

KazTransOil JSC

Consolidated Financial Statements

*Year ended 31 December 2009
With Independent Auditors' Report*

CONTENTS

	Page
Independent Auditors' Report	
Consolidated Financial Statements	
Consolidated Balance Sheet-----	1-2
Consolidated Statement of Comprehensive Income -----	-3
Consolidated Statement of Cash Flows -----	4-5
Consolidated Statement of Changes in Equity -----	-6
Notes to the Consolidated Financial Statements-----	7-53

INDEPENDENT AUDITORS' REPORT

To the Shareholder of KazTransOil JSC:

We have audited the accompanying consolidated financial statements of KazTransOil JSC and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2009 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 notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Ernst and Young LLP

Gulmira Turmagambetova

Gulmira Turmagambetova
Auditor



Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

Evgeny Zhemaletdinov

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

5 March 2010

CONSOLIDATED BALANCE SHEET

<i>In thousands of Tenge</i>	Note	31 December 2009	31 December 2008 (Restated*)	1 January 2008 (Restated *)
ASSETS				
Non-current assets				
Property, plant and equipment	7	247,050,582	232,621,110	204,794,928
Intangible assets	8	9,805,960	4,197,066	1,351,983
Investments in joint ventures	9	5,262,464	8,940,110	13,706,152
Long-term portion of interest-free loans to related parties	10	–	–	1,017,697
Advances to suppliers for non-current assets	11	1,886,728	1,515,298	1,502,572
Other non-current assets	12	194,918	1,509,984	2,103,246
		264,200,652	248,783,568	224,476,578
Current assets				
Inventories	13	3,192,705	3,078,624	2,808,671
Trade and other accounts receivable	14	7,035,257	5,669,247	2,772,702
Current portion of interest-free loans to related parties	10	–	3,690,753	2,497,478
Advances to suppliers	15	685,674	274,430	160,183
Prepayment for corporate income tax	37	1,946,748	1,185,746	516
Other taxes prepaid	16	5,530,917	4,750,050	4,067,383
Other current assets	17	670,174	679,271	470,021
Short-term bank deposits	18	25,291,135	19,139,373	826,629
Cash and cash equivalents	19	16,401,503	17,824,207	24,197,156
		60,754,113	56,291,701	37,800,739
Non-current assets classified as held for sale		378,378	12,229	2,324,524
		61,132,491	56,303,930	40,125,263
TOTAL ASSETS		325,333,143	305,087,498	264,601,841

CONSOLIDATED BALANCE SHEET (continued)

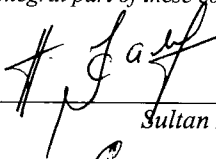
<i>In thousands of Tenge</i>	Note	31 December 2009	31 December 2008 (Restated*)	1 January 2008 (Restated *)
EQUITY AND LIABILITIES				
Equity				
Share capital	20	32,916,055	32,916,055	32,916,055
Revaluation reserve	20	48,783,757	49,917,152	67,660,719
Other reserves	20	17,104	17,104	17,104
Currency translation reserve		8,878,846	(77,776)	(227,064)
Retained earnings		152,206,983	137,741,661	113,451,726
Total equity		242,802,745	220,514,196	213,818,540
Non-current liabilities				
Long-term portion of interest-bearing loans and borrowings	21	10,346,912	33,424,736	–
Financial guarantee issued to related party		301,141	300,133	352,863
Long-term portion of employee benefits	22	2,337,120	1,883,532	1,926,000
Deferred income tax liabilities	37	20,686,894	11,900,352	24,259,412
Other long-term payables		1,058,071	–	–
Other non-current liabilities	23	4,168,479	1,227,853	315,297
		38,898,617	48,736,606	26,853,572
Current liabilities				
Current portion of interest-bearing loans and borrowings	21	10,345,517	4,305,697	–
Current portion of employee benefits	22	131,880	114,000	105,000
Corporate income tax payable	37	476,041	328,822	827,340
Trade and other accounts payable	24	12,890,968	14,640,621	9,777,968
Advances received	25	10,096,754	8,071,478	8,573,451
Other taxes payable	26	917,594	803,841	541,391
Provisions	27	4,283,370	3,718,848	–
Other current liabilities	28	4,489,657	3,853,389	4,104,579
		43,631,781	35,836,696	23,929,729
Total liabilities		82,530,398	84,573,302	50,783,301
TOTAL EQUITY AND LIABILITIES		325,333,143	305,087,498	264,601,841

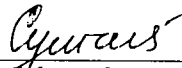
* Certain figures, given herein, do not correspond to figures in 2008 consolidated financial statements and reflect adjustments introduced, detailed in Notes 3 and 5.

The accounting policy and explanatory notes on pages 7 through 53 form an integral part of these consolidated financial statements.

General Director

Chief Accountant


Sultan N.S.


Sultangaliyeva Zh.O.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

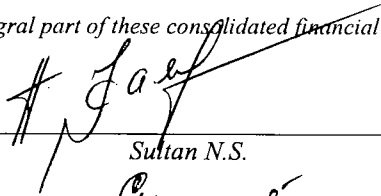
<i>In thousands of Tenge</i>	Note	2009	2008 (Restated*)
Revenue	29	126,181,133	118,815,089
Cost of sales	30	(71,442,500)	(69,014,969)
Gross profit		54,738,633	49,800,120
General and administrative expenses	31	(9,104,796)	(14,762,979)
Other operating income	32	1,092,860	1,829,242
Other operating expenses	33	(1,124,886)	(1,013,933)
Impairment of property, plant and equipment	7	(1,246,788)	(3,103,004)
Effect of recognizing of liabilities associated with acquisition in 2008		(5,017,821)	-
Impairment of goodwill	8	(1,306,548)	(17,553,133)
Operating profit		38,030,654	15,196,313
Foreign exchange loss, net	34	(7,011,967)	(529,882)
Finance income	35	2,283,646	2,741,185
Finance costs	36	(1,995,645)	(1,029,610)
Share in (losses) / income of joint ventures	9	(2,912,125)	3,394,082
Profit before income tax		28,394,563	19,772,088
Income tax (expense) / benefit	37	(12,856,131)	285,971
Net profit for the year		15,538,432	20,058,059
Other comprehensive income / (loss), net of tax			
Currency translation		8,956,622	150,763
Revaluation / impairment of property, plant and equipment		3,817,133	(10,244,379)
Total other comprehensive income / (loss), net of tax		12,773,755	(10,093,616)
Total comprehensive income for the year		28,312,187	9,964,443

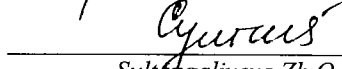
* Certain figures, given herein, do not correspond to figures in 2008 consolidated financial statements and reflect adjustments introduced, detailed in Notes 3 and 5.

The accounting policy and explanatory notes on pages 7 through 53 form an integral part of these consolidated financial statements.

General Director

Chief Accountant


Sultan N.S.


Sultangaliyeva Zh.O.

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of Tenge</i>	Note	For the years ended 31 December	
		2009	2008 (Restated*)
Cash flows from operating activities:			
Profit before income tax		28,394,563	19,772,088
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	30,31	17,204,943	18,033,670
Allowance for doubtful debts	31	380,575	1,934,186
Share in losses / (income) of joint ventures	9	2,912,125	(3,394,082)
Finance costs	36	1,995,645	1,029,610
Finance income	35	(2,283,646)	(2,741,185)
Actuarial gains and losses	32,33	276,474	(211,000)
Employee benefits	22	191,000	163,000
Provision for taxes	27	564,522	3,718,848
Loss on disposal of property, plant and equipment and intangible assets, net	33	88,524	576,741
Effect of recognizing of liabilities associated with acquisition in 2008		5,017,821	—
Impairment of goodwill	8	1,306,548	17,553,133
Impairment of property plant and equipment		1,246,788	3,103,004
Income from write-off of payables	32	(25,038)	(10,258)
Amortization of deferred income	32	(519,071)	(55,474)
Expenses on write-off of VAT recoverable	31	341,258	436,267
Amortization of financial guarantee issued to related party	32	(67,171)	(56,149)
Unrealized foreign exchange loss		6,872,546	852,978
(Reversal) / Provision for allowance for obsolete inventory	31	(118,181)	58,511
Operating cash flows before working capital changes		63,780,225	60,763,888
Changes in inventories		15,947	203,373
Changes in trade and other accounts receivable		(1,401,006)	192,710
Changes in advances to suppliers		(412,331)	(115,107)
Changes in taxes recoverable and other current assets		(177,970)	(2,282,324)
Changes in trade and other accounts payable		(666,544)	4,185,791
Changes in advances received		2,025,276	(501,973)
Changes in taxes payable		113,753	(279,823)
Changes in other current and non-current liabilities and employee benefits		3,977,959	(2,194,699)
Cash generated from operations		67,255,309	59,971,836
Income taxes paid		(8,295,068)	(12,378,348)
Interest received		3,308,075	2,085,383
Interest paid		(2,224,053)	(1,311,633)
Net cash flow from operating activities		60,044,263	48,367,238

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In thousands of Tenge</i>		For the years ended 31 December	
	Note	2009	2008 (Restated*)
Cash flows from investing activities:			
Withdrawal of term deposits		45,292,327	–
Placement of term deposits		(50,852,310)	(18,000,000)
Repayment of interest-free loans provided to related parties		3,777,305	–
Purchase of property, plant and equipment		(28,924,214)	(31,300,322)
Purchase of intangible assets		(110,513)	(323,545)
Change in advances paid for non-current assets		(335,914)	(61,611)
Proceeds from disposal of property, plant and equipment and intangible assets		847,189	653,076
Dividends received		765,020	706,546
Purchase of a business	6	–	(37,718,595)
Net cash flow used in investing activities		(29,541,110)	(86,044,451)
Cash flows from financing activities:			
Proceeds from interest bearing loans and borrowings		103,250	37,377,699
Repayment of interest bearing loans and borrowings		(26,005,469)	(2,804,648)
Proceeds from interest-free loans		–	36,300,000
Repayment of interest-free loan		–	(36,300,000)
Dividends paid		(6,023,638)	(3,268,787)
Net cash flow (used in) / from financing activities		(31,925,857)	31,304,264
Net change in cash and cash equivalents		(1,422,704)	(6,372,949)
Cash and cash equivalents at the beginning of the year	19	17,824,207	24,197,156
Cash and cash equivalents at the end of the year	19	16,401,503	17,824,207

NONCASH TRANSACTIONS

The following non-cash transactions have been excluded from the consolidated cash flow statement:

Depreciation included in cost of inventory

The amount of depreciation for 2009 included in cost of inventory was 15,164 thousand Tenge (2008: 9,927 thousand Tenge).

Deferred income

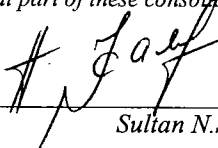
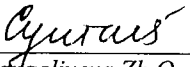
The Group recognized deferred income of 1,874,193 thousand Tenge from reconstruction of railroad overpass which was received free-of-charge in 2009. Deferred income amortized in 2009 amounted to 356,232 thousand Tenge (2008: 55,474 thousand Tenge).

** Certain figures, given herein, do not correspond to figures in 2008 consolidated financial statements and reflect adjustments introduced, detailed in Notes 3 and 5.*

The accounting policy and explanatory notes on pages 7 through 53 form an integral part of these consolidated financial statements.

General Director

Chief Accountant


 Sultan N.S.

 Sultangaliyeva Zh.O.

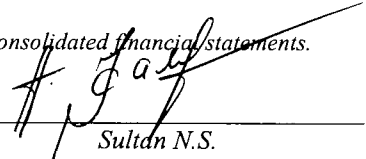
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Share capital	Revaluation reserve	Other reserves	Foreign currency translation reserve	Retained earnings	Total
At 1 January 2008 (Restated*)	32,916,055	67,660,719	17,104	(227,064)	113,451,726	213,818,540
Net profit for the year	–	–	–	–	20,058,059	20,058,059
Currency translation	–	1,475	–	149,288	–	150,763
Impairment of property, plant and equipment	–	(10,469,290)	–	–	–	(10,469,290)
Revaluation of property, plant and equipment	–	224,911	–	–	–	224,911
Total comprehensive income for the year	–	(10,242,904)	–	149,288	20,058,059	9,964,443
Amortisation of revaluation reserve	–	(7,500,663)	–	–	7,500,663	–
Dividends	–	–	–	–	(3,268,787)	(3,268,787)
At 31 December 2008 (Restated*)	32,916,055	49,917,152	17,104	(77,776)	137,741,661	220,514,196
Net profit for the year	–	–	–	–	15,538,432	15,538,432
Currency translation	–	–	–	8,956,622	–	8,956,622
Revaluation of property, plant and equipment	–	4,010,966	–	–	–	4,010,966
Impairment of property, plant and equipment	–	(193,833)	–	–	–	(193,833)
Total comprehensive income for the year	–	3,817,133	–	8,956,622	15,538,432	28,312,187
Amortisation of revaluation reserve	–	(4,950,528)	–	–	4,950,528	–
Dividends	–	–	–	–	(6,023,638)	(6,023,638)
At 31 December 2009	32,916,055	48,783,757	17,104	8,878,846	152,206,983	242,802,745

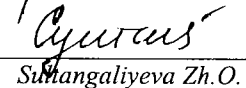
* Certain figures, given herein, do not correspond to figures in 2008 consolidated financial statements and reflect adjustments introduced, detailed in Notes 3 and 5.

The accounting policy and explanatory notes on pages 7 through 53 form an integral part of these consolidated financial statements.

General Director


Sultdn N.S.

Chief Accountant


Sultangaliyeva Zh.O.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

On 2 May 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 KazTransOil Closed Joint Stock Company.

On 31 May 2004 the KazTransOil CJSC was re-registered as KazTransOil Joint Stock Company (the "Company"),

The Company is fully owned by National Company "KazMunayGas" JSC ("KMG"). KMG is fully owned by the Government as represented by JSC "National Welfare Fund "Samruk-Kazyna" ("Samruk-Kazyna") and, accordingly, all subsidiary companies of KazMunayGas and Samruk-Kazyna are considered as related parties in these consolidated financial statements (*Note 38*).

As at 31 December 2009, 31 December 2008 and 1 January 2008 the Company has investments in the following significant subsidiaries and joint ventures:

	Place of incorporation	Principal activities	Ownership		
			31 December 2009	31 December 2008	1 January 2008
KTO-Service JSC ("KTO-Service")	Kazakhstan	Management of non-production assets	100%	100%	100%
SZTK MunayTas JSC ("MunayTas")	Kazakhstan	Oil transportation	51%	51%	51%
Kazakhstan-China Pipeline LLP ("KCP")	Kazakhstan	Oil transportation	50%	50%	50%
Batumi Capital Partners Limited ("BCPL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products	50%*	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 scientific-technical centre located in Almaty, a Multiaccess computing centre in Astana, and representative offices in Russian Federation (Moscow, Omsk and Samara) and Ukraine (Kiev).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

On 13 October 2006 the Group entered into an investment contract ("Investment Contract") with the Committee for Investment for the provision of the following investment tax concessions from 1 January 2007 when implementing the investment project "Construction of the Supply Oil Pipeline "North Buzachi-Karazhanbas":

- for corporate income tax purposes the Group has been provided with the right to deduct the cost of fixed assets commissioned as part of the investment project from aggregate annual income for one year from 1 January of the year following the year fixed assets are commissioned as part of the investment project. The Group used the preferences in 2007;
- an exemption from property tax on newly commissioned fixed assets as part of the investment project, for three years from 1 January of the year following the year fixed assets are commissioned as part of the investment project. The Group used the preferences in 2007-2009,

The Group's main business activities include, but are not limited to:

- the coordination and management of crude oil transported within Kazakhstan and for export;
- the storage, loading and unloading, transshipment or transfer of crude oil to other related pipeline systems;
- transporting water supplies for the technological, production and economic needs of the Mangistau and Atyrau regions of Kazakhstan;
- performing activities to operate, service and repair mainline pipelines belonging to other legal entities;
- cooperation with oil transportation companies of other countries regarding the transportation of oil in accordance with intergovernmental agreements, including transportation forwarding services;
- the management of investment activity for the overall development of the main oil pipeline systems within Kazakhstan and other activities as described in the Company's charter;
- the management of Batumi oil terminal and port (Georgia).

These consolidated financial statements were approved for issue by the General Director and the Chief Accountant of the Company on 5 March 2010.

2. POLITICAL AND ECONOMIC ENVIRONMENT

Operating environment

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

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within the Republic of Kazakhstan. While the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the Notes to these consolidated financial statements. All values in these consolidated financial statements are rounded to the nearest thousand, except when otherwise indicated.

Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB").

Foreign currency translation

Functional and presentation currency

Items included in these consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Tenge ("presentation currency") which is the Group's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined.

Subsidiaries

The results and financial position of all of the Group's subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

Exchange rates

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 31 December 2009 the currency exchange rate of KASE was 148.36 Tenge to 1 USD, rate was used to translate monetary assets and liabilities denominated in US dollars as of 31 December 2009 (2008: 120.79 Tenge to 1 USD). The currency exchange rate of KASE as of 5 March 2010 was 147.28 Tenge to 1 US dollar.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows.

As at 1 January 2009 the Group has adopted the following new and amended IFRS and IFRIC interpretations:

- IFRS 2 Share-based Payment (Revised): Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 7 Financial Instruments: Disclosures (Revised): Improvements of financial instruments disclosure, effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 1 Presentation of Financial Statements effective 1 January 2009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF PREPARATION (continued)

Changes in Accounting Policies (continued)

- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008

When the adoption of the standard or interpretation is deemed to have an impact on the consolidated financial statements or performance of the Group, its impact is described below:

IFRS 7 – Financial Instruments: Disclosures (Revised)

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in *Note 40*. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in *Note 40*.

IAS 1 – Revised Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

IFRS and Interpretations issued but not yet effective

The Group did not apply the following IFRS and Interpretations that were issued, but not yet effective:

- IFRS 2 *Share-based Payment: Company Cash-settled Share-based Payment Transactions* effective 1 January 2010.
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective for annual periods starting on or after 1 July 2009 including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39.
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective for annual periods starting on or after 1 July 2009.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective for annual periods starting on or after 1 July 2009.
- IFRIC 18 *Transfers of Assets from Customers* effective for annual periods starting on or after 1 July 2009.
- IFRIC 19 *Repayment of financial liabilities by equity instruments* effective for annual periods starting on or after 1 July 2010.

The management believes that adoption of these Standards and Interpretations in future periods will not significantly affect the consolidated financial statements of the Group.

In May 2008 and April 2009 the Board issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position and performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF PREPARATION (continued)

Changes in Accounting Policies (continued)

IFRS and Interpretations issued but not yet effective (continued)

IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the consolidated balance sheet.

IAS 16 Property, Plant and Equipment: Replaces the term “net selling price” with “fair value less costs to sell”. The Group amended its accounting policy accordingly, which did not result in any change in the consolidated balance sheet.

IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its consolidated balance sheet.

IAS 36 Impairment of Assets: When discounted cash flows are used to estimate ‘fair value less cost to sell’ additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ‘value in use’. This amendment had no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using ‘value in use’.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (amended)
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Error*
- IAS 10 *Events after the Reporting Period*
- IAS 18 *Revenue*
- IAS 19 *Employee Benefits*
- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance* (amended)
- IAS 28 *Investments in Associates*
- IAS 31 *Interest in Joint Ventures*
- IAS 34 *Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 40 *Investment Properties*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

Changes in accounting policy with respect to accounting for investments into joint ventures

In 2009 the Group changed its accounting policy with respect to the accounting of its interests in joint ventures from the proportionate consolidation method to the equity method of accounting. Management of the Group believes that the equity method of accounting for interest in joint ventures provides reliable and more relevant information and is consistent with the policy of the Parent company.

This change in accounting policy has been accounted for retrospectively, and, as a result, the related comparative financial statements as of 31 December 2008 and for the year then ended and the opening balance as of 1 January 2008 have been restated as required by IAS 1. The effect of the change on comparative data is tabulated below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

3. BASIS OF PREPARATION (continued)

Changes in accounting policy with respect to accounting for investments into joint ventures (continued)

Effect on the balance sheet	31 December 2008	1 January 2008
Decrease in property, plant and equipment	(89,818,772)	(60,938,943)
Decrease in intangible assets	(12,678)	(2,783,233)
Decrease in long-term financial assets	(1,175)	(823)
Decrease in advances for non-current assets	(13,920)	–
Decrease in other non-current assets	(230,261)	–
Decrease in non-current assets	(90,076,806)	(63,722,999)
Decrease in inventory	(131,642)	(334,706)
Decrease in income tax prepaid	(84,866)	(84,918)
Increase in trade receivables	117,252	(1,087,692)
Decrease in short-term financial assets	(1,585,644)	(2,534,710)
Decrease in advances to suppliers	(14,528)	(208,613)
Decrease in other taxes prepaid	(5,892,975)	(914,011)
Decrease in other current assets	(264,567)	(387,501)
Decrease in cash and cash equivalents	(12,117,541)	(1,206,189)
Decrease in current assets	(19,974,511)	(6,758,340)
Decrease in assets classified as held for sale	(14,569)	–
Decrease in total assets	(110,065,886)	(70,481,339)
Decrease in interest-bearing loans and borrowings	54,001,277	7,960,824
Decrease in corporate bonds	37,545,798	36,884,827
Decrease in financial lease liabilities	–	92,470
Decrease in deferred income tax liabilities	1,464,663	2,215,794
Decrease in non-current liabilities	93,011,738	47,153,915
Decrease in interest-bearing loans and borrowings	1,855,451	2,001,697
Decrease in corporate bonds	385,055	375,436
Decrease in trade payables	4,654,756	6,392,911
Decrease in advances received	645,786	956,823
Decrease in other taxes payable	51,896	111,828
Decrease in current portion of financial lease liabilities	–	11,933
Decrease in corporate income tax payable	–	269,306
Increase in other current liabilities	521,094	(3,564,765)
Decrease in current liabilities	8,114,038	6,555,169
Net change	(8,940,110)	(16,772,255)
Increase in investments in joint ventures	8,940,110	13,706,152
Total change in net assets	–	3,066,103
Decrease in minority interest	–	3,066,103
Total change in net assets, attributable to the shareholder of the parent	–	–

The effect of the above adjustments on Group performance for the year ended 31 December 2008 is tabulated below:

Effect on performance for the year ended 31 December 2008

Decrease in revenue	(10,793,064)
Decrease in cost of sales	2,734,209
Decrease in general and administrative expenses	1,641,451
Decrease in other operating expenses	(331,620)
Decrease in other operating income	19,483
Decrease in foreign exchange loss, net	384,352
Decrease in finance income	(279,437)
Decrease in finance costs	3,886,848
Increase in share in income of joint ventures	3,394,084
Decrease in income tax benefit	(656,306)
Change in net profit for the year	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Revaluation of property, plant and equipment

Property, plant and equipment were revalued to fair value as of 30 June 2007. The revaluation was performed on the basis of an appraisal performed by an independent professional real estate appraisal company operating in the Republic of Kazakhstan under an appropriate license. The methodology used was based on using market-based evidence or, if not available, using depreciated replacement cost approach.

In applying the depreciated replacement cost method, certain key elements needed to be considered, such as:

- function, and environment of the asset;
- remaining physical life (to estimate physical deterioration) and economic life of the asset;
- business requirements (to estimate functional/technical obsolescence);
- available market data;
- construction techniques and materials (to estimate the cost of a modern equivalent asset),

Changes in the assumptions could affect the carrying amount and the remaining useful lives of the items of property, plant and equipment.

The valuation was performed in accordance with the International Valuation Standards.

The valuation must be subject to a test of adequate profitability of the entity to sustain the valuation. The Group used its judgment to select the assumptions for this analysis. The most significant assumptions affecting profitability test are:

- transportation volumes;
- tariffs annual increase rate – 6 percent;
- annual inflation rate – 11 percent;
- discount rate – 13.69 percent,

The revalued amount of property, plant and equipment would not be changed, if the discount rate used in the cash flow analysis differs by 10 percent from management's estimates.

Revaluation of technological oil

The following judgements were taken into account by the Group's management and professional appraiser when determining fair value of technological oil:

- technological oil is an integral part of the process of operating the pipeline without which the transportation is not possible;
- technological oil cannot be sold or otherwise disposed due to regulations imposed by Antimonopoly Committee;
- tariffs are being closely monitored by Antimonopoly Committee and Government to ensure they will not adversely affect general price index in the country, and thus may be set at the level which will not allow to recover cost of oil, if it was valued at international market price;
- the Group is affected by regulations set by KazMunayGas and, should there be a decision to sell some part of oil, subject for approval of Antimonopoly Committee, it would be sold only to the KazMunayGas -group's trading division at internal price; and should the Group need to buy additional oil to fill in new parts of pipeline, it would buy from the KazMunayGas -group entities at the same internal price,

Taking into account all these factors, the management concluded that the most appropriate price for the technological oil in pipeline to reflect fair value that would be determined by informed market participant would be 125 US Dollars per tonne as of 31 December 2009 (18,579 Tenge) (2008: USD 152 (18,372 Tenge) per tonne).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Revaluation of technological oil (continued)

As of 31 December 2009 the market prices observed from sales of local producers for export were in the range of USD 250 (37,090 Tenge) and USD 390 (57,860 Tenge) per tonne (2008: USD 225 (27,173 Tenge) and USD 337,5 (40,759 Tenge) per tonne; 2007: 550 US Dollars (Tenge 66,165) and 620 US Dollars (Tenge 74,586) per tonne). As of 31 December 2009 the amount of oil in the pipeline included as part of property, plant and equipment was 2,101 thousand tons (2008: 2,086 thousand tons; 2007: 2,100 thousand tons).

Asset retirement obligation

Current Kazakhstani legislation in respect to environmental obligations prescribes that companies operating in extracting industries to dismantle certain assets and reclaim the land upon ceasing operations. Management of the Group believes that environmental law relating to extractive industry is not applicable to the Group's operations. However, dismantling of pipeline and land reclamation upon retirement is required by land lease agreements with local authorities. As the Group sells pipelines upon abandonment, the Group does not incur dismantling and land reclamation costs. As a result, no asset retirement obligation as of 31 December 2009, 31 December 2008 and 1 January 2008 were authorized in these consolidated financial statements.

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the assets' recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate that impairment exists.

The recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or group of assets) requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

In 2009 the Group recognized an impairment of 1,489,079 thousand Tenge (2008: 16,089,012 thousand Tenge), where the impairment of 1,246,788 thousand Tenge (2008: 3,103,004 thousand Tenge) was recognized in profit and losses and 242,291 thousand Tenge (193,833 thousand Tenge, net of tax) was recognized in equity (2008: impairment of 12,986,008 thousand Tenge (10,469,290 thousand Tenge, net of tax) (*Note 7*).

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Allowances

The Group makes allowances for doubtful accounts receivable, advances paid and other assets. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of 31 December 2009, 31 December 2008 and 1 January 2008 allowances for doubtful accounts have been created for the amount of 2,632,193 thousand Tenge, 2,364,069 thousand Tenge and 460,487 thousand Tenge, respectively (*Notes 11, 12, 14 and 15*).

Deferred tax assets

Deferred tax assets are recognized for all provisions for doubtful debts, allowances for slow-moving inventories and other liabilities to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The amount of recognized deferred tax assets as of 31 December 2009 was 2,377,665 thousand Tenge (2008: 1,785,459 thousand Tenge; 2007: 1,835,317 thousand Tenge) (*Note 37*).

Tax Provisions

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities.

Significant management judgment is required to estimate the amount the Group may be liable for and the amount is subject to change depending on the outcome of the legal proceedings. As of 31 December 2009 the management recorded a provision in the consolidated financial statements in the amount of KZT 4,283,370 thousand (2008: 3,718,848 thousand Tenge; 2007: nil), what it believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour (*Note 27*).

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

Consolidated financial statements comprise the accounts of the Company and its subsidiaries; after all material intercompany transactions have been eliminated. Subsidiaries are consolidated from the date that the Group obtains control until such time as control ceases. The financial statements of subsidiaries are prepared for the same reporting period as for the Company, using consistent accounting policies. Adjustments are made to ensure that no dissimilar accounting policies exist.

As discussed in *Note 1*, the Company has control over two subsidiaries, KTO-Service and BIHL, which have been fully consolidated in these consolidated financial statements. The Company also owns directly and indirectly (through BIHL), 100% shares of BCPL. Accordingly, BCPL financial statements were also consolidated in these consolidated financial statements.

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit and losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from parent shareholder's equity.

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Disposals of minority interest are accounted for using entity method, whereby, the Group recognizes such disposals as transactions with shareholders, no gain or loss is recognized in the consolidated statement of comprehensive income, nor is there any adjustment to goodwill.

Interest in joint ventures

The Group has an interest in joint ventures which are a jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of these entities. The Group's investment in its joint ventures are accounted for using the equity method.

Under the equity method, the investments in joint ventures are carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the joint ventures. Goodwill relating to joint ventures is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at revalued cost less accumulated depreciation and impairment losses. The initial cost of the fixed assets at the acquisition comprises its purchase price, including import duties and non-refundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is computed on a straight-line basis over the estimated useful lives. The estimated useful life of certain fixed assets is presented as follows (in years):

	Years
Buildings and constructions	20 – 50
Machinery and equipment	2 – 25
Pipelines and other transportation assets (excluding technological oil)	10 – 33
Other	2– 15

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the current period profit and loss in the period when such costs are incurred. The expenditures that have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of tangible fixed assets beyond its originally assessed standard performance (increase of useful life, capacity, etc.) are capitalized as an additional cost of fixed assets.

When property, plant and equipment is sold or retired, the revalued cost and related accumulated depreciation are eliminated from accounts. Any resulting gains or losses are included in other operating income or expenses.

Non-current assets classified as held for sale

Assets are classified as non-current assets held for sale if they meet the following criteria:

- are available for immediate sale in their current condition;
- there is a firm intention to ensure their planned sale;
- actions have been taken to determine the purchaser and other necessary measures to execute the plan;
- there is a high possibility of making a sale, and it is expected that the sale will be made within one year from classification.

The Group measures a non-current assets classified as held for sale at the lower of their carrying amount and fair value less costs to sell. Immediately before the initial classification of the asset as held for sale, the carrying amounts of the asset is measured in accordance with applicable IFRSs. Non-current assets classified as held for sale have been presented separately in the consolidated financial statements within current assets category on the face of the consolidated balance sheet.

Revaluation of property, plant and equipment

The Group periodically engages independent appraisers to revalue property, plant and equipment to their depreciated replacement cost. Valuations are performed frequently enough to ensure that the fair value of revalued assets does not differ materially from its carrying amount.

An increase in an asset's carrying amount as a result of a revaluation is credited to the revaluation reserve account net of the related deferred tax amount, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of comprehensive income, in which case the increase is recognized in profit and loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.

Revaluation reserve is amortised on the same basis as the property, plant and equipment through a charge directly to retaining earnings.

Upon the retirement or disposal of property, plant and equipment the surplus of the revaluation reserve is transferred directly to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revaluation of property, plant and equipment (continued)

The shortage or surplus of technological oil identified as a result of annual stock take procedures as of the end of reporting period is recorded as decrease (increase) of revaluation reserve. The amount of adjustment is calculated based on the best management's estimate of price at which technological oil can be sold on the Kazakhstani market.

Intangible assets

Intangible assets, which represent the cost of software acquired, license agreements and other intangible assets, are recorded at historical cost less accumulated amortization and any accumulated impairment losses. Amortization is provided on a straight-line basis over the estimated useful economic life of the assets. Intangible assets are generally amortized over five years. The amortization expense on intangible assets is recognized in profit and losses in the expense category consistent with the function of the intangible asset.

Impairment of non-financial assets

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

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

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

Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash generating unit level, as appropriate.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other amounts receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income of the current year. The losses arising from impairment are recognised in finance costs.

Available-for-sale financial investments include equity securities. Equity investments classified as available-for-sale are those investments that were not classified either as held for trading, nor as at fair value through profit or loss.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognized in profits and losses in finance costs and removed from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity.

The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly. For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to profit and losses.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income as finance cost. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings and financial guarantee contracts.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

All loans and borrowings are initially recognized at cost, which is the fair value of consideration received, including transaction costs, and which were not classified at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance cost of the current period.

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised as gain or loss of the period.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash on demand deposits, other short-term highly liquid investments with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost and net realizable value on a first-in first-out ("FIFO") basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition.

Value Added Tax (VAT)

VAT related to sales is payable to the Kazakhstani budget when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier. Tax legislation allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the balance sheet date is stated in the balance sheet on a net basis.

Due to specifics of tax legislation and the Group's operations a certain part of input VAT can be carried over into subsequent years. Such portion of VAT is classified as long-term asset and assessed for impairment in accordance with provisions of IAS 36 being considered as a corporate asset allocated to existing cash generating units.

Loans and borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as finance costs over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other payables

Trade accounts payable initially recorded at fair value, and subsequently measured at amortised cost using effective interest rate method.

Employee benefits

The Group provides long-term employee benefits to employees before, on and after retirement, in accordance with the Rules on Social Support of employees approved by the Shareholder. The Rules provide for one-off retirement payments, financial aid for employees' disability, anniversaries and funeral. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. Actuarial gains and losses arising in the year are taken to other operating income and expenses. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as interest cost. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Rendering of transportation services

Revenue from rendering of transportation and transshipment services is recognized on the basis of actual volumes of oil and water transported during the reporting period.

Rendering of other services

Revenue from rendering of other services is recognized as services are provided.

Expense recognition

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax for the year comprises current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future,

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date,

Deferred income tax relating to items recognised directly in equity is recognised in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Other taxes

The Group pays social tax to the budget of the Republic of Kazakhstan at a fix rate of 11%.

The Group also withholds up to 10%, limited to 102,878 Tenge in 2009 (2008: 78,863 Tenge) from the salary of its employees as the employees' contribution to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity

Share capital

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as an additional paid-in capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Subsequent events

The results of post-year-end events that provide evidence of conditions that existed at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Reclassifications

Certain reclassifications have been made to the previous year balance sheet and statement of comprehensive income in order to conform to the current year presentation. The most significant reclassifications are described below:

<i>In thousands of Tenge</i>	Amount
Reclassification to cost of sales from general and administrative expenses	3,662,874
Reclassification to general and administrative expenses from cost of sales	210,657
Reclassification to other operating expenses from other operating income	128,918
Reclassification to general and administrative expenses from other operating income	190,090
Reclassification to other operating expenses from other operating income	47,702
Reclassification to other expenses from share in income of joint ventures	260,572
Reclassification to intangible assets from trade and other receivables	654,266
Reclassification to other current assets from trade and other receivables	3,024

Following is the effect of reclassifications made on the consolidated balance sheet and consolidated statement of comprehensive income:

<i>In thousands of Tenge</i>	As originally presented	As adjusted
Consolidated balance sheet as of 31 December 2008		
Intangible assets	1,391,490	2,045,756
Trade and other accounts receivable	6,326,537	5,669,247
Other current assets	676,247	679,271
	8,394,274	8,394,274
Consolidated statement of comprehensive income for 2008		
Cost of sales	(65,622,213)	(69,074,430)
General and administrative expenses	(38,621,782)	(35,359,655)
Other operating income	1,462,532	1,829,242
Other operating expenses	(576,741)	(1,013,933)
Share in income of joint ventures	3,133,510	3,394,082
	(100,224,694)	(100,224,694)

6. BUSINESS COMBINATION

On 12 September 2007 the Group concluded an agreement on acquisition of 100% of common shares of BIHL from Terminal Partners Limited for US\$ 325 million. BIHL is a holding company with 50% stake in BCPL, 38.12% stake in Batumi Terminal Limited ("BTL"), 100% stake in Port Capital Partners and 100% stake in Batumi Services. On 5 February 2008, the date of acquisition, the Group paid consideration of US\$ 325 million or 39,061,750 thousand Tenge. The acquisition has been accounted for using the purchase method of accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6. BUSINESS COMBINATION (continued)

The fair value of the identifiable assets, liabilities and contingent liabilities attributable to 100% interest acquired in BIHL and the current IFRS carrying value as at the date of acquisition were:

<i>In thousands of Tenge</i>	Fair values recognized on acquisition *	Carrying value*
Property, plant and equipment	29,272,537	22,298,635
Inventories	521,910	521,910
Trade accounts receivable	3,199,193	3,199,193
Other taxes recoverable	700,611	700,611
Cash and cash equivalents	1,343,155	1,343,155
Total assets	35,037,406	28,063,504
Loans and borrowings	2,855,558	2,855,558
Deferred income tax liabilities	780,276	780,276
Other non-current liabilities	1,155,884	1,155,884
Accounts payable	687,120	687,120
Taxes payable	542,273	542,273
Current financial liabilities	1,646,188	1,646,188
Total liabilities	7,667,299	7,667,299
Acquired share in net assets	27,370,107	-
Less: investments in BCPL	(8,012,800)	-
Total acquisition cost	19,357,307	-
Goodwill arising from acquisition (Note 8)	19,704,443	-
Consideration paid in cash	39,061,750	-
Less: net cash acquired with the subsidiary	(1,343,155)	-
Net outflow of cash	37,718,595	-

* figures were restated due to the change in accounting policy with respect to accounting for shares in joint ventures (Note 3),

The goodwill recognized above is attributed to the expected synergies and other benefits from combining the assets and activities of BIHL with those of the Group.

The valuation of property, plant and equipment was performed by an independent professional appraiser. The basis used for the appraisal was replacement cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
Net book value as at 1 January 2008 (restated)	1,211,880	47,769,766	3,756,496	27,969,409	59,952,290	49,815,720	7,020,899	7,298,468	204,794,928
Foreign currency translation	32,931	—	(89,288)	31,342	11,988	—	4,316	314	(8,397)
Additions	59,399	40,529	1,968,403	1,662,831	1,723,216	66,525	1,208,675	27,701,301	34,430,879
Acquisitions through business combinations	13,738,598	—	1,751,228	7,566,230	5,185,609	—	915,657	115,215	29,272,537
Disposals	(407,480)	(22,261)	(293,363)	(2,794,492)	(1,042,480)	(43,820)	(620,855)	(55,004)	(5,279,755)
Transfers from non-current assets held for sale	1,206,357	—	—	1,091,369	—	—	—	—	2,297,726
Depreciation charge	—	(6,154,634)	(664,489)	(2,211,161)	(7,316,543)	—	(1,308,663)	—	(17,655,490)
Accumulated depreciation on disposals	—	6,337	118,831	239,190	230,609	—	132,633	—	727,600
Impairment (current period expenses)	(11,746)	(215,610)	(11,021)	(2,103,550)	(431,026)	(123,901)	(117,864)	(88,286)	(3,103,004)
Impairment (revaluation reserve)	(1,292,954)	(5,435)	(335)	(47,814)	(20,480)	(11,614,860)	(4,130)	—	(12,986,008)
Revaluation (revaluation reserve)	—	—	—	—	—	220,258	4,653	—	224,911
Transfers to Intangible assets	—	—	—	—	—	—	—	(94,817)	(94,817)
Transfers and reclassifications	5,856	11,203,724	(348,417)	3,460,503	10,164,482	—	2,434,977	(26,921,125)	—
Net book value as at 31 December 2008 (restated)	14,542,841	52,622,416	6,188,045	34,863,857	68,457,665	38,319,922	9,670,298	7,956,066	232,621,110
Foreign currency translation	3,654,013	—	(120,914)	1,008,952	1,950,991	—	406,709	(69,219)	6,830,532
Additions	153,097	25,595	1,590,503	1,490,801	1,645,618	297,200	577,267	23,537,160	29,317,241
Disposals	(192,992)	(298,364)	(67,733)	(1,022,387)	(936,838)	(150,879)	(1,748,840)	(275,538)	(4,693,571)
Depreciation charge	—	(4,399,467)	(697,079)	(1,750,277)	(7,896,781)	—	(1,706,592)	—	(16,450,196)
Accumulated depreciation on disposals	—	265,771	30,379	111,718	423,424	—	194,244	—	1,025,536
Impairment (current period expenses)	(30,150)	(129,751)	(849)	(815,675)	(83,148)	(136,156)	(31,874)	(19,185)	(1,246,788)
Impairment (revaluation reserve)	—	(206,903)	—	(13,961)	(20,508)	—	(919)	—	(242,291)
Revaluation (revaluation reserve)	3,114,747	—	46,615	—	—	718,327	894,718	35,071	4,809,478
Transfers from construction-in-progress	469	4,617,660	218,733	4,663,086	10,225,813	—	1,297,410	(21,023,171)	—
Transfers to Intangible assets	(4,746,533)	—	—	—	—	—	—	—	—
Transfers and reclassifications	3,792,311	2,074,273	(532,915)	(3,517,773)	(1,875,918)	—	60,022	(173,936)	(4,920,469)
Net book value as at 31 December 2009	20,287,803	54,571,230	6,654,785	35,018,341	71,890,318	39,048,414	9,612,443	9,967,248	247,050,582

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2009									
At revalued cost	20,317,953	70,974,890	8,312,791	43,041,837	90,967,934	50,923,331	13,046,342	10,074,719	307,659,797
Impairment	(30,150)	(704,400)	(12,191)	(2,981,000)	(556,809)	(11,874,917)	(154,836)	(107,471)	(16,421,774)
Accumulated depreciation	—	(15,699,260)	(1,645,815)	(5,042,497)	(18,520,806)	—	(3,279,063)	—	(44,187,441)
Net book value	20,287,803	54,571,230	6,654,785	35,018,340	71,890,319	39,048,414	9,612,443	9,967,248	247,050,582
As at 31 December 2008									
At revalued cost	14,542,841	64,475,592	7,128,735	40,108,289	79,664,489	50,058,683	11,520,886	8,044,352	275,543,867
Impairment	—	(367,746)	(11,342)	(2,151,364)	(453,153)	(11,738,761)	(122,043)	(88,286)	(14,932,695)
Accumulated depreciation	—	(11,485,430)	(929,348)	(3,093,068)	(10,753,671)	—	(1,728,544)	—	(27,990,061)
Net book value (restated)	14,542,841	52,622,416	6,188,045	34,863,857	68,457,665	38,319,922	9,670,299	7,956,066	232,621,111
As at 1 January 2008									
At revalued cost	1,211,880	53,364,624	3,968,362	28,734,602	63,414,524	49,815,720	7,567,992	7,298,468	215,376,172
Impairment	—	(146,701)	—	—	(165)	—	—	—	(146,866)
Accumulated depreciation	—	(5,448,157)	(211,866)	(765,193)	(3,462,069)	—	(547,093)	—	(10,434,378)
Net book value (restated)	1,211,880	47,769,766	3,756,496	27,969,409	59,952,290	49,815,720	7,020,899	7,298,468	204,794,928

Property, plant and equipment have been revalued to market value at 30 June 2007. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value for land, buildings, vehicles, furniture and technological oil, and replacement cost for the other assets. Where market value was used the valuation was based on observable market prices in an active market.

Accumulated depreciation has been eliminated against carrying value of property, plant and equipment and net amount has been reflected in revalued value of property, plant and equipment.

As of 31 December 2009, 31 December 2008 and 1 January 2008 construction-in-progress ("CIP") mainly includes pump stations, tanks and transportation assets under construction.

As of 31 December 2009 construction-in-progress includes inventories in the amounts of 1,174,163 thousand Tenge (2008: 283,647 thousand Tenge; 2007: 116,987 thousand Tenge), which were purchased for construction purposes.

As of 31 December 2009 the cost of fully depreciated but still in use property, plant and equipment was 10,364,777 thousand Tenge (2008: 3,958,063 thousand Tenge; 2007: nil).

As of 31 December 2009 cost of property, plant and equipment which temporarily are not in use is 879,841 thousand Tenge (2008: 460,791 thousand Tenge; 2007: 469,230 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying value of each revalued class of property, plant and equipment that would have been recognized in the consolidated financial statements had the assets been carried at cost less any accumulated depreciation and any accumulated impairment loss was as follows:

	Land	Buildings	Machinery and equipment	Pipelines	Transportation assets	Technological oil	Other	Construction-in-progress	Total
At 1 January 2008 (restated)	486,127	20,696,942	38,382,561	20,541,327	11,485,430	756,963	5,993,485	7,298,469	105,641,304
At 31 December 2008 (restated)	14,464,845	27,418,611	41,024,406	35,647,117	11,595,597	698,602	8,189,912	47,686,579	186,725,669
At 31 December 2009	20,217,348	28,000,332	46,491,605	39,067,769	12,251,254	1,147,561	7,653,863	49,697,762	204,527,494

8. INTANGIBLE ASSETS

<i>In thousands of Tenge</i>	Goodwill	Licenses	Software	Right for land use	Other	Total
Net book value at 1 January 2008 (restated)	–	31,735	1,275,037	–	45,211	1,351,983
Additions	–	11,692	288,921	–	677,198	977,811
Acquisitions through business combinations (Note 6)	19,704,443	–	–	–	–	19,704,443
Disposals	–	–	(71,309)	–	(15)	(71,324)
Amortization charge	–	(10,779)	(353,250)	–	(14,151)	(378,180)
Accumulated depreciation on disposals	–	–	70,649	–	–	70,649
Impairment provision	(17,553,133)	–	–	–	–	(17,553,133)
Transfers from const property, plant and equipment	–	–	94,817	–	–	94,817
Reclassifications	–	23,679	(23,679)	–	–	–
Net book value at 31 December 2008 (restated)	2,151,310	56,327	1,281,186	–	708,243	4,197,066
Additions	–	2,894	65,359	–	42,260	110,513
Disposals	–	–	(5,173)	–	(184,491)	(189,664)
Amortization charge	–	(16,912)	(432,907)	(170,388)	(149,704)	(769,911)
Accumulated depreciation on disposals	–	–	4,851	–	–	4,851
Impairment provision	(1,306,548)	–	–	–	–	(1,306,548)
Transfers from property, plant and equipment	–	–	173,936	4,746,533	–	4,920,469
Foreign currency translation	1,526,030	–	845	1,164,699	147,610	2,839,184
Net book value at 31 December 2009	2,370,792	42,309	1,088,097	5,740,844	563,918	9,805,960
As at 31 December 2009						
At cost	21,230,473	82,745	2,850,159	5,939,978	728,587	30,831,942
Impairment	(18,859,681)	–	–	–	–	(18,859,681)
Accumulated amortization	–	(40,436)	(1,762,062)	(199,134)	(164,669)	(2,166,301)
Net book value	2,370,792	42,309	1,088,097	5,740,844	563,918	9,805,960
As at 31 December 2008						
At cost	19,704,443	79,851	2,616,067	–	722,426	23,122,787
Impairment	(17,553,133)	–	–	–	–	(17,553,133)
Accumulated amortization	–	(23,524)	(1,334,881)	–	(14,183)	(1,372,588)
Net book value (restated)	2,151,310	56,327	1,281,186	–	708,243	4,197,066
As at 1 January 2008						
At cost	–	44,480	2,327,317	–	45,243	2,417,040
Accumulated amortisation	–	(12,745)	(1,052,280)	–	(32)	(1,065,057)
Net book value (restated)	–	31,735	1,275,037	–	45,211	1,351,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INTANGIBLE ASSETS (continued)

Impairment Testing of Goodwill

BIHL includes the following divisions:

- Batumi Oil Terminal
- Batumi Sea Port

As operations of divisions are interrelated they were considered as a single cash-generating unit for impairment testing purposes. The Group performed its annual impairment test as at 30 September 2009. The recoverable amount has been determined based on a value in use calculation using cash flow projections covering a ten-year period. The pre-tax discount rate applied to cash flow projections is 19.11 % (2008: 17.55%) that is weighted-average cost of capital of BIHL.

As a result of this analysis, in 2009 management has recognised an impairment charge of 1,306,548 thousand Tenge against goodwill (2008: 17,553,133 thousand tenge), which is recorded in the current period profit and loss.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for both cash-generating units are most sensitive to the following assumptions:

- Discount rates;
- Tariffs during the budget period; and
- Oil and cargo shipment volumes.

Discount rate. Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rate was estimated as a weighted average cost of capital for BIHL.

Tariffs during the budget period. Port and Terminal set tariffs for shipment of cargo and oil individually for each customer based on volumes of shipment, relationships history and market trends at the date of conclusion of shipment contract.

Oil and cargo shipment volumes. These assumptions are important because, as well as using industry data for growth rates management assesses how future changes of oil and cargo shipment volumes through Black Sea ports will affect BIHL's operations.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use possible change in any of the above key assumptions would result in a further impairment loss. The implications of the key assumptions for the recoverable amount are discussed below:

Discount rate. Management has considered the possibility of greater than determined weighted-average cost of capital on the goodwill impairment. Any increase in discount rate would result in a further impairment.

Tariffs during the budget period. Increase of tariff projected by the management for the purposes of goodwill impairment testing are indexed to underlying costs. Should the Group be unable to keep tariffs at such a level that covers related costs, a further impairment may result.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
BCPL	–	–	7,535,685
KCP	–	3,289,056	3,318,413
MunayTas	5,262,464	5,651,054	2,852,054
	5,262,464	8,940,110	13,706,152

During 2009, the Group has recognized its share in loss from joint ventures in the amount of 2,912,125 thousand Tenge (2008: income of 3,394,082 thousand Tenge) that resulted in decrease in carrying amount of investment. Amount of investment to KCP was reduced to nil due to significant losses of this entity in 2009, which exceeded carrying amount of investments. Total amount of dividends received from joint ventures in 2009 was 765,020 thousand Tenge (2008: 627,210 thousand Tenge) and resulted in corresponding decrease in carrying amount of investment.

In 2008 accounting of investments to BCPL were discontinued as investments in joint ventures due to the purchase of BIHL, which owns 50% share in BCPL, and accordingly assets and liabilities, income and loss of BCPL are fully included in the consolidated financial statements of the Group since the date of purchase of BIHL.

The tables below present generalized financial information relating to joint ventures and associates (the Group's proportional share):

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Total assets and liabilities of joint ventures			
Current assets	20,527,984	20,200,402	7,128,983
Non-current assets	104,572,910	90,076,801	60,706,192
Current liabilities	(9,573,644)	(8,325,356)	(7,014,376)
Non-current liabilities	(125,496,752)	(93,011,737)	(47,114,647)
Net (liabilities) / assets	(9,969,502)	8,940,110	13,706,152

<i>In thousands of Tenge</i>	2009	2008 (restated)
Total revenue and net income of joint ventures for the year		
Revenue	14,442,050	11,811,750
Net (loss) / income	(18,186,516)	3,391,655

The accumulated loss of KCP as of 31 December 2009 is 38,794,565 thousand Tenge and the Company's share in KCP's losses amounted to 19,397,283 thousand Tenge.

10. INTEREST-FREE LOANS TO RELATED PARTIES

As at 31 December 2008 and 1 January 2008 interest free loans to related parties represent financing provided to KazMunaiGas–Service LLP, subsidiary of KMG, amounting to 3,690,753 thousand Tenge (*Note 38*). Loans were repaid at the end of 2009. At initial recognition amounts due from KazMunaiGas–Service LLP were recorded at the fair values using 9 % discount rate, and thereafter carried at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. ADVANCES TO SUPPLIERS FOR NON-CURRENT ASSETS

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Advances to third parties for non-current assets	1,986,058	1,650,144	1,588,533
Less: allowance for non-performance	(99,330)	(134,846)	(85,961)
	1,886,728	1,515,298	1,502,572

Movement in allowance for non-performance was as follows:

<i>In thousands of Tenge</i>	2009	2008
As at 1 January	134,846	85,961
Charge for the year	4,490	48,885
Reversal of allowance	(40,006)	–
As at 31 December	99,330	134,846

Advances issued to suppliers for non-current assets are denominated as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Tenge	1,854,261	1,426,918	1,502,572
Foreign currency	32,467	88,380	–
	1,886,728	1,515,298	1,502,572

12. OTHER NON-CURRENT ASSETS

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
VAT recoverable	2,175,840	2,175,840	1,800,854
Deferred expenses	–	474,202	17,383
Other non-current financial assets	194,918	660,796	285,009
Less: allowance for doubtful VAT recoverable	(2,175,840)	(1,800,854)	–
	194,918	1,509,984	2,103,246

Under the Tax Code, VAT recoverable related to zero rate sales may be claimed for refund after the tax authorities audit. The Group applied for VAT refund, however, based on the results of the tax audits conducted in February, September, October and November 2007, the tax authorities did not allow refund of 1,800,854 thousand Tenge on the basis that it relates to suppliers which have been liquidated, are missing or cannot be located. The Group has appealed the decision of the tax authorities in the Court for certain amounts of the disallowed refund. On July 9, 2008 the Supervisory Board of Supreme Court made a decision to refuse the refunding of VAT recoverable claimed by the Group; accordingly in 2008 the Group has impaired the whole amount of disputable VAT recoverable.

On the basis of decision of the specialized interregional economical court of the city of Astana dated 13 April 2009 and Decision of the Board of Civil actions of the city of Astana dated 15 July 2009 relating to refusal to refund the VAT recoverable in the amount of 374,986 thousand Tenge as at 31 December 2009 additional amount of allowance for impairment was accrued.

As at 31 December 2009, 31 December 2008 and 1 January 2008 other non-current financial assets consist mostly of available-for-sale investments in 0.91% of the shares of Accumulative Pension Fund of Halyk Bank of Kazakhstan JSC and interest-free loans provided to employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. INVENTORIES

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Spare parts	1,750,977	2,256,197	2,069,736
Fuel	873,526	714,733	639,776
Construction materials	104,651	34,634	35,477
Other	678,873	445,929	388,714
Less: provision for slow-moving and obsolete inventory	(215,322)	(372,869)	(325,032)
	3,192,705	3,078,624	2,808,671

Movements in the provision for slow-moving and obsolete inventory were as follows:

<i>In thousands of Tenge</i>	2009	2008
As at 1 January	372,869	325,032
Charge for the year	158,083	58,511
Write-off of inventories	(42,683)	(10,674)
Reversal of provision	(276,264)	–
Currency translation difference	3,317	–
As at 31 December	215,322	372,869

14. TRADE AND OTHER ACCOUNTS RECEIVABLE

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Accounts receivable for oil transportation coordination	4,722,309	2,494,725	2,277,231
Trade accounts receivable from third parties	836,130	1,842,038	432,500
Other accounts receivable from third parties	871,868	901,589	1,044
Trade accounts receivable from related parties (Note 38)	913,623	776,711	243,302
Other accounts receivable from related parties (Note 38)	46,267	81,453	191,481
Less: allowance for impairment of trade and other accounts receivable	(354,940)	(427,269)	(372,856)
	7,035,257	5,669,247	2,772,702

Movement in allowance for impairment of trade and other accounts receivable was as follows:

<i>In thousands of Tenge</i>	2009	2008
As at 1 January	427,269	372,856
Charge for the year	98,246	129,346
Write-off of receivable	(94,350)	(41,014)
Reversal of allowance	(63,250)	(33,919)
Reclassifications	(12,975)	–
As at 31 December	354,940	427,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

Trade and other accounts receivable are denominated as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Tenge	1,347,197	1,574,972	2,772,702
Foreign currency	5,688,060	4,094,275	–
	7,035,257	5,669,247	2,772,702

As at 31 December the ageing analysis of trade receivables is as follows:

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
2007 (restated)	2,772,702	2,623,575	–	34,727	108,633	5,767	–
2008 (restated)	5,669,247	5,566,033	–	68,414	6,322	28,478	–
2009	7,035,257	6,889,971	–	122,056	–	23,230	–

15. ADVANCES TO SUPPLIERS

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Advances to third parties	432,148	237,095	124,710
Advances to related parties (Note 38)	255,609	38,435	37,143
Less: provision for non-performance	(2,083)	(1,100)	(1,670)
	685,674	274,430	160,183

Movements in allowance for non-performance were as follows:

<i>In thousands of Tenge</i>	2009	2008
As at 1 January	1,100	1,670
Charge for the year	1,393	867
Reclassifications	(104)	–
Write-off of advances	–	(1,430)
Reversal of provision	(306)	(7)
As at 31 December	2,083	1,100

Advances to supplies are denominated as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Tenge	521,783	258,110	145,264
Foreign currency	163,891	16,320	14,919
	685,674	274,430	160,183

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

16. OTHER TAXES PREPAID

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
VAT recoverable	3,807,143	4,260,021	3,841,289
Withholding tax	1,592,382	352,928	–
Other taxes prepaid	131,392	137,101	226,094
	5,530,917	4,750,050	4,067,383

17. OTHER CURRENT ASSETS

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Deferred expenses	607,779	501,468	48,422
Due from employees	57,966	171,791	50,850
Prepaid insurance	4,429	6,012	7,984
Dividends receivable	–	–	362,765
	670,174	679,271	470,021

18. SHORT-TERM BANK DEPOSITS

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Short-term bank deposits	25,267,338	18,000,000	–
Interest on deposits	23,797	1,139,373	826,629
	25,291,135	19,139,373	826,629

At 31 December 2009 short-term bank deposits comprised Tenge denominated time deposits with Kazakhstani banks with maturity from 3 to 12 months, which earn interest of 5% to 6% per annum (2008: 10.5% – 11%; 2007: 6.5% - 11.5%) and repayable in May 2010 (2008: May 2009; 2007: April 2008).

19. CASH AND CASH EQUIVALENTS

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Current accounts with banks – Tenge	10,692,022	1,945,725	281,109
Current accounts with banks – US Dollars	1,987,686	1,776,361	1,263
Current accounts with banks – Russian Rouble	3,646,702	79	377,388
Current accounts with banks – Euro	29,535	8,866	–
Current accounts with banks – Lari	35,620	69,720	–
Time deposits with banks – Tenge	–	13,939,000	23,531,500
Cash on hand and in transit	8,023	5,908	5,875
Other current accounts with banks	1,915	78,548	21
	16,401,503	17,824,207	24,197,156

At 31 December 2009, 31 December 2008 and 1 January 2008 most current accounts with Kazakhstani banks carried interest ranging from 1% and 1.5% per annum. At 31 December 2009 there were no Tenge denominated time deposits (at 31 December 2008 and 1 January 2008 time deposits included deposits in Kazakhstani banks with interest rates ranging from 9% to 11% per annum and maturing in January 2009 and 2008, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. EQUITY

Share capital

Company's share capital comprises common shares with par value of 1000 Tenge.

As at 31 December 2009, 31 December 2008 and 1 January 2008 all Company's common shares were authorized, issued and fully paid.

Payments to the shareholder

Dividends

During 2009, the Company declared and paid dividends for 2008, totalling 6,023,638 thousand Tenge from income for 2008 (2008: 3,268,787 thousand Tenge from income for 2007). The dividend per share amount was 183 Tenge per common stock (2008: 99.31 Tenge).

Dividends are not paid if (a) the equity becomes negative, (b) the Company becomes insolvent, or (c) the Shareholder decided to liquidate the Company. The controlling Parent has the right to decide not to pay dividends on the Company's shares with obligatory publication in newspapers within 10 days from the day of such decision.

Revaluation reserve

Revaluation reserve was formed based on a revaluation of property, plant and equipment performed by an independent appraiser for certain groups of assets as at 30 June 2007, 31 December 2004 and 31 December 1999.

Other reserves

At 31 December 2009, 31 December 2008 and 1 January 2008, the reserve capital was 17,104 thousand Tenge, which comprised the social objects contributed by the Government of the Republic of Kazakhstan to the Group in 1997. These social objects were recorded as property, plant and equipment in 1997. The right for disposal of these assets requires approval of the Government represented by State Property and Privatisation of the Republic of Kazakhstan.

21. INTEREST-BEARING LOANS AND BORROWINGS

	Currency	Maturity	Effective Interest rate	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Natixis Company	US dollars	28 August 2013	Libor+1.70%	20,503,864	33,712,401	–
RBS Bank Kazakhstan	US dollars	15 June 2009	Libor+1.65%	–	3,631,144	–
TBC Bank	US dollars	September 2012	12-16%	700,200	968,396	–
Georgian Maritime Bank	US dollars	August 2009	14%	–	69,663	–
Less: unamortised transaction costs				(511,635)	(651,171)	–
				20,692,429	37,730,433	–
Less: amounts due for settlement within 12 months				10,345,517	4,305,697	–
Total long-term portion of interest bearing loans and borrowings				10,346,912	33,424,736	–

Natixis Company

In accordance with syndicate loan agreement dated 28 August 2008 the Group received a loan from BTMU (Europe) Limited, ING Bank N.V. Natixis totalling to 275 million US Dollars. The loan is interest bearing with interest rate of LIBOR+1.70%. Under agreement the loan will be repaid in eight equal semi-annual payments starting from 10 March 2010. The loan was obtained to refinance interest-free loan obtained from KazMunayGas in amount of 36,300,000 thousand Tenge to finance acquisition of 100% of the shares of Batumi Industrial Holding Limited. As at 10 September 2009 the Group made early repayment in the amount of 138 million US Dollars. As at 31 December 2009 and 2008 the Company complies with all requirements of the credit line agreement (*Note 39*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. INTEREST-BEARING LOANS AND BORROWINGS (continued)

RBS Bank Kazakhstan

In accordance with the roll-over facility agreement dated 26 June 2008 the Group received a credit line from RBS Bank Kazakhstan in the amount of 30,000 thousand US Dollars. The loan bears interest at rate of LIBOR+1.65%. The loan was obtained for the purpose of replenishment of working capital and was fully repaid in 2009.

TBC Bank

TBC Bank finances operations of certain Georgian entities of the Group. The loan of 1,000 thousand US Dollars was provided to Batumi Oil Terminal Limited, a subsidiary of BCPL. The loan was secured by Manchurian Office of Railway Overpass and was repaid on 25 August 2008. The loan of 10,000 thousand US Dollars was provided to Batumi Port Holdings and secured by Exclusive Rights of Disposal of 100% share of government stake in Batumi Sea Port Limited, a subsidiary of BIHL. The loan will be repaid on 21 September 2012. The loans bear interest at rate of 12-16%.

Amounts after 12 months are repayable as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
1 to 2 years	9,753,472	8,416,569	-
2 to 5 years	593,440	25,008,167	-
	10,346,912	33,424,736	-

22. EMPLOYEE BENEFITS

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service year. The expected cost of these benefits is accrued over the year of employment using the same accounting methodology as used for the defined benefit plan. These benefits are unfunded.

Changes in defined benefit obligations are as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Present value of defined benefits obligation at the beginning of the year	1,997,532	2,031,000	-
Past services cost	-	-	1,879,000
Current services cost	191,000	163,000	140,000
Unwinding of discount (Note 36)	122,000	124,000	113,000
Actuarial gains and losses (Note 32, 33)	276,474	(211,000)	-
Benefits paid	(118,006)	(109,468)	(101,000)
Present value of defined benefit obligation at the end of the year	2,469,000	1,997,532	2,031,000
Less: current portion of present value of defined benefit obligation	(131,880)	(114,000)	(105,000)
Non-current portion of present value of defined benefit obligation	2,337,120	1,883,532	1,926,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. EMPLOYEE BENEFITS (continued)

Amounts recognized in the consolidated balance sheet and profit and loss for the current year are as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Present value of defined benefit obligation at end of the year	2,469,000	1,997,532	2,031,000
Net liability	2,469,000	1,997,532	2,031,000
Current service expense	191,000	163,000	140,000
Past service expense	–	–	1,879,000
Actuarial (gains) and losses (Note 32, 33)	276,474	(211,000)	–
Unwinding of discount (Note 36)	122,000	124,000	113,000
Expenses recognized in the current period	589,474	76,000	2,132,000

Current and past services costs are included in the consolidated statement of comprehensive income as part of 'cost of sales' and 'general and administrative expenses'.

Principal actuarial assumptions used for valuation of employee benefit obligation at 31 December 2009 and 2008 were as follows:

Discount rate	6.0%	6.0%
Future salary increases	4.0%	4.0%
Mortality rate	12.0%	12.0%

23. OTHER NON-CURRENT LIABILITIES

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Deferred income from related parties (Note 38)	1,509,766	182,715	223,133
Deferred income from third parties	2,658,713	1,045,138	18,491
Other	–	–	73,673
	4,168,479	1,227,853	315,297

24. TRADE AND OTHER ACCOUNTS PAYABLE

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Accounts payable for oil transportation coordination for related parties (Note 38)	3,751,450	1,511,745	1,255,026
Accounts payable for oil transportation coordination for third parties	2,484,364	5,313,381	3,636,897
Accounts payable to third parties for goods and services	5,800,368	7,406,490	4,228,133
Accounts payable to related parties for goods and services (Note 38)	401,870	294,714	393,396
Other payables	452,916	114,291	264,516
	12,890,968	14,640,621	9,777,968

As at 31 December 2009, 31 December 2008 and 1 January 2008 trade accounts payables and other current liabilities were non-interest bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. TRADE AND OTHER ACCOUNTS PAYABLE (continued)

Trade and other accounts payables are denominated as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Tenge	12,391,576	12,289,123	9,061,974
Foreign currency	499,392	2,351,498	715,994
	12,890,968	14,640,621	9,777,968

25. ADVANCES RECEIVED

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Advances received from third parties	3,642,254	5,127,483	6,000,988
Advances received from related parties (<i>Note 38</i>)	6,454,500	2,943,995	2,572,463
	10,096,754	8,071,478	8,573,451

Advances received are denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Tenge	9,626,438	7,915,785	8,456,378
Foreign currency	470,316	155,693	117,073
	10,096,754	8,071,478	8,573,451

26. OTHER TAXES PAYABLE

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Personal Income Tax	469,609	430,996	175,279
Social Tax	198,319	222,573	224,820
Property tax	74,159	21,954	97,761
Other taxes	175,507	128,318	43,531
	917,594	803,841	541,391

27. PROVISIONS

According to the tax audit results related to the period 2003-2006 the Tax Committee of Astana city ("Tax Authority") proposed additional accrual of withholding tax payable in the amount of 3,221,780 thousand Tenge and corporate income tax in the amount of 1,267,101 thousand Tenge. On 13 February 2009 the Company made an appeal to the Ministry of Finance and Tax Committee of the Republic of Kazakhstan. On 23 February 2010 the Group received a reply from Tax Committee, which satisfied the appeal only partially (*Note 41*). As of the date these consolidated financial statements were signed the Group plans to defend its position in the court and is in process of preparation for legal proceedings (*Note 41*). The management of the Group believes that the Group might be found liable to the Tax Authority. In 2008 the management has therefore made a provision in the consolidated financial statements in the amount of 3,718,848 thousand Tenge, which it believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour.

The Group is also, currently, involved in tax disputes with Georgian Tax Authorities in respect of additional accruals of corporate income tax of 2,271 thousand US Dollars (equivalent of 336,926 thousand Tenge) and withholding tax of 1,534 thousand US Dollars (equivalent of 227,596 thousand Tenge). The management of the Group believes that the Group might be found liable to Georgian Tax Authorities. In 2009 the management has therefore made a provision in the consolidated financial statements in the amount of 564,522 thousand Tenge, which it believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. OTHER CURRENT LIABILITIES

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Salaries and wages	3,232,425	3,243,925	2,619,158
Current portion of deferred income from third parties	483,421	345,470	146,217
Current portion of deferred income from related parties (Note 38)	312,366	40,418	40,418
Accounts payable to pension fund	214,116	223,576	193,101
Other accruals	247,329	–	1,105,685
	4,489,657	3,853,389	4,104,579

29. REVENUE

<i>In thousands of Tenge</i>	2009	2008 (restated)
Crude oil transportation	97,682,797	92,047,970
Oil reloading and railway shipment	14,518,571	7,343,598
Water transportation	4,893,092	5,207,439
Pipeline operation services	3,319,662	2,597,682
Oil transportation coordination services	2,746,629	7,840,409
Oil storage services	77,058	432,022
Other	2,943,324	3,345,969
	126,181,133	118,815,089

30. COST OF SALES

<i>In thousands of Tenge</i>	2009	2008 (restated)
Personnel cost	20,220,513	18,883,508
Depreciation and amortization	16,352,902	17,500,383
Railway services	7,654,352	6,965,761
Materials and fuel	5,763,973	5,222,721
Electric energy	4,052,541	3,181,403
Repair and maintenance costs	3,973,515	4,861,432
Taxes other than corporate income tax	2,745,165	2,143,272
Gas expense	1,926,169	1,238,457
Security services	1,817,222	1,679,045
Air services	808,792	1,721,888
Business trip expenses	683,894	596,232
Environmental protection	489,834	774,500
Insurance	264,289	331,254
Diagnostics	229,742	234,678
Communication services	156,099	198,764
Other	4,303,498	3,481,671
	71,442,500	69,014,969

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

31. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of Tenge</i>	2009	2008 (restated)
Personnel costs	4,323,549	4,064,003
Depreciation and amortization	852,041	533,287
Provisions for taxes	564,522	3,718,848
Consulting	389,007	632,930
Allowance for doubtful debt	380,575	1,934,186
Expenses to write-off VAT recoverable	341,258	436,267
Office maintenance	307,916	138,887
Taxes other than corporate income tax and VAT	303,553	299,274
Business trip expenses	281,977	298,404
Operational lease expenses	242,537	100,424
Insurance and security	188,455	194,167
Social sphere expenses	158,922	313,884
Communication services	153,319	143,165
Bank costs	147,902	197,781
Charity expenses	99,066	258,804
Advertising expense	83,881	158,801
Training	73,211	71,063
Materials and fuel	63,396	105,899
(Reversal of) / Provision for allowance for obsolete and slow-moving inventories	(118,181)	58,511
Impairment of assets held for sale	–	23,674
Management fee	–	131,545
Other	267,890	949,175
	9,104,796	14,762,979

32. OTHER OPERATING INCOME

<i>In thousands of Tenge</i>	2009	2008 (restated)
Amortization of deferred income	519,071	55,474
Income from fines and penalties under oil transportation contracts	136,583	1,012,329
Amortization of financial guarantee issued to related party	67,171	56,149
Income from write-off of payables	25,038	10,258
Actuarial gains	–	211,000
Income from sale of inventory	–	34,552
Other income	344,997	449,480
	1,092,860	1,829,242

33. OTHER OPERATING EXPENSES

<i>In thousands of Tenge</i>	2009	2008 (restated)
Actuarial loss	276,474	–
Loss on disposal of property, plant and equipment and intangible assets	88,524	576,741
Expenses on impairment	56,061	–
Other expenses	703,827	437,192
	1,124,886	1,013,933

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

34. FOREIGN EXCHANGE LOSS, NET

On 4 February 2009 the Tenge devalued against the US dollar and other major currencies. The exchange rates before and after devaluation were 120 Tenge / US dollar and 150 Tenge / US dollar, respectively. Devaluation of the Tenge significantly affected the results of the Group for the year ended 31 December 2009, as the Group has significant bank loans denominated in US dollar.

35. FINANCE INCOME

<i>In thousands of Tenge</i>	2009	2008 (restated)
Interest income on bank deposits	2,192,499	2,398,127
Employees and related parties loans: unwinding of discount	91,147	263,722
Dividends income	–	79,336
	2,283,646	2,741,185

36. FINANCE COSTS

<i>In thousands of Tenge</i>	2009	2008 (restated)
Interest on loans and borrowings	1,869,050	809,765
Employee benefits: unwinding of discount	122,000	124,000
Loss on initial recognition of loans to employees and related parties	4,595	81,333
Other interest expenses	–	14,512
	1,995,645	1,029,610

37. INCOME TAX (EXPENSE) / BENEFIT

As at 31 December 2009 prepayment for income tax in the amount of 1,946,748 thousand Tenge (2008: 1,185,746 thousand Tenge; 2007: 516 thousand Tenge) represents corporate income tax.

As at 31 December 2009 income tax liabilities in the amount of 476,041 thousand Tenge (2008: 328,822 thousand Tenge; 2007: 827,340 thousand Tenge) represents corporate income tax.

Income tax expenses for the years ended 31 December comprise:

<i>In thousands of Tenge</i>	2009	2008 (restated)
Current Income tax expense	7,681,285	10,119,643
Deferred Income tax expense / (benefit)	5,174,846	(10,405,614)
Income tax	12,856,131	(285,971)

In accordance with Tax Code as in effect from 1 January 2009 the following income tax rate shall be applied in current and future periods: 20% in 2009, 17.5% in 2010 and 15% in 2011 and onwards. Reduction in future income tax rates resulted in decrease in deferred income tax liabilities in the amount of 14,404,320 thousand Tenge in 2008.

During 2009, the Tax Code was amended, according to which income tax rate shall remain at 20% in 2010 and 2011. Changes in future income tax rates resulted in increase in deferred income tax liabilities to the amount of 3,426,938 thousand Tenge in 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

37. INCOME TAX EXPENSES (continued)

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate (30% in 2008, 20% in 2009) to current income tax expense for the years ended 31 December, was as follows:

<i>In thousands of Tenge</i>	2009	2008 (restated)
Profit before income tax	28,394,563	19,772,088
Statutory rate	20%	30%
Income tax expense on accounting profit	5,678,913	5,931,626
Tax effect of permanent differences		
Non-deductible employee benefits	66,926	15,300
Non-deductible interest expenses	22,301	476,955
Adjustment of tax return for prior years	60,424	–
Representative expenses	–	141,786
Non-deductible finance aid and sponsorship	15,368	301,844
VAT non-recoverable	10,056	125,453
Fines and penalties	18,007	–
Effect of changing tax rates in recognized tax assets and liabilities	121,866	460,323
Loss / (income) from joint ventures recognized according to equity method	582,425	(1,018,225)
Effect of difference in tax rates	3,426,938	(14,404,320)
Income from excess of inventories, not recognized in accounting	–	(4,215)
Taxes other than VAT	–	94,357
Unrecognized income from transportation coordination	–	179,591
Tax provisions	112,250	1,115,654
Impairment of goodwill	261,310	5,265,940
Other permanent differences	2,479,347	1,031,960
Corporate income tax expense reported in the statement of comprehensive income	12,856,131	(285,971)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**37. INCOME TAX EXPENSES (continued)**

Deferred income tax balances, calculated by applying the statutory income tax rates in effect at the respective balance sheet dates to the temporary differences between the basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at 31 December:

<i>In thousands of Tenge</i>	31 December 2009	Charged to profit and loss	Effect of PPE uplift on acquisition in 2008	Foreign currency translation	Charged to revaluation reserve	December 2008 (restated)	Charged to profit and loss	Acquisition of business	Foreign currency translation	Charged to revaluation reserve	1 January 2008 (restated)
Property, plant and equipment	182,860	182,860	-	-	-	-	(1,438,772)	-	-	-	1,438,772
Unrecognised deferred income tax assets	(182,860)	(182,860)	-	-	-	-	2,265,134	-	-	-	(2,265,134)
Bonuses and other employee compensation and related costs	413,607	(22,293)	-	-	-	435,900	(130,382)	-	-	-	566,282
Loss carry-forward	-	-	-	-	-	-	(1,189,504)	-	-	-	1,189,504
Financial guarantee liability	60,228	11,253	-	-	-	48,975	(56,884)	-	-	-	105,859
Allowance for doubtful debts	519,160	34,090	-	-	-	485,070	317,196	-	-	-	167,874
Allowance for obsolete inventory	41,093	(24,413)	-	-	-	65,506	(29,472)	-	-	-	94,978
Taxes payable	34,751	32,121	-	-	-	2,630	(21,100)	-	-	-	23,730
Financial aid to related parties and loans to employees	35,803	24,374	-	-	-	11,429	(165,319)	-	-	-	176,748
Due to employees	-	(7,007)	-	-	-	7,007	(324,699)	-	-	-	331,706
Other temporary differences	170,436	(99,076)	-	-	-	269,512	264,514	-	-	-	4,998
Income of BIHL	364,426	364,426	-	-	-	-	-	-	-	-	-
Deferred Income	738,161	278,731	-	-	-	459,430	459,430	-	-	-	-
	2,377,665	592,206	-	-	-	1,785,459	(49,858)	-	-	-	1,835,317
Investments in joint ventures	(176,032)	(44,008)	-	-	-	(132,024)	(132,024)	-	-	-	-
Taxes	-	-	-	-	-	-	5,354	-	-	-	(5,354)
Other temporary differences	(18,024)	(18,024)	-	-	-	-	-	-	-	-	-
Property, plant and equipment	(22,870,503)	(5,705,020)	(1,695,455)	(164,919)	(1,751,322)	(13,553,787)	10,582,142	(780,276)	201,437	2,532,285	(26,089,375)
	(23,064,559)	(5,767,052)	(1,695,455)	(164,919)	(1,751,322)	(13,685,811)	10,455,472	(780,276)	201,437	2,532,285	(26,094,729)
Net deferred income tax liabilities	(20,686,894)	(5,174,846)	(1,695,455)	(164,919)	(1,751,322)	(11,900,352)	10,405,614	(780,276)	201,437	2,532,285	(24,259,412)

The deferred taxes on property, plant and equipment represent differences between tax and book base of property, plant and equipment due to different depreciation rates in tax and accounting books, fair value adjustments on acquisitions and impairment.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

38. RELATED PARTY TRANSACTIONS

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel, KazMunayGas and Samruk-Kazyna entities and other entities controlled by the Government. 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 provides the total amount of transactions, which have been entered into with related parties during 2009 and 2008 and the related balances as at 31 December 2009, 31 December 2008 and 1 January 2008:

Interest free loans to related parties are as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Interest-free loans to related parties			
Interest-free loans to entities under common control of KazMunayGas	–	3,690,753	3,515,175
Total interest-free loans to related parties	–	3,690,753	3,515,175

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

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Trade and other accounts receivable from related parties			
Trade accounts receivable from joint ventures	473,974	422,646	159,422
Trade accounts receivable from entities under common control of KazMunayGas	437,221	353,961	83,845
Trade accounts receivable from entities of Samruk-Kazyna Group	2,428	104	35
	913,623	776,711	243,302
Other accounts receivables from entities under common control	46,267	81,453	181,932
Other accounts receivables from entities under control of Samruk-Kazyna Group	–	–	9,549
Total trade and other accounts receivable	959,890	858,164	434,818

Advances provided to related parties are as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Advances to related parties			
Advances to entities under common control of KazMunayGas	230,264	–	27,998
Advances to entities of Samruk-Kazyna Group	25,345	38,435	9,145
Total advances paid to related parties	255,609	38,435	37,143

Other non-current liabilities to related parties are as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Deferred income from related parties			
Deferred income from entities under common control of KazMunayGas	1,509,766	182,715	223,133
Total other non-current liabilities to related parties	1,509,766	182,715	223,133

Cash and cash equivalents placed in banks which are related parties are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RELATED PARTY TRANSACTIONS (continued)

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Current accounts			
Halyk Bank JSC	927,098	6,707,342	–
Total current accounts placed in banks which are related parties	927,098	6,707,342	–

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Bank deposits			
Halyk Bank JSC	18,983,418	6,000,089	–
Total bank deposits placed in banks which are related parties	18,983,418	6,000,089	–

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Interest receivable on bank deposits			
Halyk Bank JSC	12,078	370,070	–
Total interest receivable on bank deposits	12,078	370,070	–

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

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Accounts payable for oil transportation coordination for related parties			
Accounts payable for oil transportation coordination for entities under common control of KazMunayGas	3,751,450	1,511,745	1,255,026
	3,751,450	1,511,745	1,255,026
Accounts payables to related parties for goods and services			
Accounts payables to entities under common control of KazMunayGas	300,106	279,123	301,126
Accounts payables to entities under control of Samruk-Kazyna Group	101,764	15,591	90,797
	401,870	294,714	391,923
Total trade and other accounts payable to related parties	4,153,320	1,806,459	1,646,949

Advances received from related parties are as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Advances received from related parties			
Advances from entities under common control of KazMunayGas	5,459,071	2,943,995	2,572,463
Advances from entities under control of Samruk-Kazyna Group	995,429	–	–
Total advances received from related parties	6,454,500	2,943,995	2,572,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RELATED PARTY TRANSACTIONS (continued)

Other current liabilities to related parties are as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Employee benefits			
Employee benefits of key management personnel	180,588	124,461	170,000
	180,588	124,461	170,000
Current portion of deferred income from related parties			
Current portion of deferred income from entities under common control of KazMunayGas	312,366	40,418	40,418
	312,366	40,418	40,418
Total other current liabilities to related parties	492,954	164,879	210,418

During years ended 31 December the Group had the following transactions with the related parties:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)
Sales to related parties:		
Transportation services to entities under common control of KazMunayGas	38,200,708	30,878,654
Transportation services to entities of Samruk-Kazyna Group	9,040,592	26,082
Transportation services to joint ventures	2,642,761	2,035,585
Income from other activities from joint ventures		
Income from other activities from entities under common control of KazMunayGas	689,278	1,248,728
Dividends income from joint ventures	765,020	627,210
Income from other activities from entities of Samruk-Kazyna Group	3,049	886
	51,341,408	34,817,145
Purchases from related parties:		
Purchases of services from entities under common control of KazMunayGas	4,174,928	4,547,321
Purchases of services from entities of Samruk-Kazyna Group	1,624,990	668,741
Purchases of inventory from entities of Samruk-Kazyna Group	-	1,911
	5,799,918	5,217,973
Interest income on bank deposits		
Halyk Bank JSC	918,431	70,762

The total remuneration of members of the key management personnel comprised:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)
Salary	105,895	154,798
Bonuses	35,455	92,701
Post-employment benefits	1,246	1,998
	142,596	249,497
Number of persons	9	11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

The various legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of local tax inspectors and officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Kazakhstan law are severe. Fines are generally 50% of any taxes additionally assessed and interest is assessed at the rate of 2.5 multiplied by official refinance rate per annum. As a result, fines and interest can amount to multiples of any unreported taxes.

The Group believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Group has accrued tax liabilities based on management's best estimate. The Group's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, fines and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2009. Although, such amounts are possible and may be material, it is the opinion of Group's management that these amounts are either not probable, not reasonably determinable, or both.

The Group's operations and financial position may be affected by Kazakhstan political developments, including the application of existing and future legislation and tax regulations. Management of the Group does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Kazakhstan.

Tax preferences

The Group has certain tax preferences related to Investment Contracts with the Committee for Investment as stated in *Note 1*. In order to use the tax preferences the Group must comply with certain requirement, such as provision of timely financial reports and use of the investment assets for designated purposes only. Management believes that as of 31 December 2009 and 2008 the Group meets the requirements.

Tax commitments of Georgian entities

According to the Tax Code of Georgia ("TCG"), tax administration is authorized to make motivated written decision on use of market prices for taxation purposes if transaction takes place between related parties. Although TCG contains certain guidance on the determination of market prices of goods and services, the mechanism is not sophisticated and there is no separate transfer pricing legislation in Georgia. Existence of such ambiguity creates uncertainties as related to the position that tax authorities might take when considering taxation of transactions between related parties.

The Georgian subsidiaries of the Group have significant transactions with off-shore subsidiaries of the Group as well as amongst each other. These transactions fall within the definition of transactions between related parties and may be challenged by tax authorities of Georgia. Management believes that it has sufficient arguments to assert that pricing of transactions between entities of the Group is at arm's length, however due to absent legislative basis for determination of market prices tax authorities might take position different from that of the Group.

Environmental matters

Kazakhstan environmental protection legislation is currently being developed and is therefore constantly being amended. Fines for violating Kazakhstan environmental protection legislation may be extremely severe. Potential liabilities that may arise as a result of a stricter interpretation of existing provisions, civil cases or changes to legislation may not be accurately assessed.

The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan regarding environmental protection. While management believes that substantial compliance with such laws and regulations has been achieved, there can be no assurances that contingent liabilities do not exist.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Insurance matters

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has full coverage for its third party liability in respect of property or environmental damage arising from accidents on Group's property. However, the Group does not have coverage in respect of interruption of transportation. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Covenants

Guarantees

At 31 December 2009 KazTransOil JSC has guaranteed to EBRD in respect of the obligations of MunayTas JSC 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:

- Current 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 31 December 2009 and 2008 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.

Borrowings

On August 28, 2008 the Company concluded a syndicate loan facility agreement with BTMU (Europe) Limited, ING Bank N.V. and Natixis (the "Creditors") for amount of 275 million US Dollars (*Note 21*), According to the Loan facility Agreement concluded between the Company and the Creditors, the Company has to comply with the following covenants:

- Current ratio of not less than 1:1;
- a ratio of Financial Debt to Earnings before interest, income tax, depreciation and amortization of not more than 3,5:1;
- a ratio of Financial Debt to Equity of not more than 2:1;
- a ratio of Earning before interest, income tax to total debt costs of not more than 2:1.

As of 31 December 2009 the Company fully complied with covenants.

Contractual commitments

As at 31 December 2009, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 10,355,911 thousand Tenge (2008: 9,146,692 thousand Tenge). In addition, as at 31 December 2009, the Group has committed to purchase inventory (materials and spare parts) and services for the amount of 4,491,628 thousand Tenge (2008: 44,917,113 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has trade receivables and cash and cash equivalents that arrive directly from its operations.

The Company is exposed to market risk, that comprises: interest rate risk, credit risk, currency risk and liquidity risk.

The management of the Group reviews and agrees policies for managing each of these risks which are summarised below.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates. The Group does not enter into any hedging instruments to mitigate any potential risks since management does not believe the interest rate risk associated with the loans is significant due to the interest rates are reviewed periodically.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

<i>In thousands of Tenge</i>	Increase / decrease in basic points	Effect on profit before tax
2009		
US dollar	+100	205,039
	-25	(51,260)
2008		
US dollar	+50	186,718
	-50	(186,718)

Credit risk

The Group trades only with recognized, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Maximal exposure is the carrying amount. There are no significant concentrations of credit risk within the Group.

The Group places deposits with Kazakhstani banks (*Note 18, 19*). The Group's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Group's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The table below shows the balances of bank accounts and deposits at the balance sheet date using the Moody's credit ratings.

Bank	Location	Rating		2009	2008
		2009	2008		
ATF Bank JSC	Kazakhstan	Ba1/ Negative	BB+/Negative/B	77	4,019,023
Halyk Bank of Kazakhstan JSC	Kazakhstan	Ba2/ Negative	BB+/ Negative /B	19,922,505	13,077,412
CITI Bank Kazakhstan JSC	Kazakhstan	F1+	A+	12	698
KazKommerstBank	Kazakhstan	Ba3/ Negative	BB/ Negative /B	5,601,012	10,379,914
SberBank of Russia JSC	Kazakhstan	Ba2/ Negative	B	13,468,304	1,681,125
RBS Bank Kazakhstan JSC	Kazakhstan	Aa3/Stable	A-1	10,468	6,115
Slavinvestbank LLC	Russia	Caa2/ Negative	BB-	10	79
Bank CenterCredit JSC	Kazakhstan	Ba1/ Negative	BB-	7	6,367,078
Alliance Bank JSC	Kazakhstan			1,199	1,344
BNP Paribas	Cyprus	AA	AA	1,016,037	–
Berenberg bank	Cyprus	not available	not available	828,668	849,437
Cartu bank	Georgia	not available	not available	739,400	308,205
TBC bank	Georgia	B+	B	47,939	27,577
Bank of Cyprus	Georgia	BBB+	F2	36,780	59,818
Popular Bank	Cyprus	not available	not available	7	17,718
Bank of Georgia	Georgia	not available	not available	–	153,035
Basis Bank	Georgia	not available	not available	5,882	3,000
VTB Bank	Georgia	not available	not available	3,771	2,444
Procredit Bank	Georgia	not available	not available	2,208	3,650
BOG Bank	Georgia	not available	not available	329	–
				41,684,615	36,957,672

Liquidity Risks

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risks (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2009 and 2008 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	Total
As at 31 December 2009						
Interest-bearing loans and borrowings	–	10,857,152	10,858,547	–	–	21,715,699
Trade and other payable	–	12,890,968	–	–	–	12,890,968
Other current liabilities	–	3,446,541	–	–	–	3,446,541
	–	27,194,661	10,858,547	–	–	38,053,208
As at 31 December 2008 (restated)						
Interest-bearing loans and borrowings	–	5,358,381	9,907,314	27,148,255	–	42,413,950
Trade and other payable	–	14,640,621	–	–	–	14,640,621
Other current liabilities	–	3,467,501	–	–	–	3,467,501
	–	23,466,503	9,907,314	27,148,255	–	60,522,072
As at 1 January 2008 (restated)						
Trade and other payable	–	9,777,968	–	–	–	9,777,968
Other current liabilities	–	2,812,259	–	–	–	2,812,259
	–	12,590,227	–	–	–	12,590,227

Currency Risk

The Group attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. The table below shows the total amount of foreign currency denominated assets and liabilities that give rise to foreign exchange exposure.

<i>In thousands of Tenge</i>	USD	RUB	EUR	GEL	UAH	GBP	Total
At 31 December 2009							
Assets	1,416,724	4,166,428	119,949	176,477	1,592	3,248	5,884,418
Liabilities	21,897,849	14,477	110,372	143,721	5	7,348	22,173,772
At 31 December 2008							
Assets	1,789,728	2,370,350	–	–	–	228,279	4,388,357
Liabilities	40,830,906	56,496	1,364	–	29	–	40,888,795
At 1 January 2008							
Assets	2,506	11,978	–	–	–	435	14,919
Liabilities	684,735	143,058	3,746	–	327	1,201	833,067

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The Group also has transactional currency exposures. Such exposure arises from revenues in US Dollars. Approximately 14% (2008: 15%) of the Group's revenue is denominated in the US Dollars, whilst about 19% (2008: 20%) of cost of sales is denominated in US Dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency Risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

<i>In thousands of Tenge</i>	Increase / decrease in US dollar rate	Effect on profit before tax
2009		
US Dollar	+10%	3,424,630
	-15%	(5,136,944)
2008		
US Dollar	+40%	16,332,362
	+25%	10,207,727

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings and trade and other payables, less cash and cash equivalents.

As at 31 December the gearing ratio is as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
Interest-bearing loans and borrowings	20,692,429	37,730,433	–
Trade and other payables	16,337,509	18,108,122	12,590,227
Less: cash and cash equivalents	(41,692,638)	(36,963,580)	(25,023,785)
Net debt	(4,662,700)	18,874,975	(12,433,558)
Capital	242,802,745	220,514,196	213,818,540
Capital and net debt	238,140,045	239,389,171	201,384,982
Gearing Ratio	(0.02)	0.08	(0.06)

Fair value hierarchy

As at 31 December 2009 the Group had the following financial instruments measured at fair value:

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2009, 31 December 2008 and 1 January 2008 the Group does not have Level 1 and Level 2 financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial instruments

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

<i>In thousands of Tenge</i>	Carrying amount			Fair Value		
	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)	31 December 2009	31 December 2008 (restated)	1 January 2008 (restated)
<i>Financial Assets</i>						
Cash and cash equivalents	16,401,503	17,824,207	24,197,156	16,401,503	17,824,207	24,197,156
Bank deposits	25,291,135	19,139,373	826,629	25,291,135	19,139,373	826,629
Trade and other receivables	7,035,257	5,669,247	2,772,702	7,035,257	5,669,247	2,772,702
Other financial assets	252,884	832,587	698,624	252,884	832,587	698,624
Interest-free loans to related party	–	3,690,753	3,515,175	–	3,690,753	3,515,175
<i>Financial liabilities</i>						
Floating rate borrowings	19,992,229	36,692,374	–	19,992,229	36,692,374	–
Fixed rate borrowings	700,200	1,038,059	–	700,200	1,038,059	–
Trade and other payables	12,890,968	14,640,621	9,777,968	12,890,968	14,640,621	9,777,968
Other financial liabilities	3,446,541	3,467,501	2,812,259	3,446,541	3,467,501	2,812,259

The carrying amount of cash, trade accounts receivable, other current assets, trade accounts payable and other current liabilities approximates their fair value due to the short-term maturity of these financial instruments.

The fair value of interest-bearing borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

41. SUBSEQUENT EVENTS

Starting from 1 January 2010 the Group uses new rates approved by the Agency of the Republic of Kazakhstan on regulation of natural monopolies applied to oil delivery services through the system of long-distance pipelines for export, oil storage in reservoirs and transshipment of oil at Makat transshipment terminal to Kenkiyak-Atyrau oil pipeline and oil loading to railroad tanks at Atyrau transshipment terminal. Export rates increased by 10.4 %.

Starting from 26 January 2010 Ukraine-based UkrTransNafta officially terminated the agreement on Kazakhstani oil transit through Ukraine. KazTransOil had to stop oil transportation to Slovakia (Budkovec) through Ukraine and start using a different route via Poland (Gdansk).

On 23 February 2010, the Group received a reply from Tax Committee, which partially addressed an appeal dated from 13 February 2009 (Note 27). The Group plans to appeal to the Specialized Regional Economic Court of Astana city the decision of the Tax Committee.