy;
- efficient human resource policy;
- environment protection;
- corporate conflicts and interest conflicts management policy;
- responsibility.

CORPORATE GOVERNANCE BODIES

The Board of Directors of JSC NC "KazMunayGas" answers to the Sole Shareholder for effective management and proper control over the Company's activity and for ensuring a proper dialog with the Sole Shareholder. The Board of Directors determines the directions of strategic development of the Company, considers and passes resolutions related to the issues of potential acquisitions and other significant financial issues.

In 2011 the Company's Board of Directors was composed of six members including two independent directors. The Audit Committee, Appointment Committee and Remuneration Committee responsible to the Board of Directors were formed.



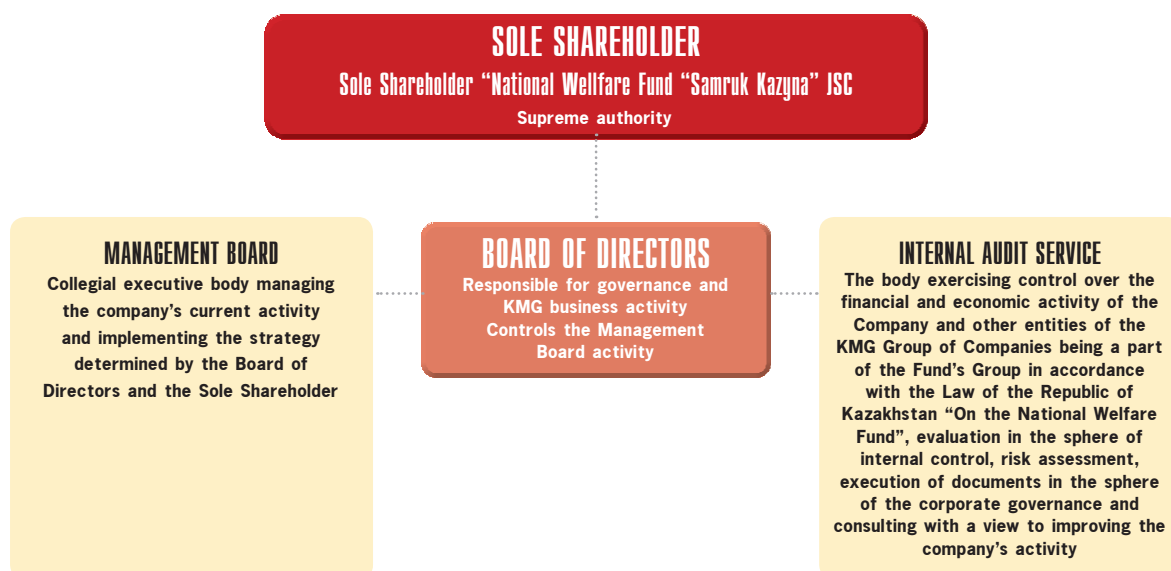
CORPORATE GOVERNANCE



2011

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Corporate Governance Bodies of National Company “KazMunayGas”



Committees of the Board of Directors of JSC NC “KazMunayGas”

AUDIT COMMITTEE	Considers the issues related to the internal and external audit, the issues of financial accountability and risk management. The Audit Committee provides the Board of Directors with recommendations with respect to making decisions on these matters. In 2011 the Audit Committee held 11 meetings.
APPOINTMENT COMMITTEE	Prepares qualification requirements for nominees to be independent directors and head of the Internal Audit Service and Corporate Secretary; provides to the Board of Directors recommendations on different issues in accordance with instructions of the Board of Directors and/or provisions of the Company's internal documents. In 2011 the Appointment Committee held 4 meetings.
REMUNERATION COMMITTEE	Develops recommendations on policy and structure of remuneration of the members of the Board of Directors, members of the Management Board, Head of the Internal Audit Service, Corporate Secretary and other employees of the Company. In 2011, the Remuneration Committee held 5 meetings.

The Management Board is responsible for the implementation of the Company's strategy and current activity. The Management Board reports to the Board of Directors about the work performed by the Company to achieve its objectives. The Management Board of JSC NC “KazMunayGas” has five Committees involved in different business directions: “Upstream”, “Oil Transportation”, “Service Projects”, “Gas Projects”, “Oil Refining and Marketing”. The Committees preliminarily consider and analyze the issues within the competence of business directions and SDEs, which are to be submitted for consideration of the Company's Management Board, in order to make justifiable and effective decisions on strategy and corporate governance, business planning,

investment projects, asset management, human resource management, SDEs' matters etc.

The Audit Committee has played a big role in organizing the activity of the centralized Internal Audit Service in JSC NC “KazMunayGas” which was formed in 2008 through the combination of internal audit services of the subsidiaries.

The Common Internal Audit Service reports and is accountable to the Board of Directors of JSC NC “KazMunayGas” and is supervised by the Audit Committee under the Board of Directors of JSC NC “KazMunayGas”.

The main task of the Internal Audit Service is to provide to the Board of Directors independent and objective

information, intended for ensuring effective management of JSC NC "KazMunayGas", by means of evaluating the internal control, risk management, and corporate governance.

In its turn, the Internal Audit Service has become an efficient link in the interface between the Board of Directors and the management of JSC NC "KazMunayGas" for improving the efficiency of the internal control system of the company and its subsidiaries, achieved through elimination of the identified inconsistencies, based on the results of the audits performed by the Internal Audit Service. In order to eliminate the identified inconsistencies, the audited entities develop Plans of Corrective Actions on the inconsistencies found. The Internal Audit Service carries out continuous monitoring of implementation of recommendations issued during audit checks, through quarterly requests of audited

entities' reports on implementation of recommendations, and annual post-audits, during which actual implementation of audit recommendations is checked, the internal control system is tested as related to the reliability of the data presented in the reports.

In pursuance of the instructions of the Board of Directors for improving the efficiency of interface between the management of JSC NC "KazMunayGas" and the Internal Audit Service, monitoring and control over the timely provision of audited entities' reports on following audit recommendations and implementation of the Plans of Corrective Actions is carried out on the part of the supervising department of JSC NC "KazMunayGas" as well. As a result of the well-coordinated works of the Internal Audit Service and KMG's management, the efficiency of audit checks has increased, which has made it possible to identify and eliminate critical risks and inconsistencies on a timely basis.

INTERACTION WITH A SHAREHOLDER

The Sole Shareholder of JSC NC "KazMunayGas" is JSC National Welfare Fund Samruk-Kazyna, which holds 100 percent of shares of JSC National Company KazMunayGas.

KMG's Board of Directors understands the importance of the permanent and effective communication interaction with the Sole Shareholder. The Company provides to the

Sole Shareholder timely and complete information about its activities, which involves the interests of the Sole Shareholder in the order stipulated by the Charter and internal documents of the Company.

Sole Shareholder's decisions, made under his competences, are mandatory for the Board of Directors of the Company.

INTERACTION WITH SUBSIDIARY AND DEPENDENT ENTITIES

Subsidiary and dependent entities (SDEs) interact under approved corporate procedures through corresponding bodies of the company and SDEs.

The main objectives of the Company's interaction with subsidiary and dependent entities are:

- to ensure sustainable financial development, profitability, improvement of investment attractiveness of the Company and its SDEs;
- to ensure the protection of rights and legally protected interests of the Sole Shareholder and the shareholders of the SDEs;
- to harmonize the relations between the shareholders, officials and employees of the Company and its SDEs, to take action framework for preventing any conflicts between them and inside the said groups;
- to develop and implement a well-coordinated and effective strategy and investment policy of the Company and its SDEs.

SDEs Corporate Governance Mechanisms

- to build a vertical system for managing subsidiary and dependent entities through organizing the corporate governance via managing directors and ownership institution;
- to implement common corporate standards in SDEs;
- to provide nominees to the administration bodies of SDEs;
- to assign a supervisor ensuring the representatives' solidary voting on the discussed issues on the basis of recommendations given to the representatives of JSC NC "KazMunayGas" in the boards of directors of SDEs on agenda items;
- to organize control over the SDEs' activities via representatives in management bodies and supervisors, to revise financial and economic activities and select the auditors etc.

DIVIDENDS

Dividends shall be distributed as of the date within a month from the moment when the Shareholder takes a relevant decision.

INITIATIVES UNDER UN GLOBAL COMPACT

Implementation of Initiatives and Participation in the United Nations' Global Compact

JSC NC "KazMunayGas" has been participating in the UN Global Compact since 7 February 2006.

By joining the Global Compact, JSC NC "KazMunayGas" declares that it shares the conviction that the business practice propped by the universal principles promotes more sustainability, fairness and representativeness of the global market and it helps to create prospering and successful societies. Joining the Global Compact is, a good indicator for the company's top management, employees, and other stakeholders that the company's obligations related to corporate citizenship are prevailing and strategic.

KazMunayGas became the third representative of Kazakhstan's business of the 13 business participants of the Global Compact (there is a total of 24 participants from Kazakhstan). Along with that, KazMunayGas is the only company from Kazakhstan's oil and gas sector, represented in the Global Compact.

The key factors of KMG's success in implementing the principles of the Global Compact, among others, are:

- clear obligations of the company's management;
- informing the whole organization, from the top managers to line employees about the obligations that the Company assumes in order to support the principles as widely as possible;
- forming specific targets and creation of a transparent communication system describing the achieved progress;
- special focus on practical activity;
- instant readiness of the company to conduct dialog with stakeholders.

From the moment of entering into the Global Compact, KazMunayGas is committed to and initiates using its principles in its activity in the sphere of environmental protection, labor standards, human rights and fight against corruption.

HUMAN RIGHTS

In its personnel work, the KazMunayGas group of companies provides its employees with equitable and favourable labour conditions, making great effort to protect the personnel from unemployment in case of changes in the organizational structure and/or lay-offs. The remuneration system is aimed to ensure decent existence to the company's employee itself and to its family. Every employee of the company performs its

activities in compliance with the working hours stipulated by the legislation, and has the right to annual paid leave.

Internal social responsibility of KazMunayGas is aimed to provide the company's personnel with such living standard, including food, clothes, housing, medical treatment and necessary social service which is necessary for health support and well-being of the employee itself and its family as well as to provide it for an event of unemployment, illness, disability, widowhood, old age, or other loss of means of living due to circumstances beyond its control

LABOR RELATIONS

The company does not employ forced or compulsory labour in any form¹; child labour is not used in any way, there is no discrimination in remuneration for the labour of equal value on the grounds of race, skin colour, sex, religion, political opinions, foreign or social origin, leading to elimination or violation of the equal opportunities or treatment in the sphere of labour and occupation², and any other difference, non-admission or preference, leading to elimination or violation of such equal opportunities and treatment; adherence to vocational training is ensured.

ENVIRONMENT PROTECTION

Implementing the Comprehensive Environmental Program for 2006-2015 (CEP), KazMunayGas ensures systemic approach to environmental activities in the whole group of companies. Adjustment of the Environmental Action Plan of CEP in compliance with the top-priority business areas is conducted.

The Corporate Industrial Environmental Monitoring System using geo-information technology, including the Kazakhstan sector of the Caspian Sea, is continuing to improve. The production facilities of the newly acquired assets are included in the electronic ecological map of the production operations territories.

In the Uzen region of Mangistau oblast, KazMunayGas takes measures to manage waste and clean oil-polluted soils. The subsidiaries of KazMunayGas continue work on implementation of the governmental Program for Disposal of Associated Petroleum Gas. The initiative of Agip KCO and Tengizchevroil to create the West-Kazakhstan Association for Oil Spills Response has been supported. The on-going reconstruction of the company's refining divisions allows implementing up-to-

¹ - any work or service, demanded from any person under the threat of any punishment, to do which this person has not proposed its services voluntarily (Convention concerning Forced or Compulsory Labour, 1.05.1932)

² - access to vocational training, access to labour and various occupations, and payment and labour conditions (Convention on Discrimination in the Field of Employment and Occupation, 15.06.1932)

date technology of oil refining multiple reducing the volumes of harmful environmental emissions.

As part of greenhouse gases issues, pilot greenhouse gases emission inventory has been conducted in KazMunayGas' subsidiaries assisted by the specialists of the Coordination Centre on Climate Change. Measures to implement energy-saving technology and equipment are taken.

FIGHT AGAINST CORRUPTION

Goods, works and services in the group of companies are purchased in compliance with the Procurement Regulations of the Sole Shareholder - "National Welfare Fund "Samruk-Kazyna" - that are based on the publicity, transparency and fair competition among potential suppliers. Information on the company's activities and all material facts of its operations are posted in the media and on the corporate web-site in a timely

manner.

The ethical principles and standards of the company's internal documents are aimed at proper, fair and appropriate conduct of business by the company's employees and preventing a conflict of interests.

Furthermore, the main producing entities of KazMunayGas participate in the Extractive Industries Transparency Initiative (EITI).

The above mentioned activities are carried out as part of the transition to the principles of sustainable development, which are one of the top-priority goals of KMG's long-term development strategy.

Following the requirements of the UN Global Compact, the Company publishes information in accordance with the principles of Global Compact (www.unglobalcompact.org/participant/6810-National-Company-KazMunayGas-).

INTEGRATED MANAGEMENT SYSTEM

In accordance with the State Program for Boosted Industrial-and-Innovation Based Development of the Republic of Kazakhstan, and decree No.1100 of 22 October 2010 of the RoK Government, the "Program for Technical Regulation and Creation of Quality Infrastructure" has been approved, the Sole Shareholder - SWF "Samruk-Kazyna" - has developed an action plan to implement the Strategy for 2011-2020, providing for introduction and improvement of the management systems in its subsidiary and dependent entities as per the requirements of the international standards.

As at 31 December 2011, quality management systems are in place in 15 entities of JSC NC "KazMunayGas" group of companies, including the corporate centre. Of them KMG and 8 subsidiaries (the KMG Exploration Production JSC, JSC "KazTransOil", JSC "KazMunayTeniz", JSC "KMG Refining & Marketing", JSC NMSK "Kazmortransflot", LLP "KazakhoilAktobe", JSC "Kazakh Institute of Oil and Gas", LLP "Teniz-Service") were certified against three standards (ISO

9001, ISO 14001 and OHSAS 18001). LLP "Semser Security" - against two standards (ISO 9001 and OHSAS 18001). 5 more entities (JSC "EuroAsiaAir", LLP "KazRosGas", JSC KBTU, LLP "KMG-Service") are operating according to the ISO 9001 standard.

With the introduction of international standards, a more clear system of interaction of various management levels based on ordered acts and procedures has been built. The existing processes have been described and brought under regulation, their interrelation and allocations of responsibility for their execution have been determined. Ultimately, this has reflected in the improvement of the quality of services rendered, works performed and products output.

Last year all companies of the group successfully passed compliance audits, and some of them the re-certification audits which confirmed that the existing integrated management systems meet the international standards.

RISK MANAGEMENT

JSC NC "KazMunayGas" implements the risk management system on a consolidated basis taking into account covering risks in its subsidiary and dependent entities, by means of creating a corporate risk management system (CRMS).

The methodology of CRMS corresponds to the recognized international practice of oil industry risk management and is based on the methodology of the Committee of Sponsoring Organizations of the Treadway Commission.

Implementation of an effective CRMS which allows identifying, forecasting and managing material risks, implies staged realization of measures, as well as regular implementation of the process of corporate risk management, which includes:

- development of the internal environment of the corporate risk management system;
- identifying goals and tasks of CRMS;
- integration of risk management into other business processes;
- identification and assessment of risks;
- development of effective measures for risk management;
- implementation of measures for risk management and risk monitoring;
- ongoing improvement of the CRMS procedures.

In 2011, the Company implemented a number of measures to improve the corporate system of insurance protection, develop and implement the internal control system, identify and assess risks as well as develop methodological documents for financial risk management.



RISK MANAGEMENT



2011

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Main Measures for Implementation of CRMS and Internal Control in 2011

Date	Action
May	Board of Directors of JSC NC "KazMunayGas" approved a new Risk Management Policy of JSC NC "KazMunayGas" for the period until 2013, determining the company's risk appetite level.
April-June	April-June JSC NC "KazMunayGas" adopted a number of internal methodological documents for financial risk management: rules for setting the limits to balance-sheet and off-balance-sheet liabilities on counteragent banks, rules of managing the credit risk on corporate counterparties, rules of setting country limits
April-October	JSC NC "KazMunayGas" automated the processes of financial risks assessment with introduction of a software product making it possible to assess the credit risk, exchange risk, price risk, country risk, the degree of exposure to the liquidity risk, and make calculations of limits, back and stress testing.
January-December	JSC NC "KazMunayGas" expanded its corporate program of insurance against risks with inclusion in the corporate insurance program of the assets of the KazMunayGas Exploration Production JSC, JSC "KazMunayGas Refining & Marketing" (including the AR), Rompetrol Group N.V.
October-December	Within the framework of improving the internal control system, Matrices of Risks and Controls for 18 business processes of JSC NC "KazMunayGas" were developed; software rendering it possible to update controls on business processes of JSC NC "KazMunayGas" on a timely basis was developed.
November-December	JSC NC "KazMunayGas" started implementation of the risk-based model (Cash Flow at Risk/Earnings at Risk) that includes simulation of the influence of financial risks on the financial indicators, and carrying out of integrated assessment of the effect from hedging when applying various strategies with derivatives.
September-December	Identification and assessment of risks was conducted taking into account covering risks in its subsidiary and dependent entities, the company's Risk Register and Risk Map for 2012 were developed.

Number of identified risks by category



During the identification and assessment of risks in 2011, 138 risks were identified. The bulk of the identified risks were operational risks - 56%, the least part were legal risks (2%).

● 56% - operational

● 2% - legal

● 20% - strategic

● 22% - financial

Analysis of the factors has shown that the most frequent sources of threats for the Company are economic, political and staff factors: this is volatility of financial markets and raw material

markets, inappropriate qualification of employees and violation of performance discipline, risks related to the competitive environment and partners, management errors and governmental regulation.

Sub-category (type)	no.	%
Economic factor (EF).Financial markets	19	13,8%
Staff factor (SF).Inappropriate qualification of employees/Violation of the performance discipline	14	10,1%
Economic factor (EF).Competition/Partners	14	10,1%
Staff factor (SF). Management	13	9,4%
Political factor (PF). Governmental regulation	11	8,0%
Technology factor (TF). Information technology	8	5,8%
Technology factor (TF). Faulty operations	8	5,8%
Economic factor (EF).Liquidity	8	5,8%
Environmental factor (EnF).Harmful substances emissions and industrial waste	6	4,3%
Technology factor (TF). Security of facilities	5	3,6%
Economic factor (EF). Availability of capital	5	3,6%
Economic factor (EF).Contractors	5	3,6%
Technology factor (TF). Logistics	4	2,9%
Technology factor (TF).Loss of data	4	2,9%
Staff factor (SF). Occupational health and safety	3	2,2%
Political factor (PF). Legislation	3	2,2%
Economic factor (EF).Unlawful acts of third parties	3	2,2%
Political factor (PF). Partner countries	2	1,4%
Technology factor (TF).Limited access to modern technology/Technology gap	1	0,7%
Environmental factor (EnF).Natural disasters	1	0,7%
Economic factor (EF).Granting of loans and default on them	1	0,7%
Total	138	100,0%

In this respect, the most negative impact on the Company is exerted by the liquidity risks, limited access to modern technology, and faulty operations.

Sub-category (type)	Means value of potential damage, KZT mn
Economic factor (EF).Liquidity	377 730
Technology factor (TF).Limited access to modern technology/Technology gap	150 732
Technology factor (TF). Faulty operations	91 295
Political factor (PF). Governmental regulation	57 337
Economic factor (EF).Competition/Partners	32 489
Technology factor (TF). Security of facilities	7 915
Political factor (PF). Legislation	3 391
Economic factor (EF).Contractors	2 410
Environmental factor (EnF).Natural disasters	2 250
Staff factor (SF). Occupational health and safety	2 020
Economic factor (EF). Availability of capital	1 860
Economic factor (EF).Financial markets	1 649
Political factor (PF). Partner countries	1 507
Economic factor (EF).Unlawful acts of third parties	1 003
Staff factor (SF). Management	916
Staff factor (SF).Inappropriate qualification of employees/Violation of the performance discipline	646
Economic factor (EF).Granting of loans and default on them	644
Technology factor (TF). Logistics	450
Technology factor (TF).Loss of data	356
Environmental factor (EnF).Harmful substances emissions and industrial waste	250
Technology factor (TF). Information technology	152
Total	37 999

MAIN 2011 EVENTS

On **January 18** joint venture "Beineu-Shymkent Gas Pipeline" limited liability partnership was incorporated on the territory of the Republic of Kazakhstan for implementing the "Beineu-Bozoi-Shymkent Gas Pipeline Construction" Project (promoters: JSC "KazTransGas" -50%, TAPLine - 50%).

On **January 25** the agreement on duty-free deliveries of the Russian oil to the PPCP until 2015 was reached.

On **February 1** JSC NC "KazMunayGas" and "Gazprom" reached agreement on swap-operations for 2011 in the amount of 4.4 bn cubic meters of gas.

On **February 14** a bargaining agreement for 2011-2013 with the staff of the "Ozenmunaygas" and "Embamunaygas" production branches was signed, where the terms related to provision of guarantees and compensation, including medical expenses and expenses on health improvement of the company's branch employees and their families, and improvement in the occupational safety were determined.

On **March 4** a wholly owned subsidiary of JSC "KazMunayGas Refining & Marketing" - the Refinery Company RT LLP - made the full repayment of the principal and the accrued fee under the 300 mn US dollars facility agreement of 24 February 2010 between Deutsche Bank AG and the Refinery Company RT LLP guaranteed by JSC NC "KazMunayGas".

MAIN 2011 EVENTS



2011

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On **March 19** the KazMunayGas EP JSC purchased 50% of Ural Group Limited's (UGL) shares from Exploration Venture Limited (EVL).

On **April 29** JSC "NMSK «Kazmortransflot» was appointed as the RoK national shipper by a decree of the RoK Government (No.462 dated 29 April 2011).

On **May 3** following the results of a working meeting of the executives of Gazprom and KazMunayGas, KazRosGas was appointed the operator of the Imashevskoye field.

On **May 6** KazMunayGas EP increased the amount of a dividend per share for 2010 by 13.6 %. The company will distribute dividends for 2010 in the amount of (including taxes withheld under the RoK's laws) 800 KZT per share (both ordinary and preferred).

On **May 24** the KazMunayGas group of companies directed 3.9 bn KZT for rendering assistance to those who suffered from the spring floods in the West-Kazakhstan Province.

On **June 10** JSC NC "KazMunayGas" completed the transaction on acquiring the 100% participatory interest in the authorized capital of LLP "Aktaunefte servis". ANS acquisition cost made up 334 mn US dollars.

On **July 1** construction on the Caspian Pipeline Consortium (CPC) Oil Pipeline Expansion Project began in Atyrau.

On **July 3** JSC NC "KazMunayGas" took part in the anniversary Inter-State Exhibition, devoted to the 20th anniversary of the Commonwealth of Independent States "20 Years of CIS: Towards New Horizons of Partnership" (Moscow, Russia).

On **July 11**, in pursuance of clause 23 of the RoK «Joint Stock Company Act», the KMG NC JSC reports that KMG's Sole Shareholder - on 7 June 2011 JSC "Sovereign Welfare Fund "Samruk-Kazyna" made a decision to distribute dividends on KMG's ordinary shares following the results of the 2010 operations.

On **July 15** JSC NC "KazMunayGas" raised a syndicated loan in the amount of 1 bn US dollars for repayment of the existing debt and the cash calls of the Kashagan Project. The Bank of Tokyo-Mitsubishi UFJ Ltd., ING Bank N.V., Natixis, The Royal Bank of Scotland Plc acted as arrangers of the loan, with Sumitomo Mitsui Banking Corporation, JSC Citibank Kazakhstan, Unicredit Bank Austria AG, Bank of America Merrill Lynch, UBS and Export Import Bank of the Republic of China, and the following banks: Siemens Bank GmbH, Intesa Sanpaolo S.p.A and Mega International Commercial Bank, London Branch as co-arrangers. KazMunayGas Finance Sub BV, a wholly-owned subsidiary of JSC NC "KazMunayGas", acted as the borrower. The loan was given under the guarantee of JSC NC

"KazMunayGas", with the maturity of 5 years and at the rate of Libor + 2.1%. This transaction set the new price parameters for the Kazakh corporate borrowing market which shows the willingness of investors to work with Kazakh companies and is indicative of the high appreciation by the international financial community of the efforts made by JSC NC "Kazakhstan" management to optimize the company's loan portfolio.

On **July 24** the KazMunayGas EP JSC announced closing of the transaction on acquiring the subsoil use rights under four hydrocarbons exploration contracts in the Republic of Kazakhstan from KMG NC: on the territory adjacent to the Uzen and Karamandybas field, the Karaton-Sarkamys block and the Temir area.

On **July 27** the construction of a marine drilling rig jointly with the Korean Consortium began.

On **July 27** the parties signed the Protocol on Introduction of Amendments and Additions to the Agreement between the RoK Government and the PRC Government on Cooperation in Construction and Operation of the Kazakhstan-China Gas Pipeline of 18 August 2007 (engineering and construction of the C line), where the main terms and conditions of the implementation of the project are reflected.

On **July 29** the beginning of the last phase of the Petromidia Refinery Expansion Program was announced

On **August 1** the ceremony which marked the start of construction of a new marine drilling rig was held as a part of the Project of Zhambyl Offshore Prospect in the township of Kuryk (Mangistau Province).

On **August 3** closing of the transaction on raising the 1 bn US dollars syndicated loan was announced. The relevant agreement was signed on 15 July 2011.

On **August 18** the unpaid principal balance and accrued fee under the Syndicated Loan Agreement of 4 September 2008 made by and between KazMunayGas PKOP Investment B.V., whose 100% of shares are indirectly owned by KMG RM, Deutsche Bank as the agent and a banking syndicate, guaranteed by JSC NC "KazMunayGas" in the amount of 2.5 bn US dollars was made.

On **August 25** JSC NC "KazMunayGas", KC Kazakh B.V. and KC Kazakh Panama S.A. signed the Marine Drilling Rig Mobilization and Operation Agreement in Astana during the Kazakhstan-South Korea Business Forum.

On **August 26** JSC "KazTransGas" and the South-Korean Kolon Corporation signed a memorandum of understanding on the construction of 95 compressed autogas-filling stations.

September, 2011 - construction and assembly works

on the CPC Expansion Project at Kazakhstan's section were started.

On **September 6** the ceremony of welding the first joint of the linear part of the «Beineu-Bozoi-Shymkent» gas pipeline was held in the city of Turkestan of the South Kazakhstan Province.

On **September 16** the KazMunaiGas EP JSC announced the resolution of the Company's Board of Directors to approve the program of KMG EP's ordinary shares buyback on the KASE and global depository receipts (GDRs) (LSE: KMG LI), listed on the London Stock Exchange (LSE), for a total amount of up to 300 mn US dollars.

On **September 26**, for the purposes of further implementation of the Kazakhstan-China gas pipeline expansion project, JSC NC «KazMunayGas» and CNPC signed the Heads of Agreement on Organizing Engineering, Finance, Construction and Operation of «C» Line of the First Section of the Kazakhstan-China gas pipeline.

On **September 26** Supplementary Agreement No.1 to the Heads of Agreement on Organizing Engineering, Finance, Construction and Operation of «C» Line of the First Section of the Kazakhstan-China gas pipeline, determining the terms of the completion guarantee of the parties (50% each) of the project financing amount for the period of construction of the «Beineu-Bozoi-Shymkent» gas pipeline was signed between JSC NC «KazMunayGas» and the China National Petroleum Corporation.

October, 2011 - the Intergovernmental Agreement on Cooperation in Marine merchant shipping between the RoK and AR was signed.

On **October 7**, the Program for Construction of Multi-purpose Sportsgrounds was completed.

November, 2011 - PS-11 of the Atasu-Alashankou oil pipeline was commissioned

On **November 2** JSC «Intergas Central Asia» made scheduled repayment of the remaining debt in the amount of 179 mn US dollars, as part of the program for Eurobonds issue, the amount of which amounted to 250 mn US dollars.

On **November 3**, 2011 a resolution on suspension of the KMG-Transcaspian LLP's activities due to the postponement of phase 2 of the North-Caspian Project and, accordingly, the Kazakhstan Caspian Transportation System (KCTS) project was passed, and a relevant action plan was approved.

On **November 15** JSC «Intergas Central Asia» made scheduled repayment of Eurobonds for an amount of 250 mn US dollars.

On **November 22** The Rompetrol Group completed the scheduled works for repair and restarting of the process units on the Petromidia platform, and the integration of the new six units into the operating flow for the purpose of complying with the program for increasing the refining capacity to 5 million tons of raw materials.

On **December 6** The Rompetrol Group proceeded to drilling the first well in Romania.

On **December 9**, the ceremony of acceptance of the first large capacity Aframax oil tankers with the deadweight of 115 thousand tons each by JSC NMSC «Kazmortransflot» was held in the port of Batumi (Georgia). The new ships were named «Alatau» and «Altai».

On **December 13** JSC «KazTransOil» commissioned the central control room in KTO's Eastern branch.

On **December 14** The Rompetrol Group, through its subsidiary Rompetrol Well Services (RWS) entered the market of Hungary and Bulgaria in rendering specialized well services.

On **December 28** KMG EP announced closing of the transaction to purchase from the GazMunayOnim LLP 100% of shares of JSC «Karpovsky Serverny» possessing the subsoil use right under the Contract for Oil, Gas and Condensate Exploration on the «Karpovsky Severny» Area in the RoK's West-Kazakhstan Province.

On **December 29** the Atyrau Refinery LLP signed the agreement on turnkey construction of the Deeper Oil Conversion Complex. Consortium consisting of Sinopec Engineering, Marubeni Corporation and JSC OGCC «KazStroyService» was created in October, 2011. Sinopec Engineering (PRC) bears responsibility for the overall implementation of the project. Marubeni Corporation (Japan) is arranging finance from the Japan Bank for International Cooperation, and takes part in the purchases and logistics. JSC OGCC «KazStroyService» (Kazakhstan) will administer construction and procurement.

INFORMATION ON EXTERNAL AUDITOR

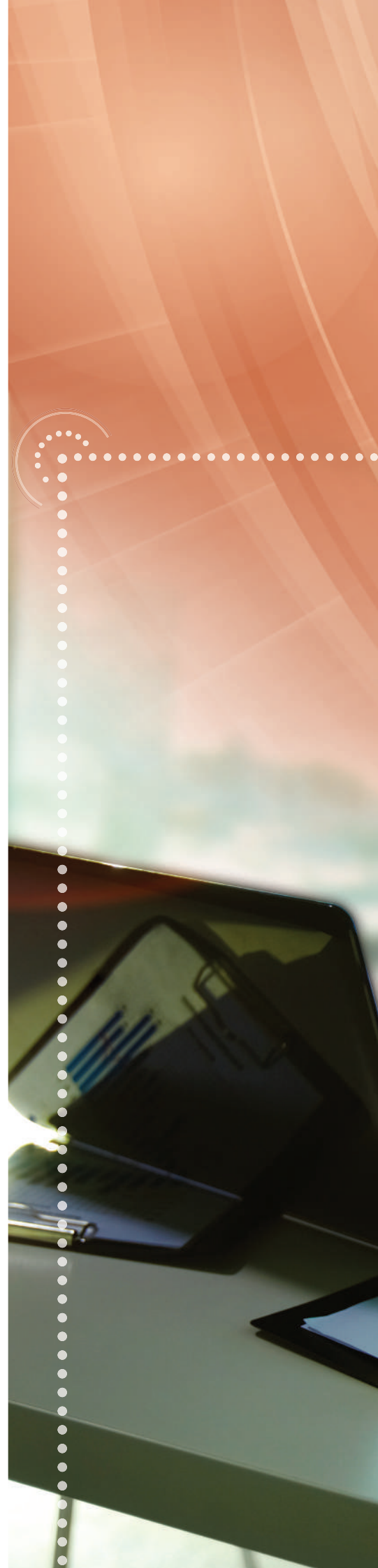
The Ernst & Young company has been the external auditor of JSC NC "KazMunayGas" starting 2002. In 2010, following the results of the open tender held by JSC NC "KazMunayGas", the agreement was signed with Ernst & Young on the financial reporting audit services for 2010-2012. The fee amount under this agreement is KZT 162,276 thousand, which includes by years:

- for 2010 - KZT 54,092 thousand;
- for 2011 - KZT 54,092 thousand;
- for 2012 - KZT 54,092 thousand.

Ernst & Young is an international leader in the sphere of audit, taxation and law, consulting support to transactions and consulting on the business conduct matters. The Ernst & Young company strives to make its positive contribution into development of companies, markets and society as a whole.

Over the time of cooperation KMG and Ernst & Young have gone a hard way of the development of financial accounting, especially during KMG's transition to the International Financial Reporting Standards (since 2002). During these year Ernst & Young invested into the development of its professionals in order to render audit services on a high-quality level to KMG, whose structure was changing and getting more complicated together with the period of Kazakhstan's economic development.

Services other than those for audit of the financial reporting were not rendered by the Ernst and Young LLP in 2011.



INDEPENDENT AUDITOR'S OPINION



2011

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INDEPENDENT AUDITORS' REPORT

To the shareholders and management of "National Company "KazMunayGas" JSC

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

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

Ernst & Young LLP


Gulmira Turmagambetova
Auditor

A circular blue ink stamp from the Ministry of Finance of the Republic of Kazakhstan. It contains the text "ҚАЗАҚСТАН РЕСПУБЛИКАСЫ АУДАН АРҚАРАСЫ АУДАНЫ" and "МҮХБІРЛІК" around the perimeter, with the number "0374" in the center.

Auditor qualification certificate No 0000374
of February 21, 1998


Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

A circular blue ink stamp for Ernst & Young LLP. It features the company name "ERNST & YOUNG" and "LLP" in the center, surrounded by text in Russian and English.

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Kazakhstan: series MFJ - 2, No 0000003 issued by
the Ministry of Finance of the Republic of Kazakhstan
of July 15, 2005

March 26, 2012

CONSOLIDATED FINANCIAL STANDING REPORT

In thousand KZT

as of 31 December

	Note	2011	2010
ASSETS			
Long-term assets			
Fixed assets	6	2.833.619.231	2.548.764.464
Exploration and appraisal assets	7	160.312.469	150.799.153
Intangible assets	8	197.952.790	184.721.292
Long-term bank deposits	9	9.908.968	4.521.195
Investment into joint ventures and associated companies	10	919.155.435	696.881.032
Deferred tax assets	29	10.605.619	10.605.467
VAT reimbursable		49.328.641	34.806.222
Advance payments for long-term assets		76.785.170	68.442.089
Bonds receivable from related party	30	36.551.537	36.397.864
Note receivable from joint venture participant	11	18.138.239	19.153.089
Note receivable from an associate		19.220.620	17.987.259
Loans to related parties	30	67.121.199	115.043.574
Miscellaneous long-term assets		11.738.636	10.071.096
		4.410.438.554	3.898.193.796
Current assets			
Inventories	12	202.833.712	185.104.413
VAT reimbursable		39.821.912	34.731.601
Income tax down payment	29	30.735.062	21.498.642
Trade receivables	13	185.599.946	164.733.410
Short-term financial assets	14	503.556.091	626.365.151
Note receivable from joint venture participant	11	1.361.055	1.203.834
Dividends receivable from an associate	10	29.383.200	19.456.800
Miscellaneous current assets	13	188.394.899	161.827.377
Cash and cash equivalents	15	581.912.135	637.917.383
		1.763.598.012	1.852.838.611
Assets classified as intended for sale		138.459	1.366.686
		1.763.736.471	1.854.205.297
Total assets		6.174.175.025	5.752.399.093

CONSOLIDATED FINANCIAL STATEMENTS

*For the year ending
December 31 2010*

2011

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CONSOLIDATED FINANCIAL STANDING REPORT (continued)

In thousand KZT

As of 31 December

	Note	2011	2010
EQUITY AND LIABILITIES			
Equity			
Authorized capital	16	341.393.764	326.435.861
Additional paid capital	16	13.237.994	2.266.580
Miscellaneous capital		1.966.059	5.176.205
Reporting currency recalculation reserve	16	188.573.100	173.330.751
Retained earnings		2.033.329.755	1.664.778.234
Related to the parent company shareholder	16	2.578.500.672	2.171.987.631
Non-controlling participatory interest		581.657.604	559.364.977
Total capital		3.160.158.276	2.731.352.608
Long-term liabilities			
Loans	17	1.634.843.487	1.478.428.399
Due for acquisition of additional interest in the "North-Caspian Project"	18	320.926.724	314.566.180
Due for acquisition of a subsidiary		6.383.473	9.136.704
Reserves	19	70.309.372	66.321.563
Deferred tax liabilities	29	149.590.052	144.909.656
Miscellaneous long-term liabilities		12.672.087	13.756.075
		2.194.725.195	2.027.118.577
Current liabilities			
Current portion of loans	17	282.941.427	479.138.938
Reserves	19	52.606.910	56.590.062
Income tax payable	29	2.246.665	2.402.176
Trade payables	20	242.635.897	255.592.177
Other taxes payable	21	98.897.684	87.642.996
Derivative financial instruments		179.000	764.054
Miscellaneous current liabilities	20	139.783.971	111.797.505
		819.291.554	993.927.908
Total liabilities		3.014.016.749	3.021.046.485
Total equity and liabilities		6.174.175.025	5.752.399.093

CONSOLIDATED TOTAL INCOME STATEMENT

In thousand KZT

For the years ending 31 December

	Note	2011	2010
Proceeds from sold goods and rendered services	22	2.627.061.697	2.098.942.624
Cost price of sold products and rendered services	23	(1.837.718.674)	(1.409.001.419)
Gross profit		789.343.023	689.941.205
General and Administrative Expenses	24	(165.038.304)	(139.146.723)
Transportation and selling expenses	25	(350.700.436)	(238.738.340)
Goodwill depreciation	8	(2.371.431)	—
Depreciation of fixed assets and miscellaneous long-term assets	6,7,9,10	(45.456.359)	(10.823.657)
Income / (loss) from fixed assets retirement, net		3.276.958	(3.272.491)
Miscellaneous operating income		15.381.340	4.209.941
Miscellaneous operating loss		(11.437.512)	(15.989.074)
Profit from operating activities		232.997.279	286.180.861
Foreign exchange loss, net		(9.985.952)	(5.740.393)
Financial income	26	45.599.493	58.671.374
Financial expenses	27	(171.313.150)	(152.577.480)
Share in the income of joint ventures and associates, net	28	534.622.865	343.175.752
Profit before income tax		631.920.535	529.710.114
Income tax expenses	29	(153.130.208)	(132.675.259)
Profit for year		478.790.327	397.034.855
Due to:			
Parent company shareholder		422.497.983	305.309.217
Non-controlling participatory interest		56.292.344	91.725.638
		478.790.327	397.034.855
Miscellaneous aggregate income/(loss)			
Exchange difference resulting from the translation of the foreign subsidiaries financial statements		16.410.130	(10.512.953)
Miscellaneous aggregate income for period, less income tax		16.410.130	(10.512.953)
Total aggregate income for period, less income tax		495.200.457	386.521.902
Due to:			
Company's shareholder		437.740.331	295.277.534
Non-controlling participatory interest		57.460.126	91.244.368
		495.200.457	386.521.902

CONSOLIDATED CASH FLOW STATEMENT

In thousand KZT

For the years ending 31 December

	Note	2011	2010
Cash flow from operating activities:			
Profit before income tax		631.920.535	529.710.114
Adjustments against:			
Ageing, depletion and amortization	23, 24, 25	146.317.428	131.521.998
Share in the income of joint ventures and associates	28	(534.622.865)	(343.175.752)
Financial expenses	27	171.313.150	152.577.480
Financial income	26	(45.599.493)	(58.671.374)
Depreciation of fixed assets and miscellaneous long-term assets	6, 7, 9, 10	45.456.359	10.823.657
Goodwill depreciation	8	2.371.431	—
Unrealized gain from oil hedging operations		9.349.769	664.547
(Income) / loss from fixed assets retirement, net		(3.276.958)	3.272.491
Reserves	19	9.946.022	8.623.031
Allowance for doubtful debts	24	3.650.396	13.135.998
Allowance for inventories	24	4.729.414	(801.961)
Recognition of expense on the option plan		541.100	376.245
Disposal of equity instruments		(23.794)	(49.809)
Unrealized foreign exchange (gain) / loss		(5.096.270)	493.276
Profit from operating activities before changes in the floating capital		436.976.224	448.499.941
Change in inventories		(12.792.296)	(22.408.215)
Change in VAT reimbursable		(19.612.730)	(24.227.828)
Change in trade receivables		(19.905.373)	(25.615.945)
Change in miscellaneous current assets		(21.866.605)	(95.186.773)
Change in other taxes payable		5.139.280	(1.394.939)
Change in trade payables		(20.760.491)	93.644.332
Change in miscellaneous liabilities		(8.493.848)	(2.814.877)
Cash inflow from operating activities		338.684.161	370.495.696
Income tax paid		(164.692.655)	(163.043.395)
Fee received		31.634.651	48.827.538
Fee paid		(121.523.451)	(124.952.358)
Oil hedging operations payments, net		(10.439.549)	(783.033)
Net cash inflow from operating activities		73.663.157	130.544.448

CONSOLIDATED CASH FLOW STATEMENT (continued)

In thousand KZT

For the years ending 31 December

	Note	2011	2010
Cash flow from investment activities:			
Placement of deposits in banks, net		145.811.373	129.308.418
Acquisition of subsidiaries, less cash received	5	(55.006.373)	(8.614.935)
Acquisition of fixed assets and intangible assets		(458.763.308)	(474.987.934)
Cash inflow from sale of fixed assets and intangible assets		30.328.039	11.599.300
Payments received from joint ventures and associates	10, 11	405.604.974	289.585.072
Acquisition and contributions into joint ventures	5, 10	(98.473.907)	(3.750.000)
Repayment of loans granted to the Shareholder		41.381.049	—
Receipts from sales of assets intended for sale		—	378.378
Repayment of a loan granted to a related party		309.554	—
Repayment of loan for acquisition of KPV		(3.532.756)	—
Loans provided to related party	30	(4.641.899)	(69.571.436)
Net flow of cash received from / (used in) investment activities		3.016.746	(126.053.137)
Cash flow from financial activities:			
Proceeds of loans		284.669.372	1.291.592.905
Repayment of loans		(341.456.691)	(1.290.534.781)
Acquisition of non-controlling participatory interest		(185.247)	(18.032.903)
Dividends paid to the non-controlling interest shareholders		(22.167.123)	(20.589.632)
Dividends distributed to Shareholder	16	(45.796.384)	(18.565.388)
Share issue	16	12.135.394	160.500.000
Repurchase of the own stock by a subsidiary		(15.762.657)	(24.531.975)
Repayment of convertible debt instrument	17	—	(10.463.778)
Miscellaneous payments to Shareholder		(8.863.662)	—
Net (use) / receipt of cash from financial activities		(137.426.998)	69.374.448
Effect of change in exchange rates on cash and its equivalents		4.741.847	(189.561)
Net change in cash and cash equivalents		(56.005.248)	73.676.198
Cash and cash equivalents at the beginning of the year	15	637.917.383	564.241.185
Cash and cash equivalents at the end of the year	15	581.912.135	637.917.383

Non-cash transactions, including the following, were excluded from the consolidated cash flow statement:

- In 2011 the Group terminated the recognition of the 7,812,499 thousand KZT loan related to financing of exploration and appraisal operations on one of fields (Note 4). Income from writing off the loan was offset with impairment loss (2010: zero).
- During 2010 the retirements of fixed assets include 1,900,537 thousand KZT, which relate to a change in reserves (Note 19) (2010: proceeds in the amount of 2,289,823 thousand KZT).
- During 2011, the Group capitalized financial expenditures in the amount of 5,796,730 thousand KZT (2010: 2,719,046 thousand KZT) as part of the fixed assets (Note 6).
- In 2010 and 2011, the Parent Company transferred pipelines as a contribution into the authorized capital (Note 16).
- As at 31 December 2011, accounts payable for the acquired fixed assets increased by 6,492,797 thousand KZT (in 2010: 14,970,451 thousand KZT).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousand KZT	Due to the Company's shareholder					Total	Non-controlling participatory interest	Total
	Authorized capital	Additional paid-in capital	Miscellaneous capital	Reporting currency recalculation reserve	Retained earnings			
Note	16	16		16			16	
As at 31 December 2009	159,647,488	2,248,079	4,910,393	183,362,434	1,530,243,896	1,880,412,290	476,802,220	2,357,214,510
Profit for year	—	—	—	—	305,309,217	305,309,217	91,725,638	397,034,855
Miscellaneous aggregate income	—	—	—	(10,031,683)	—	(10,031,683)	(481,270)	(10,512,953)
Total amount of aggregate income for the year	—	—	—	(10,031,683)	305,309,217	295,277,534	91,244,368	386,521,902
Contribution to the authorized capital (Note 16)	166,788,373	18,501	—	—	—	166,806,874	—	166,806,874
Dividends (Note 16)	—	—	—	—	(16,940,104)	(16,940,104)	(20,589,632)	(37,529,736)
Distributions to the Company's Shareholder (Note 16)	—	—	—	—	(85,241,402)	(85,241,402)	—	(85,241,402)
Recognition of payments based on equity instruments in subsidiaries	—	—	309,987	—	54,899	364,886	11,359	376,245
Disposal of equity instruments in subsidiaries	—	—	(49,809)	—	—	(49,809)	—	(49,809)
Exercise of payments based on equity instruments in subsidiaries	—	—	5,634	—	—	5,634	—	5,634
Repurchase of the own stock from the market by a subsidiary (Note 16)	—	—	—	—	(3,997,157)	(3,997,157)	(20,534,818)	(24,531,975)
Changes in the subsidiaries ownership ratio - acquisition of a non-controlling participatory interest	—	—	—	—	1,513,990	1,513,990	(5,236,944)	(3,722,954)
Conversion of convertible debt instrument of Rompetrol Rafinare S.A. (Note 17)	—	—	—	—	(113,467,108)	(113,467,108)	103,003,330	(10,463,778)
Changes in the subsidiaries ownership ratio - acquisition of a non-controlling participatory interest in the subsidiaries of Rompetrol Group N.V. (Note 5)	—	—	—	—	47,302,003	47,302,003	(65,334,906)	(18,032,903)
As at 31 December 2010	326,435,861	2,266,580	5,176,205	173,330,751	1,664,778,234	2,171,987,631	559,364,977	2,731,352,608
Profit for year	—	—	—	—	422,497,982	422,497,982	56,292,345	478,790,327
Miscellaneous aggregate income	—	—	—	15,242,349	—	15,242,349	1,167,781	16,410,130
Total amount of aggregate income for the year	—	—	—	15,242,349	422,497,982	437,740,331	57,460,126	495,200,457
Contribution to the authorized capital (Note 16)	14,957,903	—	—	—	—	14,957,903	—	14,957,903
Dividends (Note 16)	—	—	—	—	(45,796,384)	(45,796,384)	(22,167,123)	(67,963,507)
Discounting of the Shareholder's interest-free loan (Note 16)	—	10,971,414	—	—	—	10,971,414	—	10,971,414
Distributions to the Company's Shareholder (Note 16)	—	—	—	—	(8,930,001)	(8,930,001)	—	(8,930,001)
Recognition of payments based on equity instruments in subsidiaries	—	—	249,952	—	—	249,952	291,148	541,100
Disposal of equity instruments in subsidiaries	—	—	(23,794)	—	—	(23,794)	—	(23,794)
Repurchase of the own stock from the market by a subsidiary (Note 16)	—	—	—	—	(867,183)	(867,183)	(14,895,474)	(15,762,657)
Fixed assets revaluation transfer	—	—	(3,436,304)	—	3,436,304	—	—	—
Changes in the subsidiaries ownership ratio - acquisition of a non-controlling participatory interest	—	—	—	—	68,887	68,887	(174,457)	(105,570)
Changes in the subsidiaries ownership ratio - acquisition of a non-controlling participatory interest in the subsidiaries of Rompetrol Group N.V. (Note 5)	—	—	—	—	(1,858,084)	(1,858,084)	1,778,407	(79,677)
As at 31 December 2011	341,393,764	13,237,994	1,966,059	188,573,100	2,033,329,755	2,578,500,672	581,657,604	3,160,158,276

REVIEW OF MATERIAL ASPECTS OF ACCOUNTING POLICY

Changes in Accounting Policy and Information Disclosure Principles

The adopted accounting policy complies with the accounting policy used in the previous fiscal year, except for the adoption of the new and revised Standards and Interpretations given below, effective since 1 January 2011.

- Amendment to IAS 24 "Related Party disclosure", which entered into force on 1 January 2011;
- Amendment to IAS 32 "Financial Instruments: Presentation of information", which entered into force on 1 February 2010;
- Interpretation 14 "Prepayments of a Minimum Funding Requirement", which entered into force on 1 January 2011;
- Improvements to IFRSs (May 2010).

The adoption of the standards or interpretations is described below:

Consolidation Basis

The attached consolidated financial reporting includes the financial statements of the Company and its subsidiaries as at 31 December 2011. The subsidiaries are fully consolidated by the Group since the date of acquisition which represents the date of the Group's gaining control over a subsidiary, and continue to be consolidated until the date of loss of such control. The financial reporting of the subsidiaries was prepared for the same reporting period as that of the parent company based on the consistent application of the accounting policy for all companies of the Group. All intercompany balances, operations, unrealized gains and expenses arising out of conducting transaction within the Group, and dividends are completely excluded.

The losses of a subsidiary shall be classified as the non-controlling participatory interest even in case this leads to negative balance.

A change in the participatory interest in a subsidiary without loss of control shall be recorded as a capital transaction. If the Group loses control over its subsidiary, it shall:

- stop recognition of assets and liabilities of the subsidiary (including the goodwill related thereto);
- stop recognition of the present value of a non-controlling participatory interest;
- stop recognition of the accumulated exchange rate differences reflected in the capital;
- recognize the fair value of consideration received;
- recognize the fair value of the remaining investment;
- recognize the surplus or deficit formed as a result of the transaction as profit or loss;
- reclassify the parent company's interest in the components earlier recognized as part of miscellaneous aggregate income as profit or loss or retained earnings in compliance with specific requirements.

Business Combination and Goodwill

Business combinations shall be recorded using the purchase accounting method. The cost of acquisition shall be evaluated as the amount of the transferred compensation, evaluated at fair value as at the date of acquisition, and non-controlling participatory interest in the company acquired. For every business combination transaction, the acquirer shall evaluate the non-controlling participatory interest in the company acquired either at fair value or at the pro rata proportion in the identifiable net assets of the company acquired. Expenditures incurred due to the acquisition shall be included in the administrative expenses.

In case of a phased business combination, the fair value at the date of acquisition of the participatory interest in the company acquired, earlier owned by the acquirer, shall be revalued at fair value at the date of acquisition through profit or loss.

A contingent consideration to be transferred to the acquirer shall be recognized at fair value at the date of acquisition. Further changes in the fair value of the contingent consideration that may be an asset or a liability shall be recognized according to IAS 39 either through profit or loss, or as a change in the miscellaneous aggregate income. If the contingent consideration is classified as capital, it shall not be revalued, and will be further recognized in the capital. If the contingent consideration does not fall within the field of application of IAS 39, it shall be valued pursuant to a relevant IFRS.

Goodwill is initially valued at the historical cost determined as the excess of the transferred consideration amount and the recognized non-controlling participatory interest over the amount of the net identifiable assets acquired by the Group, and the liabilities assumed thereby. If this consideration is less than the fair value of the net assets of the acquired subsidiary, the difference shall be recognized through profit or loss. Subsequently, the goodwill shall be valued at historical cost less accumulated impairment loss.

Acquisition of subsidiaries from parties who are under common control

Acquisition of subsidiaries from the parties who are under common control shall be recognized using the pooling of interest method.

Interests in Joint Ventures

The Group has interests in joint ventures that constitute entities under common control. A joint venture is established based on contractual agreements, under which two or more parties carry out economic activity that is under common control, and a jointly controlled company is a joint venture implicating creation of a separate enterprise in which each of the participants owns a certain interest. The agreement requires unanimous consent in the financial and operating agreements among the participants. The Group shall present

its interests in joint venture using the equity method.

The financial reporting of joint ventures shall be prepared for the same period as that of the Group.

Investments in Associated Company

Associated companies are all entities the Group has significant influence on, but does not exercise control over; as a rule, this implies ownership of 20%-50% of the voting shares. Investments in the associated companies are recorded using the equity method.

Oil and natural gas exploration and development expenditure

Expenditures Incurred before Obtaining Licenses

Expenditures incurred before obtaining licenses shall be classified as expenses of the period they were incurred in.

Expenditures for Obtaining Licenses and Property

Expenditures for obtaining licenses and property shall be capitalized and classified as intangible assets. Every exploration target shall be considered on an annual basis concerning the fact that the drilling works have been planned, and it has not depreciated. If future works are not planned, the present value of the costs of acquiring exploration licenses and the relevant facilities shall be written off. When economically feasible recoverable reserves («proven reserves» or «commercial reserves») are found, and in case of internal approval of development, the present value of the costs of acquiring exploration licences and relevant facilities, broken down by field, shall be combined with the exploration expenditures and be transferred to the oil and gas properties.

Expenditures Related to Exploration and Appraisal

As soon as the legal right to exploration, the expenditures for geological and geophysical surveys and expenditures directly related to an exploration well, shall be capitalized as intangible or tangible exploration and appraisal assets until drilling of the well has been completed and the results of such drilling have been appraised.

If no reserves are found, the exploration asset shall be tested for impairment, if recoverable hydrocarbons are found, and are subject to further appraisal that may include drilling of other wells the commercial development of which is probable enough, then the expenditures shall continue to be recorded as an intangible asset, until reasonable/continuous progress in the appraisal of commercial extraction of hydrocarbons is achieved. All expenditures of such kind shall be subject to a technical, commercial and management test, along with an impairment test, at least once a year, in order to confirm the intent to continue development or any other way of deriving benefit from the discovery. Otherwise, the expenditures shall be written off. When the proven oil reserves are determined and the decision on continuing the development is made, the corresponding expenditures shall be transformed into petroleum property after the impairment appraisal and recognition of the impairment loss incurred.

Development Costs

Costs for construction, installation and completion of

infrastructure facilities, such as platforms, pipelines and development well drilling, including dry development wells or outpost wells, shall be capitalized as part of the petroleum property.

Petroleum Property and Other Fixed Assets

Petroleum property and other fixed assets shall be recorded at cost minus the accumulated amortization, depletion and depreciation.

Petroleum property shall be amortized using the units of production method, while tangible assets shall be amortized according to the proven developed reserves, and intangible assets - according to the proven reserves. Certain petroleum property with useful life shorter than the residual life of fields shall be amortized using the straight-line basis during the useful life from 4 to 10 years.

Fixed assets, apart from the oil and gas assets, mainly include buildings, machinery and equipment, amortized using the straight-line basis during the following fixed useful lives:

Refinery Assets	4-100 years
Pipelines	10-30 years
Buildings and Constructions	8-100 years
Machinery and equipment	3-30 years
Means of transportation	5-10 years
Miscellaneous	4-20 years

The contemplated useful life of the fixed assets shall be revised on an annual basis, and as required, changes in the lives shall be adjusted in the subsequent periods.

Present value of the fixed assets shall be revised for impairment if and to the extent that events and changes in circumstances occur, indicating that the present value is not recoverable.

Derecognition of a fixed asset, including producer wells that have stopped production of commercial volumes of hydrocarbons and are intended for abandonment, occurs in case of retirement or if receipt of economic benefits from the use of this asset in the future is not expected.

Intangible assets

Intangible assets shall be recorded at cost, minus accumulated amortization and accumulated impairment losses. Intangible assets include expenditures for obtaining oil and gas resources exploration licenses, software and goodwill. Intangible assets acquired separately shall be initially appraised at the purchase value.

Intangible assets, other than the goodwill, shall be amortized using the straight-line basis during the estimated remaining useful life. The expected useful life of assets shall be revised on an annual basis, and as required, changes in the lives shall be adjusted in the subsequent periods. The useful life of computer software is from 3 to 7 years.

Present value of intangible assets shall be analyzed for depreciation if and to the extent that events and changes in circumstances indicate that the present value cannot be

recovered.

Goodwill shall be tested for depreciation annually (as at 31 December) and where events and circumstances indicate that its present value cannot be depreciated.

If the replacement value of the cash generating units is lower than their present value, the impairment loss shall be recognized. The impairment loss of the goodwill may not be recouped in future periods.

Impairment of Non-financial Assets

As at every reporting date, the Group shall determine if there are signs of possible impairment of an asset. If such signs take place, or if an annual check of the asset for impairment is required, the Group shall evaluate the recoverable value of the asset. The recoverable value shall be determined for an individual asset, except to the extent that the asset generates cash flows, which are mainly independent of the cash flows generated by other assets or groups of assets. If the present value of an asset or CGU exceeds its recoverable value, the asset shall be deemed impaired and shall be written-off to the recoverable value.

For assets, other than the goodwill, the presence of the signs that the earlier recognized impairment losses do not exist anymore or have decreased shall be evaluated at each reporting date. Earlier recognized impairment loss shall be recovered only to the extent that a change has taken place in an assumption that has been used for determine the recoverable value of the asset, since the time of the last recognition of impairment loss. In case of a recovery, the present value of the asset may not exceed the recoverable value of the asset, and the present value (less amortization) at which this asset would have been recognized in case impairment loss on the asset has not been recognized over the prior years. Such a recovery shall be recognized in the statement of comprehensive income.

Impairment of Exploration and Appraisal Assets

The Group shall check its exploration and appraisal assets for impairment, when such assets are transferred to tangible or intangible development assets, or when there are facts and circumstances indicating impairment of assets.

Assets Held for Sale and Discontinued Operations

Assets and disposal groups, classified as held for sales, shall be evaluated on the least of the two values - the present value and the fair value less costs to sell. Assets and disposal groups shall be classified as held for sales, if their present value is refundable, mainly through a selling transaction, and not as a result of continued use. This condition shall be deemed to be observed only to the extent that the likelihood of sale is high, and the asset or disposal group cannot be sold immediately in their current condition.

The management should have firm intention to make sale which should be expected to fit the criteria for recognition as a closed sale transaction within one year of the classification date.

Fixed assets and intangible assets after being classified as held for sale shall not be subject to amortization.

Asset Retirement Obligation (Decommissioning)

Reserves for decommissioning shall be recognized in full on a discounted basis, when the Group has liabilities on decommissioning and relocation of equipment or a mechanism and restoration of the site where the equipment was located, and where reasonable valuation of such reserve can be made. The corresponding fixed asset, equivalent in size to the reserve amount shall be also recognized. Subsequently, this asset shall be amortized as part of the capital expenditures on the means of production and means of transportation on the basis of the units of production method.

Changes in the evaluation of the existing reserve for decommissioning that have been the results of change in the estimated date or amount of resource outflow underlying the economic benefits required for repayment of a liability, or a change in the discount rate shall be recorded so that:

(a) changes in the reserve are added to or subtracted from the value of the corresponding asset in the current period;

(b) the amount subtracted from the asset value shall not exceed its present value. If a change in a reserve exceeds the present value of an asset, then the excess shall be immediately recognized in the consolidated statement of comprehensive income; and

(c) in case an adjustment leads to an increase in the asset value, the Group shall consider if this is an indicator of the inability of the new present value of the asset to be fully recovered. If this is such an indicator, the Group shall test the asset for impairment through the assessment of its recoverable value, and record any impairment loss in accordance with IAS 36.

Financial Assets

Initial recognition and valuation

Financial assets within the scope of IAS 39, shall be classified accordingly as financial assets revaluated at fair value through the profit or loss; loans and accounts receivable; investment held to maturity, financial assets available for sale; derivatives set as hedging instruments in case of effective hedging. The Group shall classify its financial assets at their initial recognition.

Financial assets shall be initially recognized at fair value, increased in case of investment not revaluated at fair value through profit or loss, by the transaction costs directly related thereto.

The Group's financial assets include cash and term deposits, trade and other accounts receivable, loans and other amounts receivable, listed and unlisted financial instruments, and derivative financial instruments.

Subsequent Valuation of Financial Assets

Subsequent valuation of financial assets depends of their classification as follows:

Financial Assets Revaluated at Fair Value through Profit or Loss

The "financial assets revaluated at fair value through profit

or loss" includes financial assets held for trading, and financial assets referred at the initial recognition to the category of those revaluated at fair value through profit or loss. Financial assets revaluated at fair value through profit or loss shall be accounted in the statement of financial position at fair value, and changes in the fair value shall be recognized as part of the financing income or financing expenditures in the statement of comprehensive income.

Financial asset recorded during the initial recognition at fair value through profit or loss shall be recognized at the date of initial recognition, and only if this complies with the requirements of IAS 39.

Loans and Accounts Receivable

Loans and accounts receivable constitute non-derivative financial assets with set of designated payments, unlisted on the active market. After the initial recognition, this kind of financial assets shall be valued at amortized cost, determined using the effective interest rate method, less the impairment loss.

Investment held to maturity

Non-derivative financial assets with fixed or determined payments and fixed maturity date shall be classified as investment held to maturity, when the Group has firm intention to and capable of holding them until the maturity date. After the initial valuation, investment held to maturity shall be valued at amortized cost, determined using the effective interest rate method, less the impairment loss.

Financial investment available for sale

Financial Investment available for sale includes equity and debt securities.

After the initial valuation, the financial Investment available for sale shall be valued at fair value, and unrealized gains and expenses on them shall be recognized as miscellaneous comprehensive income as part of the stock of instruments available for sale, up until the time of derecognition of the Investment, in which the accumulated income or expenses are reclassified from the stock of instruments available for sale, and shall be recognized as financing expenditures. Interest received from retention of financial investment available for sale shall be recognized as financial income based on the effective interest rate.

Derecognition of Financial Assets

A financial asset (or, where applicable - a part of a financial asset or a part of a group of similar financial assets) shall be derecognized in the statement of financial position, if:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation on payment to a third party of the received cash flows in full and without a material delay under a "transit" agreement; and either (a) the Group has transferred practically all risks and benefits from the asset; or (b) the Group has not transferred, nor does it reserve, practically all risks and benefits from the asset, but transferred control over this asset.

If the Group has transferred all its rights to receive cash flows from an asset, or has entered into a transit agreement, and has neither transferred, nor retained virtually all risks and benefits from the asset, and has not transferred control over the asset, a new asset shall be recognized to the extent to which the Group continues its participation in the transferred asset. In this case the Group shall also recognize a corresponding liability. The transferred asset and the corresponding liability shall be evaluated on the basis that reflects the rights and liabilities retained by the Group.

Impairment of Financial Assets

The Group shall establish the presence of objective evidence of impairment of a financial asset or a group of financial assets. A financial asset or a group of financial assets shall be deemed impaired then and only then when there is an objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (occurrence of a "damage sustained event") that have exerted reliably measurable influence on the expected cash flows on a financial asset or a group of financial assets.

Financial Assets Recorded at Amortized Cost

In respect of financial assets recorded at amortized cost, the Group first carries out separate evaluation of the existence of objective evidence of impairment of individually important financial assets, or jointly on the financial assets not being individually important.

If there is an objective evidence of impairment loss sustained, the amount of loss shall be evaluated as the difference between the present value of an asset and the discounted value of the expected future cash flows (exclusive of the future expected loan losses that have not yet been incurred).

The present value of an asset shall be decreased through the use of a reserve account, and the amount of the loss shall be recognized as period expenses.

If during the next year the amount of estimated impairment loss increases or decreases due to any event occurring after the impairment is recognized, the amount of the previously recognized impairment loss shall be increased or decreased through adjustment of the reserve account. If the previous writing-off of a financial instrument value is further recovered, the recovered amount shall be recognized as part of the finance costs.

The discounted value of the expected future cash flows shall be discounted using the initial effective interest rate on a financial asset. If a loan interest is variable, the discount rate for determining the impairment loss shall be the current effective interest rate.

Financial investment available for sale

In respect of financial investment available for sale, the Group shall on every reporting date evaluate the existence of objective evidence of the fact that an investment or a group of investments have depreciated.

If there is evidence of depreciation, the amount of aggregate loss evaluated as the difference between the

cost of acquisition and the current fair value, less previously recognized impairment loss on these investment, shall be excluded from the miscellaneous aggregate income and be recognized in the current period through profit or loss. Impairment loss on investment in equity instruments shall not be recovered through the income of the current period; increase in their fair value after impairment shall be recognized directly as part of miscellaneous aggregate income.

In case of debt instruments classified as available for sale, impairment shall be evaluated based on the same criteria that are used in respect of financial assets recorded at amortized cost. However, the amount of the reflected impairment loss constitutes accumulated loss evaluated as the difference between the amortized cost and the present fair value, less the impairment loss on these investments, earlier recognized as the period expenses.

Inventories

Inventories shall be accounted at the least of the following two values: production cost and net realizable value according to the FIFO costing method. The value shall include all expenditures incurred in the ordinary course of business, related with the local delivery of inventories and bringing them to the current condition. The cost of crude oil and oil products shall be their lifting cost, including a corresponding part of expenses on depreciation, depletion and amortization, and overheads based on the average volume of production. The net realizable value of crude and oil products shall be based on the estimated selling price, net of the expenses connected with such a sale.

Value-added tax (VAT)

Tax authorities allow repayment of the VAT on sales and acquisition on a net basis. VAT reimbursable constitutes VAT on acquisition on the domestic market, less VAT on sales on the domestic market. Export sales have a zero rate.

Cash and cash equivalents

Cash and its equivalents shall include cash in banks and on hand, and short-term deposits with the original maturity of not more than three months.

Put Options Occurring during Business Combination

If in case of a business combination the Group becomes a party to a put option on the remaining minority interest in the acquired business, the Group shall evaluate if the participation in such an option gives access to the benefits and risks related to the ownership of such a minority interest.

When it is determined that the put option on the remaining shares gives access to the benefits and risks of ownership, the business combination shall be accounted based on the fact that the shares conditioned by the put option have been purchased. The fair value of the liability for the minority shareholders on the put option shall be recognized as part of the business combination costs. Any difference between such cost and the share in the net assets, that would be otherwise considered

as related to the minority interest, shall be recorded as part of the goodwill. Any dividends, subsequently announced and paid to such minority shareholders, until the execution of the option, shall be directly recorded in the consolidated statement of comprehensive income.

Subsequently, the financial liability shall be evaluated as per the requirements of IAS 39. Changes in the fair value of the financial liability, and any financial payments shall be directly recognized in the consolidated statement of comprehensive income.

Financial Liabilities

Initial recognition and valuation

Financial liabilities within the scope of IAS 39 shall be classified accordingly as financial liabilities, revaluated at fair value through profit or loss, credits and borrowings, and derivatives. The Group shall classify its financial liabilities at their initial recognition.

Financial liabilities shall be initially recognized at fair value, increased in case of credits and borrowings by the transaction costs directly related thereto.

The Group's financial liabilities include trade and other accounts payable, loans and borrowings, and derivative financial instruments.

Subsequent Valuation of Financial Liabilities

Subsequent valuation of financial liabilities depends of their classification as follows:

Financial Liabilities Revaluated at Fair Value through Profit or Loss

The "financial liabilities revaluated at fair value through profit or loss" includes financial liabilities held for trading, and financial liabilities determined at the initial recognition as those revaluated at fair value through profit or loss.

Income and expenses on the liabilities held for trading shall be recognized in the profits and losses.

Trade and Miscellaneous Accounts Payable

Trade accounts payable shall be initially recorded at fair value, and subsequently evaluated at amortized cost using the effective interest rate method.

Credits and Loans

After the initial recognition interest-bearing credits and loans shall be evaluated at amortized cost using the effective interest rate method. Income and expenses on such financial liabilities shall be recognized in the statement of comprehensive income in case of their derecognition, and as amortization is accrued, using the effective interest rate.

Loans shall be classified as current liabilities, unless the Group possesses an unconditional right to defer payment for a minimum of 12 months after the reporting date. Expenditures on loans directly related to acquisition, construction or production of the qualifying asset shall be capitalized as part of the value of that asset. Miscellaneous expenditures on loans shall be recognized as expenses at the time of emergence.

Derecognition of Financial Liabilities

A financial liability shall be derecognized in the consolidated

statement of financial position, if the liability is repaid, cancelled, or expired.

If the existing financial liability is replaced with another liability to the same lender, on essentially different terms, or if the terms of the existing liability have been changed considerably, such replacement or changes shall be recorded as de-recognition of the initial liability and the beginning of recognition of a new liability, and the difference between their present value shall be recognized in profit or loss.

Offsetting of Financial Instruments

Financial assets and financial liabilities shall be subject to offsetting, and the net amount shall be subject to be represented in the consolidated statement of financial position if and only if there is an exercisable legal right to offsetting the recognized amounts, and intention to make settlements on a net-basis. or sale assets and repay the liabilities concurrently therewith.

Fair value of financial instruments

Fair value of financial instruments traded on active markets on each reporting date shall be determined proceeding from the market quotations (quotations for long position purchase and quotations for short position purchase), without deduction of transaction costs.

For financial instruments not traded on an active market, the fair value shall be determined by using the relevant valuation techniques. Such techniques may include the use of prices of recent transactions on a commercial basis, the use of the present fair value of similar instruments, analysis of discounted cash flows, or other valuation models.

Reserves

Reserves shall be recognized, if the Group has a current liability (legal or voluntarily assumed), occurring as a result of a past event, there is a substantial likelihood that an outflow of economic benefits will be required for the repayment of the liability, and the amount of such a liability can be accurately determined. If the Group intends to receive reimbursement of a certain portion or all reserves, for example, on an insurance agreement, the reimbursement shall be recognized as a separate asset, but only in case receipt of the reimbursement is beyond exception. The expense related to a reserve shall be recorded in the statement of comprehensive income less the reimbursement. If the effect of the time value of money is material, the reserves shall be discounted at the current rate before taxes that reflects, where applicable, the risks characteristic of the specific liability. If discounting is used, an increase in the reserve shall be recognized as finance cost over time.

Payments to Employees

Pension Plan

Payments under a predetermined contribution pension program shall be booked to expenses as they are paid. Payments under the public pension system shall be considered

as defined contribution plans, when the Group's liabilities under this plan are equal to the liabilities arising under a predetermined contribution pension program.

Recognition of Proceeds

Proceeds shall be recognized if there is likelihood that the Group will receive economic benefits, and if the proceeds can be reliably evaluated. The proceeds shall be evaluated at fair value of the received compensation, less discounts and other sales taxes or duties. The following criteria shall be fulfilled for recognition of proceeds in the consolidated financial reporting:

Sales of goods

Income from sales of crude oil, oil products, gas and other commodities shall be recognized when a delivery of a commodity has occurred, and the rights and title have been transferred to the buyer.

Provision of services;

Income from services provided, such as transportation services, shall be recognized at the time of rendering the services.

Recognition of Expenses

Expenses shall be recorded at the moment of occurrence and reflected in the consolidated financial reporting in the period they are related to, based on the accrual method.

Income Tax

Income tax for a year includes the current income tax, the excess profits tax and the deferred tax.

Assets and liabilities on the current income tax for the current and prior periods shall be evaluated at the amount, that will be supposed to be refunded by the tax authorities or paid to them. Tax rates and tax legislation used for the calculation of this amount are the rates and laws adopted and actually adopted as at the reporting date.

The current corporate income tax (CIT) attributable to clauses recognized directly in the capital shall be recognized as part of the capital, and not in the statement of comprehensive income.

The excess profits tax (EPT) is considered as an income tax and form a portion of the income tax expenses.

Deferred tax shall be calculated both for the corporate income tax and for the excess profits tax. Deferred excess profits tax shall be calculated according to the temporary differences for the assets referred to the sub-soil use contracts, at the expected rate of the excess profits tax, subject to payment under the contract.

Deferred tax shall be determined using the liability method by determining temporary differences as at the reporting date between the tax base of assets and liabilities and their present value for the purposes of financial reporting.

Deferred tax assets and liabilities shall be valued at the tax rates that are assumed to be applied in the reporting year, when that asset will be sold, and the liability will be repaid, based on the tax rates (and tax legislation), that have become effective as at the reporting date, or are effective

retrospectively.

Deferred tax attributable to clauses recognized directly in the capital shall be recognized as part of the capital, and not in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities shall be offset against each other, if there is a legally vested right to offset the current tax assets against the current tax liabilities, and if deferred taxes are related to one and the same taxable company or one tax authority.

Equity

Non-controlling participatory interest

Non-controlling participatory interest are represented in the consolidated statement of financial position as part of the equity capital separately from the capital attributable to the Company's shareholders. The losses of a subsidiary shall be classified as the non-controlling participatory interest even in case this leads to negative balance.

Payments based on equity instruments

Employees of the Group receive remuneration in the form of payments based on equity instruments. Employees provide services for which they receive remuneration in equity instruments of a subsidiary where they work ("transactions settled with equity instruments").

The value of transactions with employees, settled with equity instruments, shall be evaluated proceeding from the fair value of such instruments at the date they are provided. The fair value shall be determined using a relevant evaluation model.

Expenses on transactions on payments based on equity instruments shall be recognized concurrently with a corresponding increase in the reserves for miscellaneous capital during the period in which the conditions of achievement of operating results and/or conditions of the certain length of service are met, and ending on the date when the employees obtain the full right to remuneration (the date of transfer of the right to receive remuneration).

Expenses on remuneration with equity instruments, the right to which is not ultimately transferred to employees, shall not be recognized.

If the terms of remuneration paid with equity instruments are changed, the expenses shall be recognized, at least in the amount as if the terms have not been changed. Furthermore, additional expenses on the change that increases the total fair value of the remuneration with equity instruments, or that is otherwise beneficial for the employees, according to the evaluation performed at the date of such a change, shall be recognized.

If remuneration paid with equity instruments is canceled, it shall be recognized as if the right thereto has been transferred at the cancellation date. In this respect, all expenses that have not yet been recognized shall be immediately recognized. However, if the canceled remuneration is replaced with a new one, and the new remuneration is considered to be a replacement of the canceled remuneration at the date of its provision, the canceled remuneration and the new one shall

be recognized as if a change in the initial remuneration has occurred, as described in the previous paragraph.

Dividends

Dividends shall be recognized as liabilities and be subtracted from the capital amount as at the reporting date only in case they are declared on or before the reporting date. Information on dividends shall be disclosed in the reporting, if they have been recommended before the reporting date, and recommended or declared after the reporting date, but before the date of approval of the consolidated financial reporting for issuance.

Events after the reporting date

Events occurring after the end of the reporting year, providing evidence of the conditions that existed at the date of preparation of the statement of financial position (adjusting events), shall be reflected in the consolidated financial reporting. Events occurring after the end of the reporting year, which are not adjusting events, shall be disclosed in the notes to the reporting, if they are material.

Standards that were issued but have not become effective

There are standards that were issued but did not enter into force on the date of the financial statements of the Group. List of issued standards and interpretations that, in terms of the Group may have an impact on the disclosure of information the financial position or financial results of activity in case of application in the future, given the financial statements of JSC NC "KazMunayGas" in 2011. The Group intends to apply these standards from the date of entry into force.

SUMMARY BUSINESS REPORT OF THE BOARD OF DIRECTORS OF JSC NC "KAZMUNAYGAS" 2011

Independent Directors of JSC NC "KazMunayGas" are elected to the membership of the Board of Directors in compliance with the provisions of the Law of the Republic of Kazakhstan "On Joint Stock Companies" and the provisions of the Charter of JSC NC "KazMunayGas".

In particular, the following factors serve as the criteria for selecting Independent Directors in JSC NC "KazMunayGas": no affiliation, high qualification and work experience in international oil business, finance and audit as well as the management experience in international oil and gas corporations which allows introducing the best international practices, considering that the enhancement of a corporate governance is of much importance for the company.

Remuneration to independent members of the Board of Directors of JSC NC "KazMunayGas" is paid according to the contracts concluded between JSC NC "KazMunayGas" and independent directors of the Board of Directors of JSC NC "KazMunayGas". These contracts include the annual fixed remuneration and extra remuneration for participation in the official meetings of the Committees of the Board of Directors. Other members of the Board of Directors of JSC NC "KazMunayGas" perform as the members of the Board of Directors of JSC NC "KazMunayGas" on a non-repayable base.

In 2011 the Board of Directors of JSC NC "KazMunayGas" held 10 meetings, 3 of which in absentia. All members of the Board of Directors actively participated in the activities of the Board of Directors (97-100% attendance), making contribution to general operating efficiency of the Board of Directors of NC JSC "KazMunayGas" and the Group of the Companies as a whole.

In 2011 a significant role in improving the financial management, assets management and timely decision-making on problematic issues was assigned to the praxis initiated by independent directors. Such praxis implied hearing of progress reports on the decisions which had been earlier adopted by the Board of Directors, reports by a financial director on execution of the Company's Development Plan, reports on Industrial Safety and Environment Protection submitted by the HSE General Manager and reports by the Chairman of the Management Board on key industrial changes. Such reports are submitted at each meeting in presentia held by the Board of Directors of JSC NC "KazMunayGas". These measures contributed to strengthening the control over the execution of decisions and instructions by the Sole Shareholder and the Board of Directors, increasing the responsibility in-situ and improving the feedback. The Board of Directors of JSC NC "KazMunayGas" devoted much attention to industrial safety and environment protection - all accidents occurred in 2011 (industrial emergencies or accidents) were carefully heard at the meetings of the Board of Directors and, when required, Commissions of the Company's representatives visited such sites. Besides investigating the reasons and circumstances

which led to emergency situation, the representatives raised awareness among the local personnel.

In 2011 the Board of Directors examined 73 issues and made its decisions, 71 of which were fully executed.

Among 73 decisions made by the Board of Directors in 2011: 7 decisions concerned HR issues on assignments, optimization of the authorized staff size and the structure of the KMG's Central Office;

5 decisions concerned the issues of interested-party transactions;

7 decisions concerned the issues of corporate management and the aspects which regulate the Company's internal activity:

- appraising the performance of the Board of Directors of JSC NC "KazMunayGas", Management Board and Internal Audit Service for 2010 by external consultants;
- approving the Risk Management Policy of JSC NC "KazMunayGas" till 2013;
- approving the Regulations on the Board of Directors of JSC NC "KazMunayGas";
- approving the Regulations on the Management Board of JSC NC "KazMunayGas";
- approving the Rules on Corporate Conflicts Settlement;
- approving the Borrowing Policy of NC JSC "KazMunayGas", its subsidiaries and affiliates for 2011-2015;
- approving the performance indicators of NC JSC "KazMunayGas" in the field of the corporate social responsibility and sustainable development.

As part of control over the activity of the Management Board, the KMG Board of Directors heard the reports by a Chairman of the Management Board on different aspects of the Company's activity. Thus, at meetings in presentia in 2011 the KMG Board of Directors heard 5 reports by a Chairman of the Management Board on implementation of the decisions made by the KMG Board of Directors and 5 reports by a Chairman of the Management Board on key changes in the Company's activity (report on major projects implementation).

In 2011 the KMG Board of Directors heard 5 reports by the Internal Audit Service (4 quarterly reports and an annual report by the Internal Audit Service for 2010).

In 2011 the Appointment Committee attached to the Board of Directors of JSC NC "KazMunayGas" held 6 meetings. The Committee's members were present at every meeting.

The following issues were considered by the Committee in 2011:

- optimization of an authorized staff size and a structure of the KMG Central Office;
- KMG personnel policy for 2011-2015;
- composition of the Management Board;
- termination of authorities and assignment of a Chairman of the Management Board;
- assignment of an ombudsman;

APPENDICES

2011

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- assignment of the JSC NC "KazMunayGas" Corporate Secretary and other issues.

In 2011 the Remuneration Committee of JSC NC "KazMunayGas" held 5 meetings. The Remuneration Committee's members were present at every meeting.

The Remuneration Committee considered the issues of fixing a salary to the reappointed employees as well as the issues of bonus payment to the KMG employees due to different remarkable dates.

When discussing the bonuses paid to the members of the Management Board, employees of the Internal Audit Service as well as the bonus paid to the KMG Corporate Secretary, the Committee invited the employees, their executives and HR representatives for discussion of different KPI (key performance indicators) the performance of which could influence the bonus paid to them.

In 2011 the Audit Committee attached to the Board of Directors of JSC "KazMunayGas" held 11 meetings (1 via teleconferencing). The Audit Committee members were present at every meeting.

In 2011 the Committee considered the following issues related to the external audit and financial reporting:

- audit results of the KMG and SDO Consolidated Financial Statements 2011
- review results of financial statements for six-months 2011
- KMG Action Plan on eliminating the drawbacks revealed by an external auditor when auditing the KMG Consolidated Financial Statements 2010;
- request to Ernst and Young for non-audit services.
- approval of amendments to the KMG Corporate Accounting Policy;

In 2011 the following internal audit issues were considered by the Committee:

- report by the Internal Audit Service on risk management system in KMG;

- quarterly statement by the Internal Audit Service including the consideration of important detections by the results of the conducted audits as well as monitoring of performance of internal and external auditors' recommendations;

- approval of amendments to the KMG Corporate Accounting Policy;

- approval of the annual audit plan of the Internal Audit Service for 2011-2012;

- approval of unplanned audits;

- approval of a staff size and a scheme of the Service fixed official salaries;

- assignment of new employees and early termination of the powers of the Service employees

Other issues related to the activity of the Internal Audit Service.

In 2011 the KMG Board of Directors adopted all recommendations and proposals submitted by the Audit Committee.

In 2011 in accordance with the Regulations on Assessment by the JSC NC "KazMunayGas" Board of Directors of Activity of the Board of Directors, Committees of the Board of Directors, members of the KMG Board of Directors, Management Board, executive and members of the Management Board, Internal Audit Service and its executive and upon the recommendations of the KMG Board of Directors, an independent activity assessment of the KMG Board of Directors, Management Board and the KMG Internal Audit Service was conducted by the results of the year 2010 for the first time in the history of the Company's activity.

Action Plan on enhancement of the KMG corporate governance for 2011-13 was developed based on the assessment results. The measures specified in this plan for the year 2011 were fully executed.

Information on Participation of the Members of KMG's Board of Directors at the Meetings of KMG's Board of Directors in 2011

Name, Member of the KMG's Board of Directors	Number and date of a meeting									
	No.1 (01.03)	No.2 (15.04)	No.3 (29.04)	No.4 (31.05)	No.5 (27.07)	No.6 (09.08)	No.7 (18.10)	No.8 (13.12)	No.9 (14.12)	No.10 (22.12)
T.A. Kulibayev	-	+	+	+	+	-	+	-	+	+
B.U. Akchulakov	Removed from BD						+	+	+	Removed from BD
							(assigned to BD)			
D.R. Abulgazin	+	+	+	+	+	-	+	+	+	+
N.Ye. Sauranbayev	+	-	+	Removed from BD						
F. Kuijlaars	+	+	+	+	+	+	+	+	+	+
P. Lane	+	+	+	+	+	+	+	+	+	+
K.M. Kabyldin	+	+	+	+	+	+	Removed from BD			
M.Zh. Salimgereyev					+	+	+	+	+	+
					(assigned to BD)					

SUMMARY BUSINESS REPORT OF THE MANAGEMENT BOARD OF JSC NC "KAZMUNAYGAS"

Within 2011 178 minutes of the Management Board meetings were executed, 38 of which based on the results of meetings in presentia. In all for the reporting period the Executive Board of JSC NC "KazMunayGas" adopted resolutions on 547 issues and 407 (over 75%) of them were adopted through voting in persons.

Over the accounting period the KMG's Management Board submitted 49 issues to KMG's Board of Directors, including:

- on approval of the Action Plan to implement the proposals by results of the functional analysis and the 2d phase of JSC NC "KazMunayGas" optimization.

- on transfer of subsoil use rights to JSC "Exploration Production KazMunayGas" to the fullest extent under Contract No. 3577 of June 16 2010 for exploration of hydrocarbons of postsalt and pre-salt formation of the Karaton-Sarkamys sediments and under Contract No.3579 of June 16 2010 for exploration of hydrocarbons within the territory adjacent to Uzen and Karamandybas fields in Mangistau oblast;

- on transfer of subsoil use rights to SapaBarlauService LLP Under Contract No.3578 of June 16 2010 for exploration of hydrocarbons at Temir in Aktobe oblast and under Contract No.2203 on December 1 2006 for hydrocarbons exploration within the Teresken exploratory blocks;

- on conclusion of an Agreement on Cooperation Principles under the Urikhtau Project between KMG and Chinese National Oil and Gas Corporation

- on approval of Regulation on the Management Board of JSC NC "KazMunayGas";

- on approval of an Action Plan to Improve Corporate Governance System in JSC NC "KazMunayGas" for 2010-2011;

- on Report on Execution of a Plan of Measures to Improve the Corporate Governance System in JSC NC "KazMunayGas" for 2010-2011;

- on approval of a Plan of Measures to improve the Corporate Governance System in JSC NC "KazMunayGas" based on the recommendations by Standard & Poor's;

- on approval of a Risk Management Policy of JSC NC "KazMunayGas" for the period till 2013;

- on conclusion of an Agreement on Principles under the Abai project between JSC NC "KazMunayGas" and Statoil Company

- on approval of the Regulations on Corporate Conflicts Settlement of JSC NC "KazMunayGas";

- on approval of individual (incentive) key performance indicators of the KMG Management Board members, including their targets and thresholds, weights and calculation methodic;

- on approval of a Borrowing Policy of JSC NC "KazMunayGas" and its subsidiaries and affiliates for 2011 - 2015;

- Report on implementation of a Development Plan of JSC NC "KazMunayGas" 2010

- on prior approval of consolidated financial statement and separate financial statement of KMG for 2010,

- on submission of proposals to KMG's Sole Shareholder on the procedure of total income distribution (net profit) for 2010

- and the amount of dividend per one ordinary share;

- on approval of adjustment to the Development Plan of JSC NC "KazMunayGas" for 2011-2015

- on approval of the rules of social support rendered to administrative officers, inter audit officers and corporate secretary of JSC NC "KazMunayGas";

- on retirement of bonds by KMG and determination of their repurchasing price;

- on approval of a list of documents regulating the internal activity of JSC NC "KazMunayGas";

- on Annual Report of JSC NC "KazMunayGas" for 2010;

- on Creation of JSC "Service Company KazMunayGas" wholly-owned by JSC NC "KazMunayGas" in the authorized capital;

- on Transparency Report of JSC NC "KazMunayGas" and efficiency of information disclosure process;

- on approval of amendments to the Corporate Accounting Policy of the JSC NC "KazMunayGas" Group of Companies approved by the Resolution of the Board of Directors on January 27 2010 (Minutes No.12/2010);

- on approval of amendments to the Accounting Policy of JSC NC "KazMunayGas" approved by the Resolution of the Board of Directors on September 27 2010 (Minutes No.12/2010);

- on approval of a structure of the Headquarters of JSC NC "KazMunayGas" and a total number of employees in the KMG's Headquarters;

- on selection of KMG's registrar - JSC "Registrar System of Securities";

- on conclusion of KMG's interested-party transaction - Service Contracts between KMG and "KazakhOil Aktobe" Ltd.;

- on conclusion of KMG's interested-party transaction - contracts Kazakhstan between KMG and JSC "Petrodata Kazakhstan" on purchase of services of the National Data Bank for oil and gas projects in the Republic of Kazakhstan;

- on approval of the Regulations and enlisting them into the list of documents regulating the internal activity of JSC NC "KazMunayGas";

- on determining the terms of Eurobonds issue by KMG;

- on characteristics of Eurobonds issue by KMG;

- on approval of the Program for Restructuring of Assets of JSC "National company "KazMunayGas" for 2011-2015;

- on conclusion of KMG's interested-party transaction of a strategic nature - Agreement on Sale and Purchase of 50% participatory share in the Authorized Capital of Mangistau Investments BV between JSC NC "KazMunayGas", KazMunayGas EP JSC, Couperative KazMunayGas PKI U.A. and Couperative KMG EP U.A.;

- on purchase by KMG of ordinary distributed shares of JSC "Kazakhstan Petrochemical Industries";

- on approval of adjustments to the Development Plan of JSC NC "KazMunayGas" for 2011-2015

- on introduction of amendments to Contract for Exploration and Production at Urikhtau Deposit No.2882 of December 05 2008 between the Ministry of Oil and Gas of the Republic of

Kazakhstan (Competent Authority) and JSC NC "KazMunayGas" (Subsurface User) through conclusion of Amendment No.2;

on approval of the JSC NC "KazMunayGas" performance in the field of a corporate social responsibility and sustainable development for 2011;

on alienation by KMG of 42% stock of shares of Pavlodar Petrochemical Plant at appraised value determined by an independent appraiser "Independent Appraisal and Consulting "TsentrAudit" Ltd. in the amount of KZT 3 654 663 000 (three billion six hundred fifty four million six hundred sixty three thousand tenge);

on conclusion of Supplementary Agreement #1 to the Agreement on Principles between JSC NC "KazMunayGas" and "StatOil" Company under the Abai Project;

on approval of Labour Remuneration Regulations for the Management Board members (administrative officers), internal audit officers and executive secretary of JSC NC "KazMunayGas", schemes of official salaries paid to the members of the Management Board (administrative officers), Corporate Secretary of JSC NC "KazMunayGas", incentive key performance indicators for the Management Board members for 2011 and other issues;

In 2011 the following documents were approved by the KMG's Management Board including:

Regulation on Project Analysis Committee of JSC NC "KazMunayGas";

Program for Assistance by JSC NC "KazMunayGas" to Development of Oil and Gas Machine Building and Mastering the Production of New Types of Oil and Gas Equipment in the Republic of Kazakhstan for 2011-2013

The Costs Management Policy of JSC NC "KazMunayGas";

The Costs Management Program of JSC NC "KazMunayGas";

The Scheme of Official Salaries of Managerial and Administrative Officers of JSC NC "KazMunayGas";

Guidelines for Integrated Management System of JSC NC "KazMunayGas" in new edition;

Rules of Repurchase by Employees of Dwelling owned by JSC NC "KazMunayGas";

Regulation on Planning Committee of JSC NC "KazMunayGas";

Job-related instructions on compilation and updating of a corporate Risk-Control Matrix of JSC NC "KazMunayGas";

Dividend Policy of JSC NC "KazMunayGas" towards its subsidiaries and dependent organizations for 2011-2015;

Personnel reserve of JSC NC "KazMunayGas" in new edition;

Target values of key performance indicators of strategic maps of the KMG management for 2011;

Concept of information technologies development in JSC NC "KazMunayGas" and its subsidiaries for 2011-2015;

Rules of Remuneration Payment and Reimbursement for Expenses to Independent Directors of Joint Stock Companies of JSC NC "KazMunayGas";

Program of JSC NC "KazMunayGas" for Local Content Development;

Regulations of Joint-Stock Company "National Company "KazMunayGas"

Target values of key performance indicators of the KMG's business - areas for 2011-2015

Rules of Assessment, Monitoring and Enforcement of Mortgage Security in JSC NC "KazMunayGas";

Rules of Credit (Loan) Accommodation in JSC NC "KazMunayGas";

Regulations on Credit Committee of JSC NC "KazMunayGas";

Rules of Keeping the Credit File in JSC NC "KazMunayGas";

Borrowing Policy in JSC NC "KazMunayGas";

Rules on Attribution of Social Support to Employees of JSC NC "KazMunayGas" in new edition;

Job-Related Instruction "Job Evaluation Methods" in JSC NC "KazMunayGas";

Risk Management Program of JSC NC "KazMunayGas" and its subsidiaries for 2011;

Rules of Fixing the Limits on Balance Sheet and Off-Balance Sheet Liabilities to agency banks of JSC NC "KazMunayGas";

Rules of Credit Risk Management related to Corporate Counterparties of JSC NC "KazMunayGas";

Job-related Instructions for Calculation of Limits on Balance Sheet and Off-Balance Sheet Liabilities to agency banks of JSC NC "KazMunayGas";

Job-related Instructions for Calculation of a Credit Limit on Corporate Counterparties of JSC NC "KazMunayGas";

Rules of Investment Projects Consideration of JSC NC "KazMunayGas" and its subsidiaries;

Rules of Acquisition of Participatory Shares in the Partnerships with Limited Liabilities, Stocks of Shares in JSC as well as of Other Types of Business Entity and Establishment of Legal Entities with Participation of KMG and/or its subsidiaries;

Job-Related Records Management Instructions in JSC NC "KazMunayGas";

Regulations on Managing Directors (members of the Management Board) and Regulations on Committees attached to the Management Board of JSC NC "KazMunayGas" on KMG's Business Areas;

Action Plan on Delineation of Authorities between JSC NC "KazMunayGas" and its subsidiaries;

Action Plan on Performance of Recommendations of "Ernst and Young" Ltd., Independent Auditor of JSC NC "KazMunayGas", by the Results of Audit of Consolidated and Separate Financial Statements of JSC NC "KazMunayGas" for 2010;

Rules of Business Planning for Subsidiaries, dependent organizations and jointly controlled organizations of JSC NC "KazMunayGas" in new edition;

Model Regulations for Determining Country Limits of JSC NC "KazMunayGas";

Standard Job-related Instruction for Calculating the Country Limits of JSC NC "KazMunayGas";

Rules for Developing a List of Similar Goods, Services, Works and Determining a Uniform Procurement Service Provider for JSC NC "KazMunayGas" and its subsidiaries and Dependent Organizations;

Standard List of Positions and Occupations in JSC NC "KazMunayGas", its Subsidiaries and Dependent Organizations;

Target values of key performance indicators of KMG's business - areas for 2012-2016;

Regulations on HR Committee attached to the Management Board of JSC NC "KazMunayGas";

Plan for 2011 on Implementation of JSC NC "KazMunayGas" HR Policy for 2011-2015;

Regulations on Kazakh Content Development Committee of JSC NC "KazMunayGas";

JSC NC "KazMunayGas" Stakeholders' Map;

Rules of IMCS Document Management in new edition;

Regulations on IT Coordination Board of JSC NC "KazMunayGas" in new edition;

Rules of Budget Planning with regard to IT-Subsidiaries, Dependent Organizations and jointly controlled organizations of JSC NC "KazMunayGas";

Rules of Consideration, Agreement and Approval of IT projects in JSC NC "KazMunayGas" and its SDO;

Rules of Purchase by Employees of Dwelling Owned by JSC NC "KazMunayGas";

Rules of Development, Agreement, Approval and Monitoring of the Consolidated Development Plan of JSC NC "KazMunayGas";

Standard policy on Rating and Managing the Staff Size of JSC NC "KazMunayGas", its subsidiaries and dependent organizations;

Methods of Risk Identification and Assessment, Selection of Methods for Managing the Risks of JSC NC "KazMunayGas" in new edition;

Rules of Organizing the Risk Management Process of JSC NC "KazMunayGas" in new edition;

Regulations on the Committee attached to the Management Board of JSC NC "KazMunayGas" on Major Oil and Gas Projects;

List of Internal Documents of JSC NC "KazMunayGas" which are standard for subsidiaries and dependent organizations;

List of Subsidiaries and Dependent Organizations of JSC NC "KazMunayGas" to which the List of Internal Documents of JSC NC "KazMunayGas" is applied and which are Standard for Subsidiaries And Dependent Organizations;

Rules of Executing the Shareholders (Participant) Rights by JSC NC "KazMunayGas";

List of Positions in JSC NC "KazMunayGas" Relating to the "Managerial Personnel" Category;

Rules of Labour Remuneration Provided to the Managerial and Administrative Staff of JSC NC "KazMunayGas";

Scheme of Official Salaries Paid to Managerial and Administrative Staff of JSC NC "KazMunayGas";

Rules of Establishing the Board of Directors/Steering Committees of Legal Entities whose Blocks of Shares/ Participatory Shares are owned by JSC NC "KazMunayGas";

List of Insurants and Insurance Parameters under the Corporate Insurance Program of JSC NC "KazMunayGas" and its Affiliated Legal Entities for 2012;

Rules on Monitoring the Health, Safety and Environment Management System in SDO of JSC NC "KazMunayGas";

Marketing Plan of Developing the Oil Transportation Assets of JSC NC "KazMunayGas" Involved in the Southern Route till 2016;

Performance Plan of the JSC NC "KazMunayGas" Management Board for 2012;

List of Services Purchased prior to the Approval of the Procurement Plan by JSC NC "KazMunayGas" for 2012.

Budget of JSC NC "KazMunayGas" for 2012;

Incentive Key Performance Indicators of KMG's Managerial Personnel for 2011;

Overall Sponsorship and Charity Support Plan of JSC NC "KazMunayGas" for 2012 etc.

In 2011 for the first time in KMG's history, the external consultants appraised the performance of the KMG's Board of Directors, Management Board and the Internal Audit Service in 2010. The Report on Performance Appraisal of the Board of Directors and Management Board was submitted by independent consultants and read at the meeting in presentia of the KMG's Board of Directors.

Besides, recommendations provided by external consultants with regard to corporate management Optimization in KMG were integrated into the Action Plan on Corporate Management Enhancement in KMG for 2011-2013 which was successfully implemented by KMG in terms of activities attributable to the reporting period.

The Management Board passed the following procurement resolutions:

Environmental Monitoring from Space provided to KMG by JSC "Kazgeokosmos" (single source);

Services on Trust Management of 100% participatory shares in the charter capital of Naukograd LLP. from JSC "Kazakh Oil and Gas Institute" (single source);

Legal Consulting Services when dealing with regulatory and legal acts on taxation related to scientific projects from "Center for Legal Research and Analysis" LLP (single source);

Directional acid treatment of the 1st object of the Y-1 prospecting well at Urilhtau field provided by Kazakhstan-Chinese Drilling Company "the Great Wall" LLP for a total amount of KZT 80 264 800 (eighty million two hundred sixty four thousand and eight hundred) , including VAT and etc.

In accordance with the Rules of Sponsorship (Charity) Support by JSC NC "KazMunayGas" approved by the resolution of the Board of Directors of CJSC NC "KazMunayGas" of March 09 2004 (Minutes No.7) (with amendments made by the resolution of the Company's Board of Directors on November 19 2004, Minutes No.18), the KMG's Management Board passed 43 resolutions on sponsorship (charity) support.

Under the authorities to pass resolutions on the issues assigned to the exclusive competence of a General Meeting of the KMG SDO shareholders (participants), the KMG's Management Board passed 85 resolutions on identification of the KMG's status as a participant (shareholder) in the subsidiaries for the further voting by the authorized KMG representatives at the General Meetings of Shareholders (participants). 43 resolutions of a Sole Shareholder and 35 resolutions of a Sole Participant were passed.

Two resolutions of the KMG's Management Board on approving the staffing schedule of JSC NC "KazMunayGas" and four resolutions on approving the amendments to the staffing schedule of JSC NC "KazMunayGas" were passed.

In accordance with clause #94 of the Charter of JSC NC "KazMunayGas" the Chairman of the Management Board makes decisions on the KMG direct activity particularly on procurement of services, creation of working groups and commissions on the company's projects, entertainments, appointments of personnel and penalties, social support of employees, corporate governance as well as other production, administrative and normative issues.

KMG'S INTERESTED-PARTY TRANSACTIONS

Within the reporting period the KMG's Management Board passed 59 resolutions on the KMG's interested-party transactions, including:

Contract for Works Procurement under the "Comprehensive Study of Sedimentary Basins in the Republic of Kazakhstan" Project between KMG and Kazakh Oil and Gas Institute JSC for a total amount of KZT 411 040 000 (four hundred eleven million forty thousand), including VAT;

Agreement on attracting an operator under Contract No.3575 for Hydrocarbons Exploration and Production at Satpayev site of June 15 2010 between KMG and Satpayev Operating Ltd;

Contract for transport services procurement between KMG and KazMunayGas-Service LLP for a total amount of 136 348 788 (one hundred thirty-six million three hundred forty eight thousand seven hundred eighty eight), including VAT;

Contract for procurement of services on maintaining a part of the administrative building located at 19 Kabanbay batyr str., Block A, Astana, between KMG and KazMunayGasService Ltd. for a total amount of KZT 342 638 673 (three hundred forty two million six hundred thirty eight thousand six hundred seventy three), including VAT;

Contract for procurement of services on maintaining a part of the administrative building located at 19 Kabanbay batyr str., Block B, Astana, between KMG and KazMunayGasService Ltd. for a total amount of KZT 70 747 040, including VAT;

Contract for procurement of services on maintaining a part of the administrative building located at 26 Republic str, Astana, between KMG and KazMunayGasService LLP for a total amount KZT 2 963 520 (two million nine hundred sixty-three thousand five hundred twenty), including VAT;

Contract for procurement of services on supporting the KMG employees while participating in the conferences, meetings, workshops and other events in Moscow, Russian Federation, between KMG and KazMunayGasService LLP for a total amount of KZT 95 200 000 (ninety five million two hundred thousand), including VAT;

Contract for procurement of services on supporting the KMG employees while participating in the conferences, meetings, workshops and other events in Almaty between KMG and KazMunayGasService LLP for a total amount of KZT 36 736 000 (thirty six million seven hundred thirty six thousand), including VAT;

Contract for procurement of services on maintaining a building(s) located at 22/1 Kabanbay batyr str., Astana, between KMG and KazMunayGasService LLP for a total amount of KZT 3 364 000 (three million three hundred and sixty four thousand), including VAT;

Contract for procurement of services on maintaining a parking lot which is adjacent to the KMG administrative building at 19 Kabanbay batyr str., between KMG and KazMunayGasService LLP for a total amount of KZT 5 190 000 (five million one hundred ninety thousand), including VAT;

Contract for procurement of services on maintaining a sports-ground which is adjacent to the KMG administrative

building at 19 Kabanbay batyr ave., between KMG and KazMunayGasService Ltd for a total amount of KZT 1 608 320 (one million six hundred eight thousand three hundred and twenty thousand), including VAT;

Contract for procurement of services on maintaining a health complex located in Zerenda village, Akmola oblast, between KMG and KazMunayGasService LLP for a total amount of KZT 65 000 000 (sixty five million), including VAT;

Contract for procurement of services on maintaining a helipad located in Zerenda village, Akmola oblast, between KMG and KazMunayGasService LLP for a total amount of KZT 10 000 000 (ten million), including VAT;

Contract for procurement of services on KMG security between KMG and Semser Security LLP for a total amount of 172 363 161,60 (one hundred seventy-two million three hundred sixty-three thousand one hundred sixty-one) tenge and 60 tiyn, including VAT;

Contract for procurement of services on technical maintenance of an integrated security system between KMG and Semser - Ort Sondirushi LLP for a total amount of KZT 11 200 000 (eleven million two hundred thousand), including VAT;

Contract for procurement of services on arranging charter flights with AviaCompany Euro Asia Air JSC for a total amount of KZT 50 000 000 (fifty million), including VAT;

Contract on transfer in trust of a Kazakh section of the Tuimazy-Omsk-Novosibirsk 2 pipeline (TON-2), with associated (related) infrastructure facilities and land plots designated for placing such infrastructure facilities between KMG and KazTransOil JSC;

Agreement on trust management of 100% participatory shares in the authorized capital of Naukograd LLP between KMG and Kazakh Oil and Gas Institute JSC;

Contracts between KMG and PE "Samruk-Kazyna "Corporate University" for purchasing the following services from single source since January 1 till December 31 of 2011:

- arranging and holding of individual and corporate workshops for KMG employees for a total amount of KZT 112 000 000 (one hundred twelve million), including VAT;

- arranging the participation of KMG employees in conferences, forums, symposiums and holding such events for a total amount of KZT 11 200 000 (eleven million two hundred thousand), including VAT;

Addendum No.2 to the Agreement on Principles with regard to Drilling Rig Mobilization under the Zhambyl Project between KMG, KC Kazakh B.V. and Teniz Burgylau LLP of October 29 2008;

Service Provision Agreement between KMG and JSC EP "KazMunayGas"

Agreement for granting of a loan to Cooperative KazMunayGaz PKI UA for the amount of USD 334 000 000 (three hundred thirty-four million) to purchase 100% participatory share in the authorized capital of AktauNefteservice LLP providing that an appropriate resolution is received from the Credit Committee of JSC "Samruk-Kazyna";

Agreement on trust management of High, Medium, Low-

Pressure Gas Pipelines and their facilities located on the territory of the Zhambyl oblast of the Republic of Kazakhstan with KazTransGas Aimak JSC;

Addendum No.1 and No.2 to the Contract of Temporary Possession and Use Of Property No. 217-10//04-103-2010 of August 6 2010 between KMG and JSC MNC "KazMunayTeniz";

Addendums No.1 and No.2 to the Contract of Temporary Property Use No. 218-10//04-104-2010 dated on 6 August 2010 between KMG and JSC MNC "KazMunayTeniz"

Mandate letter constituting the terms of financing between the banks-loan initiators ING Bank N.V., Natixis, Bank of Tokyo Mitsubishi UFJ, The Royal Bank of Scotland, KMG and KazMunaiGaz Finance Sub B.V.;

Addendum No.1 to Contract No.50-33//44-14 of February 14 2011 under the "Comprehensive Study of Sedimentary Basins of the Republic of Kazakhstan" Project between KMG and JSC "Kazakh Oil and Gas Institute";

Support Agreement between KMG and KMG Finance Sub B.V.;

Support Agreement between KMG and KMG Finance Sub B.V.;

Additional contribution to the authorized capital of KazMunayGas-Service LLP. through contributing the amount of KZT 26 581 489 000 (twenty-six billion five hundred eighty-one million four hundred eighty-nine thousand) to implement the "Construction of Kazakhstan History Museum in Astana" Strategic Project;

Addendum No.2 to the Delegation Agreement (authorization to take actions necessary for trust management of subsoil plots) No.215-10//04-101-2010 of August 6 2010 between KMG and JSC MNK "KazMunayTeniz";

Addendum No.2 to the Delegation Agreement (authorization to take actions necessary for trust management of subsoil plots) No.216-10//04-102-2010 of August 6 2010 between KMG and JSC MNK "KazMunayTeniz";

Additional contribution to the authorized capital of PSA LLP. through contributing KZT 5 747 630 000 (five billion seven hundred forty-seven million six hundred and thirty thousand);

Additional contribution to the authorized capital of KazMunayGas-Service LLP. in the amount of KZT 220 000 000 (two hundred and twenty million) to reconstruct, renovate and equip the facilities of KazMunayGas-Service LLP. in Zerenda village, Akmola oblast;

Oil Transportation Service Agreement between JSC "KazTransOil" (Contractor) and Urikhtau Operating LLP (Customer) acting based on the Operatorship Agreement;

Contract for procurement of office tenancy services for KazMunayGas-Service LLP. for a total amount of KZT 13 524 506 (thirteen million five hundred twenty-four thousand five hundred and six) including VAT;

Agreement on trust management of High, Medium, Low-Pressure Gas Pipelines and their facilities located on the territory of the Aktubinsk oblast of the Republic of Kazakhstan between KMG and KazTransGas Aimak JSC;

Contract between KMG and PE "Samruk-Kazyna Corporate University" for procurement of services from a single source on assessing the expertise and business knowledge of the candidates for vacant administration positions and KMG employees from January 1 - December 31 2011 for a total amount of KZT 14 392 000 (fourteen million three hundred

ninety-two thousand) including VAT;

Heads of Agreement on designing, financing, construction and operation of C line of the 1st section of the Kazakhstan-China Gas Pipeline between KMG, China National Oil and Gas Corporation, JSC KazTransGas and Trans-Asia Gas Pipeline Company Limited;

Contract for provision of services on brokering and nominal holding of securities between KMG and KazPost JSC;

Agreement related to a Global Midterm Obligation Program for the amount of USD 10 000 000 000 (ten billion U.S. dollars), between KMG and KazMunaiGaz Finance Sub B.V.;

Addendum No.8 to Contract No.17//27 of January 1 2001 between KMG and PE "Samruk-Kazyna "Corporate University";

Contract on long-term procurement of research and development and design and experimental works in the field of "Enhancement and Management of Development System" including scientific and expert support of major projects (Kashagan, Karachangak and Tengiz)" within 2011-2015 for a total amount of KZT 19 999 015 000 (nineteen billion nine hundred ninety-nine million fifteen thousand) including VAT, between KMG and Kazakh Oil and Gas Institute JSC;

Contract on long-term procurement of research and development and design and experimental works in the field of "Oil and Gas Production" within 2011-2015 for a total amount of KZT 11 000 000 000 (eleven billion) , including VAT, between KMG and Kazakh Oil and Gas Institute JSC;

Contract on long-term procurement of research and development and design and experimental works in the field of "Oil and Gas Exploration" within 2011-2015 for a total amount of KZT 7 683 986 000 (seven billion six hundred eighty-three million nine hundred eighty-six thousand) including VAT, between KMG and Kazakh Oil and Gas Institute JSC;

Contract on long-term procurement of research and development and design and experimental works in the field of "Oil Refining and Petrochemistry" within 2011-2015 for a total amount of KZT 630 500 000 (six hundred and thirty million five hundred thousand) including VAT, between KMG and Kazakh Oil and Gas Institute JSC;

Contract on long-term procurement of research and development and design and experimental works in the field of "Oil Transportation" within 2011-2012 for a total amount of KZT 110 000 000 (one hundred and ten million) including VAT, between KMG and Kazakh Oil and Gas Institute JSC;

Contract on long-term procurement of research and development and design and experimental works in the field of "Gas Transportation" within 2011-2015 for a total amount of KZT 1 630 500 000 (one billion six hundred and thirty million five hundred thousand) including VAT, between KMG and Kazakh Oil and Gas Institute JSC;

Contract on long-term procurement of research and development and design and experimental works in the field of "Ecology" within 2011-2015 for a total amount of KZT 3 610 000 000 (three billion six hundred and ten million) including VAT, between KMG and Kazakh Oil and Gas Institute JSC;

Contract on long-term procurement of research and development and design and experimental works in the field of "Energy and Energy Saving Technologies" for a period of 2011-2015 for a total amount of KZT 336 000 000 (three

billion six hundred and ten million), including VAT, between KMG and Kazakh Oil and Gas Institute JSC;

Amendments to the contracts on long-term procurement of research and development and design and experimental works between KMG and Kazakh Oil and Gas Institute JSC on:

- Improvement and management of a development system including scientific and expert maintenance of major projects (Kashagan, Karachagana and Tengiz)
- Oil and gas production
- Oil and gas exploration
- Oil refinery and petrochemistry
- Oil transportation
- Gas transportation
- Ecology
- Energy and Energy Saving Technologies

additional capital contribution to the share capital of "BeyneuMunayGaz" LLP in the amount of KZT 1 000 000 (one million);

additional capital contribution to the share capital of "KazMunayGas-Service" LLP:

a) by cash in the amount of KZT 3 286 145 000 (three billion two hundred eighty-six million one hundred forty-five thousand), including:

- KZT 617 594 000 (six hundred and seventeen million five hundred ninety-four thousand) to acquire 100% stake in «GazInServis» LLP

- KZT 2 668 551 000 (two billion six hundred sixty-eight million five hundred fifty-one thousand) to contribute to the share capital of "GazInServis" LLP for the repayment of debt of "GazInServis" LLP

b) by property evaluated by an independent assessor "Premier assessment" LLP in the amount of KZT 480 375 805 (four hundred eighty million three hundred seventy-five thousand eight hundred and five);

amendment No 6 to the Service Agreement on Construction and Operation of a berth on the coast of the Tupkaragan Gulf signed between Agip Kazakhstan North Caspian Operating Company NV, KMG, "NMSC "Kazmortransflot" JSC and "TenizService" LLP;

license agreement for the use of the "KazMunayGaz" trademark between the KMG and the "KazMunayGaz Onimderi" JSC;

additional contribution to the share capital of "KMG-Kumkol" LLP with its subsequent payment of KZT 556 381 000 (five hundred fifty-six million three hundred eighty-one thousand);

additional capital contribution to the share capital of "KMG-Kumkol" LLP:

1) by property - additional engineering equipment of an office building at Republic avenue, 32 according to the value determined by an independent assessor "Premier Otsenka" LLP in the amount of KZT 71 046 635 (seventy-one million forty-six

thousand six hundred thirty-five).

2) provided that the authorized body «Real Estate Fund "Samruk-Kazyna" JSC made a decision to conclude supplementary agreements:

- to Agreement # 04 of May 8, 2009 on Purchase and Sale of a Land Plot and Turnkey Construction of an Office Building (as amended) concluded between "Real Estate Fund "Samruk-Kazyna" JSC, "Nomarh Ltd" LLP, "SK" Basis" LLP and "Zəulim" LLP

- to Agreement on Cooperation and Financing of June 26, 2010 under Contract # 04 of May 8, 2009 and Addendum # 1 of April 15, 2010 concluded between "Real Estate Fund "Samruk-Kazyna" JSC and "Zəulim" LLP

The abovementioned stipulate the exclusion of the "Zəulim" LLP liabilities on a transfer to "Real Estate Fund "Samruk-Kazyna" JSC of the "Emerald Quarter" administrative building (Block B) located at: Astana, "Yesil" district (former "Almaty" district), plot # 2, at the end of its construction by cash in the amount of KZT 29 117 694 800 (twenty-nine billion one hundred and seventeen million six hundred ninety-four thousand eight hundred), including:

- KZT 68 630 800 (sixty-eight million six hundred thirty thousand eight hundred) to acquire 100% stake in "Zəulim" LLP according to the value determined by an independent assessor "Valuation and Legal Firm "Business Partner" LLP of September 21, 2011, Report N# 105;

- KZT 27 049 064 000 (twenty-seven billion forty-nine million sixty four thousand) to contribute to the share capital of "Zəulim" LLC for repayment of a debt up to February 15, 2012 under the Cooperation and Financing Agreement of June 21, 2010 under Contract # 04 of May 8, 2009 owed to "Real Estate Fund "Samruk-Kazyna" JSC inclusive of a 1-fold official refinancing rate of the National Bank of the Republic of Kazakhstan as of October 1, 2011 in the amount of 7.5% to the total debt, including:

a) KZT 215 000 000 (two hundred and fifteen million) for land (cadastral number 21-318-072-710, #2);

b) KZT 24 946 920 000 (twenty-four billion nine hundred forty-six million nine hundred twenty thousand) for the "Esmerald Quarter" administrative building (Block B) being constructed and located at the following address: Astana, "Yesil" district (former "Almaty" district), plot #2;

- KZT 2 000 000 000 (two billion) for the design, additional construction works and equipping of the premises of the "Esmerald Quarter" administrative building (Block B) located at the following address: Astana, "Yesil" district (former district "Almaty"), station No 2;

Deed of Merger of "KazMunayTeniz" JSC MOC and "Tengiz Burgylau" LLP to the Agreement for Mobilization and Operation of a Drilling Rig between KMG, "KC Kazakh BV" and "KC Kazakh Panama SA" of August 25, 2011.

Chairman of the Management Board

L. Kiinov



JSC NC “KazMunayGas”

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