KazTransOil JSC

Interim Condensed Consolidated Financial Statements

As at June 30, 2012 and for the six months then ended
with Independent Auditors' Report on Review
of Interim Condensed Consolidated Financial Statements

CONTENT

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholder and Management of KazTransOil JSC:

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC "KazTransOil" and its subsidiaries ("the Group") as at June 30, 2012, comprising of the interim condensed consolidated statement of financial position as at 30 June 2012 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 Interim Financial Reporting (IAS 34).

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLP

Gulmira Turmagambetova
Auditor

Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

9 August 2012

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	Note	June 30, 2012 (unaudited)	December 31,2011 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	5	**328,573,773**	330,514,478
Intangible assets	6	**6,174,370**	6,229,037
Investments in joint ventures	7	**35,275,554**	32,418,904
Advances to suppliers for property, plant and equipment	8	**1,450,056**	638,912
Bank deposits	14	–	6,000,000
Other non-current assets		**358,830**	351,086
		371,832,583	376,152,417
Current assets			
Inventories	9	**4,883,444**	2,784,431
Trade and other accounts receivable	10	**5,614,572**	7,689,387
Advances to suppliers	11	**1,129,144**	744,898
Prepayment for corporate income tax		**356,447**	1,756,038
VAT recoverable and other prepaid taxes	12	**2,898,092**	3,633,715
Other current assets	13	**622,804**	262,329
Bank deposits	14	**27,970,082**	35,123,823
Cash and cash equivalents	15	**43,833,108**	21,852,387
		87,307,693	73,847,008
Assets classified as held for sale		**29,502**	29,502
		87,337,195	73,876,510
TOTAL ASSETS		**459,169,778**	450,028,927

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Note	June 30, 2012 (unaudited)	December 31,2011 (audited)
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**34,617,204**	34,617,204
Asset revaluation reserve		**132,256,840**	138,056,828
Other capital reserves		**17,104**	17,104
Foreign currency translation reserve		**9,685,101**	9,334,129
Retained earnings		**212,172,473**	189,472,821
		388,748,722	371,498,086
Non-current liabilities			
Financial guarantee issued on behalf of related party		**272,390**	338,919
Employee benefit liability		**5,997,657**	5,909,892
Deferred tax liabilities		**32,882,385**	34,201,711
Deferred income	18	**4,580,901**	4,756,050
		43,733,333	45,206,572
Current liabilities			
Loans and borrowings	17	**399,116**	303,181
Employee benefit liability		**216,926**	226,000
Corporate income tax payable		**1,275,449**	1,156,184
Trade and other accounts payable	19	**10,053,157**	15,149,470
Advances received	20	**9,150,812**	11,226,796
Other taxes payable	21	**1,167,573**	1,269,317
Provisions	22	**468,603**	287,727
Other current liabilities	23	**3,956,087**	3,705,594
		26,687,723	33,324,269
Total liabilities		**70,421,056**	78,530,841
TOTAL EQUITY AND LIABILITIES		**459,169,778**	450,028,927
Book value of one ordinary share *(in Tenge)*	16	**1,105**	1,055

The accounting policy and explanatory notes on pages 7 through 27 form an integral part of these interim condensed consolidated financial statements.

General Director ____________ *Kabyldin K.M.*

Chief Accountant ____________ *Akhmedina A.S.*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Note	**For the six months ended June 30, 2012 (unaudited)**	For the six months ended June 30, 2011 (unaudited)
Revenue	24	**66,357,554**	71,502,222
Cost of sales	25	**(45,834,937)**	(44,460,702)
Gross profit		**20,522,617**	27,041,520
General and administrative expenses	26	**(4,427,535)**	(437,849)
Other operating income	27	**639,922**	510,993
Other operating expenses		**(312,817)**	(514,036)
Operating profit		**16,422,187**	26,600,628
Net foreign exchange loss		**(15,474)**	(442,516)
Finance income	28	**1,080,365**	1,534,384
Finance costs	29	**(98,094)**	(119,989)
Share in income of joint ventures	7	**2,854,964**	320,466
Profit before tax		**20,243,948**	27,892,973
Income tax expense	30	**(3,344,189)**	(4,788,247)
Profit for the year		**16,899,759**	23,104,726
Basic earnings per share, in relation to profit for the year attributable to ordinary equity holders of the Company as the Group's parent *(in Tenge)*	16	**49**	70
Other comprehensive income of the Group			
Foreign currency translation		**349,286**	57,349
Impairment of property, plant and equipment		**(119)**	–
Income tax effect		**24**	–
	5	**(95)**	–
Total other comprehensive income of the Group for the period, net of tax		**349,191**	57,349
Other comprehensive income of joint ventures accounted for using the equity method			
Foreign currency translation	7	**1,686**	–
Total other comprehensive income of joint ventures accounted for using the equity method for the period, net of tax		**1,686**	–
Total other comprehensive income, net of tax		**350,877**	57,349
Total comprehensive income for the period, net of tax		**17,250,636**	23,162,075

The accounting policy and explanatory notes on pages 7 through 27 form an integral part of these interim condensed consolidated financial statements.

General Director Kabyldin K.M.

Chief Accountant Akhmedina A.S.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended June 30,	
In thousands of Tenge	Note	2012 (unaudited)	2011 (unaudited)
Cash flows from operating activities:			
Profit before tax		**20,243,948**	27,892,973
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortization	25,26	**13,805,708**	14,300,575
Allowance for doubtful debts	26	**52,591**	23,354
Share in income of joint ventures	7	**(2,854,964)**	(320,466)
Finance costs	29	**98,094**	119,989
Finance income	28	**(1,080,365)**	(1,534,384)
Employee benefits	25,26	**148,001**	101,061
Reverse of provisions for taxes	26	**–**	(3,718,848)
Reserve on environmental damage remediation	22	**179,969**	–
(Income) / loss on disposal of property, plant and equipment, net		**(13,857)**	201,579
Impairment of property, plant and equipment	5	**895**	–
Income from write-off of payables	27	**(3,070)**	(7,250)
Amortization of deferred income	27	**(156,182)**	(156,259)
Write-off of VAT recoverable	26	**115,768**	38,739
Amortization of financial guarantee issued on behalf of related party	27	**(68,278)**	(67,287)
Unrealized foreign exchange loss		**12,481**	366,532
Reversal of allowance for obsolete inventory	26	**(1,861)**	(267)
Operating cash flows before working capital changes:		**30,478,878**	37,240,041
Changes in inventories		**(2,437,718)**	(2,643,443)
Changes in trade and other accounts receivable		**2,035,705**	460,466
Changes in advances to suppliers		**(386,527)**	(136,527)
Changes in taxes recoverable and other current assets		**180,573**	459,772
Changes in trade and other accounts payable		**(5,093,243)**	917,887
Changes in advances received		**(2,075,984)**	372,810
Changes in taxes payable		**(101,744)**	(563,172)
Changes in other current and non-current liabilities and employee benefits		**81,624**	(1,966,470)
Cash generated from operations:		**22,681,564**	34,141,364
Income taxes paid		**(3,092,796)**	(3,753,261)
Interest received		**799,345**	836,633
Net cash flow from operating activities		**20,388,113**	31,224,736

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Note	For the six months ended June 30, 2012 (unaudited)	2011 (unaudited)
Cash flows from investing activities:			
Withdrawal of term deposits		**23,000,000**	24,481,833
Placement of term deposits		**(9,600,164)**	(26,000,076)
Purchase of property, plant and equipment		**(11,848,996)**	(15,452,587)
Purchase of intangible assets		**(101,125)**	(186,373)
Proceeds from disposal of property, plant and equipment and intangible assets		**48,893**	1,146
Dividends received	28	**–**	17,608
Net cash flow from / (used in) investing activities		**1,498,608**	(17,138,449)
Cash flows from financing activities:			
Proceeds from loans and borrowings	17	**94,000**	–
Repayment of loans and borrowings		**–**	(37,233)
Net cash flow from / (used in) financing activities		**94,000**	(37,233)
Net change in cash and cash equivalents		**21,980,721**	14,049,054
Cash and cash equivalents at the beginning of the period	15	**21,852,387**	16,914,394
Cash and cash equivalents at the end of the period	15	**43,833,108**	30,963,448

NON-CASH TRANSACTIONS

The following non-cash transactions have been excluded from the interim condensed consolidated statement of cash flows:

Tax offset

During the six months ended June 30, 2012 the Group made an offset of corporate income tax payable with other taxes prepaid in the amount of 94,789 thousand Tenge (for the six months ended June 30, 2011: 1,496,311 thousand Tenge).

The accounting policy and explanatory notes on pages 7 through 27 form an integral part of these interim condensed consolidated financial statements.

General Director ______________ *Kabyldin K.M.*

Chief Accountant ______________ *Akhmedina A.S.*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Share capital	Asset revaluation reserve	Other capital reserves	Foreign currency translation reserve	Retained earnings	Total
As at January 1, 2012 (audited)	**34,617,204**	**138,056,828**	**17,104**	**9,334,129**	**189,472,821**	**371,498,086**
Profit for the period	–	–	–	–	16,899,759	**16,899,759**
Other comprehensive income	–	(95)	–	350,972	–	**350,877**
Total comprehensive income for the period (unaudited)	**–**	**(95)**	**–**	**350,972**	**16,899,759**	**17,250,636**
Depreciation transfer of revalued property, plant and equipment	–	(5,799,893)	–	–	5,799,893	–
As at June 30, 2012 (unaudited)	**34,617,204**	**132,256,840**	**17,104**	**9,685,101**	**212,172,473**	**388,748,722**
As at January 1, 2011 (audited)	**32,916,055**	**124,828,954**	**17,104**	**8,590,235**	**171,962,450**	**338,314,798**
Profit for the period	–	–	–	–	23,104,726	**23,104,726**
Other comprehensive income	–	–	–	57,349	–	**57,349**
Total comprehensive income for the period (unaudited)	**–**	**–**	**–**	**57,349**	**23,104,726**	**23,162,075**
Depreciation transfer of revalued property, plant and equipment	–	(6,071,311)	–	–	6,071,311	–
Shares issuance	1,701,149	–	–	–	–	**1,701,149**
Other distributions	–	–	–	–	(1,000,000)	**(1,000,000)**
As at June 30, 2011 (unaudited)	**34,617,204**	**118,757,643**	**17,104**	**8,647,584**	**200,138,487**	**362,178,022**

The accounting policy and explanatory notes on pages 7 through 27 form an integral part of these interim condensed consolidated financial statements.

General Director _______________ *Kabyldin K.M.*

Chief Accountant _______________ *Akhmedina A.S.*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

On May 2, 2001, the Government issued a resolution to create a new closed joint stock company National Company "Transportation of Oil and Gas" ("TNG") owned by the Government. Based on that resolution, the Committee for State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan transferred the KazTransOil NOTC CJSC shares to TNG, and, as a result, KazTransOil NOTC CJSC was re–registered and renamed to KazTransOil CJSC.

On May 31, 2004, in accordance with the requirements of Kazakhstani legislation the Company was reregistered as KazTransOil Joint Stock Company (the "Company").

The Company's immediate parent is National Company KazMunayGas JSC ("KMG" or the "Parent Company"). KMG is owned by Sovereign Wealth Fund Samruk-Kazyna JSC ("Samruk-Kazyna"), which is controlled by the Government of the Republic of Kazakhstan.

As at June 30, 2012 and December 31, 2011 the Company had interest ownership in the following entities:

	Place of incorporation	Principal activities	*Ownership* June 30, 2012	December 31, 2011
KTO–Service JSC ("KTO–Service")	Kazakhstan	Management of non-production assets	**100%**	100%
SZTK MunayTas JSC ("MunayTas")	Kazakhstan	Oil transportation	**51%**	51%
Kazakhstan–China Pipeline LLP ("KCP")	Kazakhstan	Oil transportation	**50%**	50%
Batumi Capital Partners Limited ("BCPL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products	**50%***	50%*
Batumi Industrial Holdings Limited ("BIHL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	**100%***	100%*

* Main activities of BCPL and BIHL are carried out by their subsidiaries located in Georgia. BIHL directly owns 50% of BCPL. Accordingly, the Company directly and indirectly through its subsidiary BIHL owns 100% of BCPL.

The Company and its subsidiaries are hereafter referred to as the "Group".

The Company's head office is located in Astana, Kazakhstan, at 19 Kabanbay Batyr Avenue. The Company has 4 branches, which are located in Atyrau (Western branch), Pavlodar (Eastern branch), a Research and Development Centre located in Almaty, and a computing centre in Astana, and representative offices in the Russian Federation (Moscow, Omsk and Samara) and Ukraine (Kiev).

The Group operates network of main oil pipelines of 5,495 km and water pipelines of 2,148 km within the Republic of Kazakhstan. Also the Group is engaged in storage, loading, transshipment and transfer of crude oil to other related pipeline systems. Group's joint ventures MunayTas and KCP own Kenkiyak-Atyrau and Atasu-Alashankou pipelines used for transportation of Kazakhstani crude oil to China. Group's subsidiary BIHL owns Batumi Oil Terminal and has controlling interest of Batumi Sea Port, main activity of which is storage and transshipment of oil cargoes.

These interim condensed consolidated financial statements for the six months ended June 30, 2012 were approved for issue by the Chief Accountant and General Director of the Company on August 9, 2012.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND CHANGES IN ACCOUNTING POLICIES

Basis of preparation of financial statements

These interim condensed consolidated financial statements for the six months ended June 30, 2012 have been prepared in accordance with International Financial Reporting IAS 34 "Interim Financial Reporting" ("IFRS 34").

These interim condensed consolidated financial statements have been prepared on a historical cost basis, except for: property plant and equipment which are stated at revalued amounts and financial assets that have been measured at fair value.

Interim condensed consolidated financial statements do not include all information and disclosures required for annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2011.

The interim condensed consolidated financial statements are presented in Tenge and all values are rounded to the nearest thousand, except when otherwise indicated.

Foreign currency translation

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan. As at June 30, 2012 and December 31, 2011, the currency exchange rate of KASE was 149.42 and 148.40 Tenge to USD 1, respectively.

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2011, except for the adoption of new standards and interpretations as of January 1, 2012, noted below. The application of these amendments did not affect the accounting policy, financial position and results of the Company.

IAS 12 - Deferred Tax: Recovery of Underlying Assets (Amendment)

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after January 1, 2012.

IAS 7 - Disclosures - Transfers of Financial Assets (Amendment)

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after July 1, 2011 with no comparative requirements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SEASONALITY OF OPERATIONS

The Group's operating costs are subject to seasonal fluctuations, with higher expenses for materials and repair, maintenance and other services usually expected in the latter part of the year than in the first six months. These fluctuations are mainly due to the pipeline repairs that are performed mainly during the second part of the year.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its services and has three reportable segments, as follows:

- Oil transportation and related services
- Oil transshipment
- Other segments

Segments that are identified, but do not separately exceed quantitative limits (amount of separate segment revenue composes less than 10% of combined revenue) are combined in "Other segments". Such services include services provided by subsidiary KTO-Service, and also transshipment of dry cargo (sugar-airbrick, ammonium nitrate, cement, grain, sunflower and oil cake) in Batumi sea port with operation of dry-cargo, ferry and container terminal, and also passenger terminal services. Oil transportation and related services provided by the Company, which do not exceed quantitative limits and are intimately connected with the Group's main operating activities, or with main asset of the Group – pipelines, such as: water transportation, oil storage, expedition services, services on support and maintenance of pipelines, are included into service related to oil transportation. Separate management report is not provided to the Management of the Group on some types of these services and accordingly they cannot be identified as a separate segments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENT INFORMATION (continued)

Services on transshipment of oil and oil-products through Batumi sea port with operation of Batumi oil terminal are included in "Oil transshipment" segment.

Revenue from oil terminal is generated through storage, transshipment of oil and oil-products and expedition. Expedition services represent transshipment of oil and oil-products services through railway from Azerbaijanian-Georgian border to terminal in Batumi. This type of activity is directly related to oil transshipment, and therefore is not shown as a separate segment.

Management analyses its operating segments by segment profit.

Information on revenue and profit of the Group's segments for the six months ended June 30, 2012 and June 30, 2011 respectively:

	For the six months ended June 30, 2012 (unaudited)						For the six months ended June 30, 2011 (unaudited)					
In thousands Tenge	Oil Transportation and related services	Oil transshipment	Other	Total segments	Adjustments and eliminations	Consolidated	Oil Transportation and related services	Oil transshipment	Other	Total segments	Adjustments and eliminations	Consolidated
Revenue												
External customers	57,305,118	6,963,816	2,088,620	**66,357,554**	–	**66,357,554**	62,940,959	6,407,503	2,153,760	**71,502,222**	–	**71,502,222**
Inter-segment (eliminated during consolidation)	–	–	262,767	**262,767**	(262,767)	–	–	–	266,346	**266,346**	(266,346)	–
Total revenue	**57,305,118**	**6,963,816**	**2,351,387**	**66,620,321**	**(262,767)**	**66,357,554**	**62,940,959**	**6,407,503**	**2,420,106**	**71,768,568**	**(266,346)**	**71,502,222**
Financial results												
Impairment of property, plant and equipment through profit or loss	(895)	–	–	**(895)**	–	**(895)**	–	–	–	–	–	–
Depreciation and amortization	(13,046,584)	(542,858)	(216,266)	**(13,805,708)**	–	**(13,805,708)**	(12,955,676)	(828,169)	(516,730)	**(14,300,575)**	–	**(14,300,575)**
Interest income	1,010,526	6,075	32,180	**1,048,781**	–	**1,048,781**	1,447,196	27,888	10,042	**1,485,126**	–	**1,485,126**
Interest expenses	–	(16,594)	(7,265)	**(23,859)**	7,265	**(16,594)**	(194)	(37,671)	(7,124)	**(44,989)**	–	**(44,989)**
CIT expense	(3,259,590)	–	(84,599)	**(3,344,189)**	–	**(3,344,189)**	(4,880,408)	(69,063)	(89,942)	**(5,039,413)**	251,166	**4,788,247**
Segment profit	**13,250,953**	**699,315**	**(185,686)**	**13,764,582**	**3,135,177**	**16,899,759**	**23,087,750**	**(106,584)**	**(363,937)**	**22,617,229**	**487,497**	**23,104,726**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENT INFORMATION (continued)

In thousands of Tenge	For the six months ended June 30, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Reconciliation of profit		
Segment profit	**13,764,582**	22,617,229
Adjustments and eliminations	**280,213**	167,031
Share in income of joint ventures	**2,854,964**	320,466
Group profit	**16,899,759**	23,104,726

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction work in progress	Total
Net book value as at December 31, 2011 (audited)	**10,725,968**	**84,922,566**	**6,402,700**	**71,574,451**	**66,555,332**	**58,853,972**	**9,640,494**	**21,838,995**	**330,514,478**
Foreign currency translation	67,459	–	36,461	112,096	24,481	–	27,323	26,625	**294,445**
Additions	3,646	–	259,468	41,289	1,059,544	–	591,828	9,623,456	**11,579,231**
Disposals	–	(13,118)	(6,739)	(3,085)	(25,217)	(137,240)	(94,073)	(4,148)	**(283,620)**
Depreciation	–	(4,458,358)	(528,882)	(3,105,804)	(4,329,942)	–	(1,118,222)	–	**(13,541,208)**
Accumulated depreciation on disposals	–	1,637	2,640	904	8,020	–	79,295	–	**92,496**
Impairment (through profit and loss)	–	–	–	–	(333)	–	(562)	–	**(895)**
Impairment (through revaluation reserve)	–	–	–	–	–	–	(95)	–	**(95)**
Transferred from construction work in progress	5,038	17,249	5,300	258,383	815,967	–	107,635	(1,209,572)	–
Transferred from intangible assets	–	–	–	–	–	–	764	–	**764**
Transferred to intangible assets	–	–	–	–	(39,795)	–	(17,706)	(24,322)	**(81,823)**
Transfers and reclassifications	–	(56,937)	(61,312)	(404,342)	632,560	–	(110,050)	81	–
Net book value as at June 30, 2012 (unaudited)	**10,802,111**	**80,413,039**	**6,109,636**	**68,473,892**	**64,700,617**	**58,716,732**	**9,106,631**	**30,251,115**	**328,573,773**
As at June 30, 2012 (unaudited)									
At fair value	16,348,282	100,009,369	8,508,281	87,526,005	83,798,028	59,046,937	12,753,345	30,326,341	**398,316,588**
Impairment	(5,546,171)	(842,802)	(277,933)	(6,579,986)	(3,097,012)	(330,205)	(221,052)	(75,226)	**(16,970,387)**
Accumulated depreciation	–	(18,753,528)	(2,120,712)	(12,472,127)	(16,000,399)	–	(3,425,662)	–	**(52,772,428)**
Carrying value	**10,802,111**	**80,413,039**	**6,109,636**	**68,473,892**	**64,700,617**	**58,716,732**	**9,106,631**	**30,251,115**	**328,573,773**
As at December 31, 2011 (audited)									
At fair value	16,249,861	100,068,206	8,277,842	87,533,300	81,176,560	59,184,177	12,331,948	21,914,221	**386,736,115**
Impairment	(5,523,893)	(842,802)	(277,933)	(6,579,986)	(3,096,679)	(330,205)	(220,395)	(75,226)	**(16,947,119)**
Accumulated depreciation	–	(14,302,838)	(1,597,209)	(9,378,863)	(11,524,549)	–	(2,471,059)	–	**(39,274,518)**
Carrying value	**10,725,968**	**84,922,566**	**6,402,700**	**71,574,451**	**66,555,332**	**58,853,972**	**9,640,494**	**21,838,995**	**330,514,478**

As of June 30, 2012 construction-in-progress mainly includes oil transportation assets under construction: long-distance oil pipelines, reservoirs, gas-trap and drain systems, pump overpasses; reconstruction and expansion of: industry safety systems of production facilities, oil pumping station "Kenkiyak", safety perimeter warning systems and video surveillance systems of industrial and technologic objects of oil pipelines, reconstruction of measurement of oil quality and quantity indicators on oil pumping station "Atasu". As of December 31, 2011, construction in process mainly includes production projects under construction: long-distance pipelines (including construction of long distance pipeline Kumkol-Karakoiyn, realized as a part of inter-government project of construction of Kazakhstan – China pipeline), reconstruction of fire fighting systems, reconstruction of electric power supply objects and others.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INTANGIBLE ASSETS

In thousands of Tenge	Goodwill	Licenses	Software	Land use rights	Other	Total
Net book value as at December 31, 2011 (audited)	–	**252,473**	**936,374**	**4,674,400**	**365,790**	**6,229,037**
Additions	–	5,001	92,283	–	4,364	**101,648**
Amortization	–	(33,384)	(153,945)	(53,634)	(30,312)	**(271,275)**
Transferred from property, plant and equipment	–	1,986	79,368	–	469	**81,823**
Transferred to property, plant and equipment	–	–	(764)	–	–	**(764)**
Other internal movements	–	–	3,824	–	(3,824)	**–**
Foreign currency translation	–	373	11	31,673	1,844	**33,901**
Net book value as at June 30, 2012 (unaudited)	–	**226,449**	**957,151**	**4,652,439**	**338,331**	**6,174,370**
As at June 30, 2012 (unaudited)						
At fair value	21,521,411	384,530	3,730,358	5,900,880	747,374	**32,284,553**
Impairment	(21,521,411)	–	–	(545,248)	–	**(22,066,659)**
Accumulated amortisation	–	(158,081)	(2,773,207)	(703,193)	(409,043)	**(4,043,524)**
Carrying value	**–**	**226,449**	**957,151**	**4,652,439**	**338,331**	**6,174,370**
As at December 31, 2011 (audited)						
At fair value	21,374,497	377,246	3,555,659	5,860,598	742,115	**31,910,115**
Impairment	(21,374,497)	–	–	(534,870)	–	**(21,909,367)**
Accumulated amortisation	–	(124,773)	(2,619,285)	(651,328)	(376,325)	**(3,771,711)**
Carrying value	**–**	**252,473**	**936,374**	**4,674,400**	**365,790**	**6,229,037**

7. INVESTMENTS IN JOINT VENTURES

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
KCP	**25,251,361**	22,879,691
MunayTas	**10,024,193**	9,539,213
	35,275,554	32,418,904

For the six months ended June 30, 2012, the Group recognized its share in profit of MunayTas in the amount of 484,980 thousand Tenge (for the six months ended June 30, 2011: share in profit of MunayTas of 320,466 thousand Tenge), which resulted in an increase in the carrying value of investments in MunayTas.

During the six months ended June 30, 2012, the Group recognized its share in profit of KCP in the amount of 2,369,984 thousand Tenge and share in other comprehensive income in the amount of 1,686 thousand Tenge, which resulted in an increase in the carrying value of investments in KCP. For the six months ended June 30, 2011 the Group's share in profit of KCP comprised 4,273,956 thousand Tenge and the Group's share in other comprehensive loss of KCP for the six months ended June 30, 2011 comprised 1,786 thousand Tenge, however taking into consideration the Group's share in unrecognized losses of KCP in the amount of 8,060,181 thousand Tenge as of December 31, 2010, the Group did not recognize share in profit and in other comprehensive loss of KCP mentioned above.

The following tables illustrate summarized financial information on joint ventures (the Group's proportionate share):

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN JOINT VENTURES (continued)

In thousands of Tenge	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Share in total assets and liabilities of joint ventures		
Current assets	**23,736,880**	17,317,510
Non-current assets	**132,500,298**	136,015,551
Current liabilities	**(14,724,295)**	(8,759,544)
Non-current liabilities	**(106,237,329)**	(112,154,613)
Share in net assets	**35,275,554**	32,418,904

	For the six months ended	
In thousands of Tenge	June 30, 2012 (unaudited)	June 30, 2011 (unaudited)
Total revenues and net profit, other comprehensive income of joint ventures for the period		
Revenue	**14,189,978**	19,883,270
Net profit	**2,854,964**	4,594,422
Other comprehensive income / (loss)	**1,686**	(1,786)

8. ADVANCES TO SUPPLIERS FOR NON-CURRENT ASSETS

In thousands of Tenge	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Advances to third parties for non-current assets	**1,549,386**	638,912
Less: allowance for doubtful debts	**(99,330)**	–
	1,450,056	638,912

Movements in the allowance for doubtful debts were as follows:

	For the six months ended 30 June	
In thousands of Tenge	**2012**	2011
At January 1 (audited)	–	99,330
Reinstatement of allowance	99,330	–
At June 30 (unaudited)	**99,330**	**99,330**

Advances to suppliers for non–current assets are denominated in the following currencies:

In thousands of Tenge	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Tenge	**1,131,914**	546,011
US Dollar	**210,560**	63,518
Euro	**14,045**	–
Other currencies	**93,537**	29,383
	1,450,056	638,912

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVENTORIES

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Spare parts	**1,723,918**	962,954
Fuel	**792,155**	710,189
Chemical reagents	**561,841**	126,207
Construction materials	**456,045**	155,431
Goods	**57,043**	82,744
Other materials	**1,343,528**	801,184
Less: allowance for slow–moving and obsolete inventories	**(51,086)**	(54,278)
	4,883,444	2,784,431

Movements in the allowance for slow–moving and obsolete inventories were as follows:

	For the six months ended June 30	
In thousands of Tenge	**2012**	2011
At January 1 (audited)	**54,278**	56,764
Write-off of inventory through allowance	**(1,037)**	–
Reversal of allowance	**(1,861)**	(267)
Foreign currency translation	**(294)**	(16)
At June 30 (unaudited)	**51,086**	56,481

10. TRADE AND OTHER ACCOUNTS RECEIVABLE

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Trade accounts receivable from related parties (*Note 31*)	**3,025,534**	1,969,984
Accounts receivable for transportation expedition	**1,829,154**	4,637,780
Trade accounts receivable from third parties	**792,828**	917,274
Other accounts receivable from third parties	**521,557**	218,168
Other accounts receivable from related parties (*Note 31*)	**–**	58,485
Less: allowance for impairment of trade and other accounts receivable	**(554,501)**	(112,304)
	5,614,572	7,689,387

Movements in the allowance for impairment of trade and other receivables for the six months were as follows:

	For the six months ended June 30	
In thousands of Tenge	**2012**	2011
At January 1, (audited)	**112,304**	498,177
Charge for the period	**56,373**	36,280
Write-off of accounts receivable through allowance	**(17,989)**	(25,734)
Reinstatement of allowance	**409,711**	–
Reversal of allowance	**(6,063)**	(13,311)
Foreign currency translation	**165**	497
At June 30 (unaudited)	**554,501**	495,909

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

Trade and other receivables of the Group are denominated in the following currencies:

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Tenge	**3,614,177**	2,780,811
Russian rouble	**1,685,755**	4,480,515
US Dollar	**308,215**	396,451
Other currencies	**6,425**	31,610
	5,614,572	7,689,387

11. ADVANCES TO SUPPLIERS

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Advances to third parties	**858,078**	515,064
Advances to related parties (*Note 31*)	**274,230**	233,277
Less: allowance for impairment of advances	**(3,164)**	(3,443)
	1,129,144	744,898

Movements in allowance for impairment of advances were as follows:

	For the six months ended June 30	
In thousands of Tenge	**2012**	2011
At January 1, 2012 (audited)	**3,443**	2,063
Charge for the period	**4,446**	755
Write-off of advances	**(2,560)**	(199)
Reversal of allowance	**(2,165)**	(370)
At June 30, 2012 (unaudited)	**3,164**	2,249

12. VAT RECOVERABLE AND OTHER TAXES PREPAID

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
VAT recoverable	**2,722,986**	3,337,369
Other taxes prepaid	**175,106**	296,346
	2,898,092	3,633,715

13. OTHER CURRENT ASSETS

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Prepaid insurance	**257,773**	8,645
Due from employees	**94,788**	49,669
Deferred expenses to third parties	**160,410**	164,756
Other	**109,833**	39,259
	622,804	262,329

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. BANK DEPOSITS

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Long-term bank deposit	–	6,000,000
Short-term bank deposits	**26,783,765**	34,155,205
Accrued interest on deposits	**1,186,317**	968,618
	27,970,082	41,123,823

As of June 30, 2012 bank deposits placed in Kazakhstani banks were as follows:

short-term deposits denominated in Tenge placed for varying periods of between 6 and 12 months (December 31, 2011: 3-12 months) with an interest rate of 1.6-6% per annum (December 31, 2011: 3.75-9% per annum) maturing in December 2012 (December 31, 2011: December 2012);

short-term deposits denominated in US Dollars placed for 12 months (December 31, 2011: 12 months) with an interest rate of 5% per annum (December 31, 2011: 5% per annum) maturing in November 2012 (December 31, 2011: November 2012);

long-term deposits reclassified to short-term deposits (due to expected return of cash in a period less than 12 months) with an interest rate of 6% per annum (December 31, 2011: 6% per annum) maturing in April 2013 (December 31, 2011: April 2013).

Bank deposits are denominated in the following currencies:

In thousands of Tenge	**June 30, 2011 (unaudited)**	December 31, 2010 (audited)
Tenge	**23,786,322**	36,921,677
US Dollar	**4,183,760**	4,202,146
	27,970,082	41,123,823

15. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Current accounts with banks – Tenge	**36,709,217**	7,628,046
Time deposits with banks – Tenge	**5,000,000**	12,000,000
Current accounts with banks – US Dollar	**1,272,012**	1,316,131
Current accounts with banks – Euro	**33,321**	184,906
Current accounts with banks – Lari	**5,904**	459,743
Current accounts with banks – Other currencies	**770,111**	228,833
Current accounts with banks – Russian Rouble	–	16,090
Other current accounts with banks	**10,514**	10,240
Cash on hand	**32,029**	8,398
	43,833,108	21,852,387

As of June 30, 2012 time deposits with a maturity of 3 months and most of current accounts with Kazakhstani banks carried interest range from 0.3% to 3% per annum (December 31, 2011: from 1% to 3.25 % per annum).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. EQUITY

Share split

As of June 26, 2012 the Company has performed a share split of authorized shares (license on state registration of emission of financial securities # A2995 as of May 26, 2012). As a result of the share split in proportion 1:10, the number of authorized shares has increased from 34,617,204 to 346,172,040, however share capital has not changed (34,617,204 thousand Tenge). In Addition, the Group increased the number of authorized shares by 38,463,560, which were not issued or paid on June 30, 2012. The total number of authorized shares on June 30, 2012 is 384,635,600 shares. Share split and increase in number of authorized shares was made due to upcoming placement of shares of the Company on Kazakhstan Stock Exchange as a part of the "People's IPO" program.

Earnings per share

Earnings per share were calculated by division of net income for the period, attributable to holders of ordinary shares of the parent company of the Group, by weighted average number of ordinary shares outstanding during the period. Increase in the number of ordinary shares as a result of share split is applied retrospectively from the beginning of the reporting period and to previous reporting periods.

As the Company, being a parent company of the Group, does not issue convertible financial instruments, the Group's basic earnings per share are equal to diluted earnings per share.

Below is information on income and quantity of shares that was used in calculation of basic earnings per share.

	For the six months ended	
In thousands of Tenge	**June 30, 2012 (unaudited)**	June 30, 2011 (unaudited)
Net profit for the period attributable to ordinary equity holders of the Group's parent	**16,899,759**	23,104,726
Weighted-average number of ordinary shares for the period of basic earnings per share calculation	**346,172,040**	331,995,798
Basic earnings per share related to profit for the period attributable to ordinary equity holders of the Company as a parent of the Group (in *Tenge*)	**49**	70

Book value of ordinary shares

Book value of one ordinary share is presented below in accordance with the requirements of KASE for the Group's parent (for the consistency purposes, comparable information was recalculated considering share split):

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Total assets	**459,169,778**	450,028,927
Less: Intangible assets	**(6,174,370)**	(6,229,037)
Less: Total liabilities	**(70,421,056)**	(78,530,841)
Net assets for calculation of book value of one ordinary share	**382,574,352**	365,269,049
Number of ordinary shares	**346,172,040**	346,172,040
Book value of one ordinary share (*in Tenge*)	**1,105**	1,055

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. LOANS AND BORROWINGS

	Currency	Maturity	Effective interest rate %	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Halyk Bank Georgia	US Dollar	October 27 2012	11%	**305,116**	303,181
Sberbank of Russia	Tenge	December 18 2012	4.1%	**94,000**	–
				399,116	303,181
Less: amount to be repaid within 12 months				**399,116**	303,181
Total long–term portion of interest bearing loans and borrowings				**–**	–

Halyk Bank Georgia

On October 27, 2011 Halyk Bank Georgia provided a loan to the Group (to the entity Batumi Oil Terminal located in Georgia) in the amount of USD 2,040 thousand for the period of one year with a purpose of refinancing of the loan, which was provided earlier by TBC Bank. The loan is due on October 27, 2012. The interest rate on the loan from TBC Bank is 11% per annum.

Sberbank of Russia

On June 29, 2012 Sberbank of Russia provided a loan to the Group (to the entity KazTransOil-Service JSC) in the amount of 94,000 thousand Tenge for the period till December 18, 2012 with a purpose of working capital financing. The interest rate on the loan is 4,1% per annum.

18. DEFERRED INCOME

In thousands of Tenge	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Deferred income from related parties (*Note 31*)	**728,853**	885,036
Deferred income from third parties	**3,852,048**	3,871,014
	4,580,901	4,756,050

19. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Accounts payable for goods and services to third parties	**4,722,443**	5,498,346
Accounts payable for oil transportation coordination to third parties	**2,249,305**	4,688,339
Accounts payable for oil transportation coordination to related parties (*Note 31*)	**2,550,426**	3,915,508
Accounts payable for goods and services to related parties (*Note 31*)	**270,250**	531,875
Other payables to third parties	**259,276**	513,642
Other payables to related parties (*Note 31*)	**1,457**	1,760
	10,053,157	15,149,470

Trade and other accounts payable are denominated in the following currencies:

In thousands of Tenge	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Tenge	**9,344,854**	13,190,931
US Dollar	**501,974**	1,497,885
Russian rouble	**51,259**	291,158
Euro	**12,135**	10,191
Other currencies	**142,935**	159,305
	10,053,157	15,149,470

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. ADVANCES RECEIVED

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Advances received from related parties (*Note 31*)	**5,375,411**	7,021,835
Advances received from third parties	**3,775,401**	4,204,961
	9,150,812	11,226,796

21. OTHER TAXES PAYABLE

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Individual income tax	**494,511**	566,590
Social tax	**218,025**	339,974
Property tax	**90,656**	49,437
Other taxes	**364,381**	313,316
	1,167,573	1,269,317

22. PROVISIONS

In thousand of Tenge	**Reserve of the Company (ecology)**	**BIHL reserve (taxes)**	**Other reserves**	**Total**
At December 31, 2011	**48,267**	**227,646**	**11,814**	**287,727**
Charge for the year	179,969	–	–	179,969
Reserve used	(657)	–	–	(657)
Foreign currency translation	–	1,564	–	1,564
At June 30, 2012	**227,579**	**229,210**	**11,814**	**468,603**

During the six months ended June 30, 2012 the Group accrued a reserve for environmental damage remediation due to accidental contamination of land as a result of an unauthorized tie-in into a pipeline for the amount of 179,969 thousand Tenge.

23. OTHER CURRENT LIABILITIES

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Salaries	**2,764,989**	2,620,037
Current portion of deferred income from third parties	**493,534**	353,010
Current portion of deferred income from related parties (*Note 31*)	**312,366**	312,365
Amounts payable to pension fund	**257,824**	382,588
Other accruals	**127,374**	37,594
	3,956,087	3,705,594

24. REVENUE

	For the six months ended June 30,	
In thousands of Tenge	**2012 (unaudited)**	2011 (unaudited)
Crude oil transportation	**50,571,346**	56,776,916
Oil reloading and railway shipment	**6,963,816**	6,407,503
Water transportation	**3,195,766**	2,915,739
Pipeline operation services	**2,952,097**	2,540,035
Oil transportation expedition services	**1,771,248**	1,808,168
Oil storage services	**60,186**	171,407
Other	**843,095**	882,454
	66,357,554	71,502,222

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. COST OF SALES

In thousands of Tenge	For the six months ended June 30, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Depreciation and amortization	**13,498,460**	13,736,302
Personnel costs	**13,231,988**	12,156,070
Railway services	**3,882,160**	3,883,430
Electric energy	**2,548,278**	2,466,951
Materials and fuel	**2,161,053**	2,093,834
Taxes other than corporate income tax	**2,122,075**	2,116,244
Security services	**1,757,833**	1,699,190
Repair and maintenance costs	**1,527,120**	1,694,233
Gas expense	**1,292,782**	1,160,223
Air services	**943,013**	975,126
Environmental protection (*Note 22)*	**387,680**	89,131
Rent expenses	**366,759**	399,766
Business trip expenses	**305,825**	261,062
Insurance	**236,955**	236,057
Post-employment benefits	**139,120**	94,802
Communication services	**109,648**	103,567
Diagnostics of pipelines	**7,012**	172,032
Other	**1,317,176**	1,122,682
	45,834,937	44.460.702

26. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	For the six months ended June 30, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Personnel costs	**2,329,578**	2,175,741
Consulting	**468,416**	111,203
Depreciation and amortization	**307,248**	564,273
Taxes other than corporate income tax	**204,069**	142,763
Insurance and security	**123,513**	148,768
Repair and technical maintenance	**120,282**	187,113
Write-off of VAT recoverable	**115,768**	38,739
Social sphere expenses	**109,093**	121,194
Business trip expenses	**89,265**	83,328
Rent expense	**74,256**	102,366
Provision for allowance for doubtful debts	**52,591**	23,354
Communication services	**49,468**	47,371
Bank costs	**46,783**	47,286
Training	**38,041**	34,535
Charity expenses	**37,798**	49,649
Materials and fuel	**32,630**	38,799
Information expenses	**29,012**	36,534
Office maintenance	**17,824**	18,014
Transportation expenses	**11,112**	47,377
Advertising expense	**8,908**	21,036
Post-employment benefits	**8,881**	6,259
Reversal of provisions for taxes	**–**	(3,718,848)
Reversal of allowance for obsolete and slow-moving inventories	**(1,861)**	(267)
Other	**154,860**	111,262
	4,427,535	437,849

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. OTHER OPERATING INCOME

In thousands of Tenge	For the six months ended June 30, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Income from fines and penalties	**234,098**	201,171
Amortization of deferred income *(Note 31)*	**156,182**	156,259
Amortization of financial guarantee issued to related party (*Note 31*)	**68,278**	67,287
Gain on disposal of inventory	**15,560**	6,619
Income from rent	**7,222**	7,022
Income from write-off of payables	**3,070**	7,250
Other income	**155,512**	65,385
	639,922	510,993

Income from fines and penalties is mainly presented by amounts for nominated and non-delivered crude oil volumes under oil transportation contracts on "ship or pay" terms.

28. FINANCE INCOME

In thousands of Tenge	For the six months ended June 30, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Interest income on bank deposits	**1,045,966**	1,481,476
Loans to employees: amortization of discount	**11,200**	10,071
Dividends income *(Note 31)*	–	17,608
Other finance income	**23,199**	25,229
	1,080,365	1,534,384

29. FINANCE COSTS

In thousands of Tenge	For the six months ended June 30, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Employee benefits: unwinding of discount	**81,500**	75,000
Interest on loans and borrowings	**16,594**	44,795
Other interest expenses	–	194
	98,094	119,989

30. INCOME TAX EXPENSE

In thousands of Tenge	For the six months ended June 30, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Current Income tax expense	**4,697,573**	5,757,179
Deferred Income tax benefit	**(1,353,384)**	(968,932)
Income tax expense	**3,344,189**	4,788,247

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following tables provide the total amount of transactions, which have been entered into with related parties during the six months, ended June 30, 2012 and June 30, 2011, and the related balances as at June 30, 2012 and December 31, 2011:

Other Long term assets from related parties are as follows:

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Other Long-term assets		
Other Long-term assets from entities under common control of KMG	**214,644**	202,705
Total other long-term assets from related parties	**214,644**	202,705

Trade and other accounts receivables from related parties are as follows:

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Trade and other accounts receivable from related parties		
Trade accounts receivable from joint ventures	**2,397,017**	1,396,428
Trade accounts receivable from entities under common control of KMG	**627,478**	573,349
Trade accounts receivable from entities of Samruk-Kazyna Group	**1,039**	207
	3,025,534	1,969,984
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	**–**	58,485
Total trade and other accounts receivable	**3,025,534**	2,028,469

Advances provided to related parties are as follows:

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Advances to related parties		
Advances to entities under common control of KMG	**175,501**	170,207
Advances to entities of Samruk-Kazyna Group	**98,729**	63,070
Total advances paid to related parties	**274,230**	233,277

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. RELATED PARTY TRANSACTIONS (continued)

Other current assets from related parties are as follows:

In thousand Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Other current assets from related parties		
Other current assets from entities under control of KMG	**41,828**	–
Total other current assets from related parties	**41,828**	–

Financial guarantee:

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Financial guarantee issued on behalf of related parties		
Financial guarantee issued on behalf of MunayTas	**272,390**	338,919
Total financial guarantee issued on behalf of related parties	**272,390**	338,919

Non–current deferred income to related parties is as follows:

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Deferred income from related parties		
Deferred income from entities under common control of KMG	**728,853**	885,036
Total non-current deferred income to related parties	**728,853**	885,036

Trade and other accounts payable to related parties are as follows:

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Accounts payable for oil transportation expedition to related parties		
Accounts payable for oil transportation expedition to entities under common control of KMG	**2,550,426**	3,915,508
	2,550,426	3,915,508
Accounts payables to related parties for goods and services		
Accounts payables to entities under common control of KMG	**229,857**	454,221
Accounts payables to entities under control of Samruk-Kazyna Group	**40,371**	77,654
Accounts payable to joint-stock entities	**22**	–
	270,250	531,875
Other payables to entities under control of Samruk-Kazyna Group	**1,457**	1,760
Total other accounts payable to related parties	**1,457**	1,760
Total trade and other accounts payable to related parties	**2,822,133**	4,449,143

Advances received from related parties are as follows:

In thousands of Tenge	**June 30, 2012 (unaudited)**	December 31, 2011 (audited)
Advances received from related parties		
Advances from entities under common control of KMG	**4,887,068**	6,111,963
Advances from entities under control of Samruk-Kazyna Group	**488,343**	909,872
Total advances received from related parties	**5,375,411**	7,021,835

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. RELATED PARTY TRANSACTIONS (continued)

Other current liabilities to related parties are as follows:

In thousands of Tenge	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Employee benefits of key management personnel		
Employee benefits of key management personnel	**4,218**	4,943
	4,218	4,943
Current portion of deferred income from related parties		
Current portion of deferred income from entities under common control of KMG	**312,366**	312,365
	312,366	312,365
Total other current liabilities to related parties	**316,584**	317,308

The Group had the following transactions with the related parties:

	For the six months ended June 30,	
In thousands of Tenge	2012 (unaudited)	2011 (unaudited)
Sales to related parties:		
Income from service to entities under common control of KMG	**31,953,206**	34,291,321
Income from services to entities of Samruk-Kazyna Group	**2,847,582**	5,427,209
Income from services to joint ventures	**2,463,284**	2,169,983
Income from other activities from entities under common control of KMG	**22,582**	190,832
Income from other activities from joint ventures	**4,209**	–
Income from other activities from entities of Samruk-Kazyna Group	**–**	2,268
	37,290,863	42,081,613
Purchases from related parties:		
Purchases of services from entities under common control of KMG	**3,485,625**	3,499,664
Purchases of services from entities of Samruk-Kazyna Group	**484,350**	856,070
Purchases of inventory from entities under common control of KMG	**50,433**	6,424
Purchases of inventory from Samruk-Kazyna Group	**12,837**	5,354
	4,033,245	4,367,512

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. RELATED PARTY TRANSACTIONS (continued)

In thousands of Tenge	For the six months ended June 30, 2012 (unaudited)	2011 (unaudited)
Dividend income		
Other dividend income	–	17,608
	–	17,608
Amortization of deffered income from related parties		
Amortization of deferred income from related parties	**156,182**	156,259
Amortization of financial guarantee issued to related party	**68,278**	67,287
	224,460	223,546

Total remuneration of members of key management personnel comprised:

In thousands of Tenge	For the six months ended June 30 2012 (unaudited)	2011 (unaudited)
Salary	**84,291**	50,873
Post–employment benefits	**120**	81
	84,411	50,954
Number of persons	**7**	7

32. CONTINGENT LIABILITIES AND COMMITMENTS

Commitments and contingencies are disclosed in annual financial statements for the year ended December 31, 2011. For the six months ended June 30, 2012, no significant transactions occurred, except for the following:

Covenants

Guarantees

At June 30, 2012, the Company has guaranteed to EBRD in respect of the obligations of MunayTas under the loan agreement with EBRD. According to the Guarantee Agreement concluded between the Company and EBRD, the Company has to comply with the following covenants:

- Liquidity Ratio of not less than 1:1;
- Ratio of Earnings before interest, income tax, depreciation and amortization to Interest of not less than 2:1; and
- Ratio of Debt to Equity of not more than 2:1;

As of June 30, 2012 and December 31, 2011 the Company fully complied with covenants.

In addition, the Company shall not create any restrictions other than those permitted by EBRD. The Company shall not enter into any transactions that are not based on arm's-length arrangements unless it is approved by regulatory bodies. The Company shall not sell, lease or dispose its assets in excess of 30% of total assets or undertake any merger or reorganization.

Contractual commitments

As at June 30, 2012, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 12,661,228 thousand Tenge (as at December 31, 2011: 10,267,168 thousand Tenge). In addition, as at June 30, 2012, the Group has committed to purchase inventory (materials and spare parts) and services for the amount of 35,086,746 thousand Tenge (as at December 31, 2011: 2,002,637 thousand Tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Contractual commitments (continued)

Share of the Group as at June 30, 2012 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services comprised 3,769,477 thousand Tenge (as at December 31, 2011: 141,092 thousand Tenge), share of commitments to purchase inventory (materials and spare parts) and services comprised 2,937,966 thousand Tenge (as at December 31, 2011: 169,364 thousand Tenge).

Other contingent liabilities

There were no significant changes in other contingent and contractual obligations for the six months, ended June 30, 2012.

33. EVENTS AFTER THE REPORTING PERIOD

On August 2, 2012 the Parent Company approved dividends per share for 2011 in the amount of 173 Tenge per common share. Respective dividends payable amounted to 60,002,000 thousand Tenge.

On 4 July 2012 the "Law on major pipelines" of the Republic of Kazakhstan came into force, in accordance to which the owner of the major pipeline should bring the pipeline into safe condition and perform environmental rehabilitation procedures, including land recultivation measures, upon retirement of the pipeline from service.

As of the date of these interim condensed consolidated financial statements the Group was not able to estimate future expenditures on dismantlement and liquidation of the pipelines as well as expenditures related to environmental rehabilitation procedures and estimate the likelihood of the potential obligations.