

KazTransOil JSC

Separate Financial Statements

*For the year ended 31 December 2010
With Independent Auditors' Report*

CONTENT

	Page
Independent Auditors' Report	
 Separate Financial Statements	
Separate Statement of Financial Position-----	1-2
Separate Statement of Comprehensive Income-----	3
Separate Statement of Cash Flows-----	4-5
Separate Statement of Changes in Equity -----	6
Notes to the Separate Financial Statements -----	7-43

INDEPENDENT AUDITORS' REPORT

To the Shareholder of KazTransOil JSC:

We have audited the accompanying separate financial statements of KazTransOil JSC ("the Company"), which comprise the separate statement of financial position as at 31 December 2010, and separate statement of comprehensive income, separate statement of changes in equity and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements

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

Auditors' responsibility

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

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

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

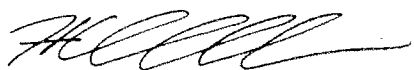
Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP



Nicholas Rytel
Audit Partner



Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP



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

Auditor Qualification Certificate No. 0000553
dated 24 December 2003

28 February 2011

SEPARATE STATEMENT OF FINANCIAL POSITION

<i>In thousands of Tenge</i>	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	6	283,285,955	207,428,959
Intangible assets	7	1,282,147	1,155,570
Investments in subsidiaries	8	33,959,848	33,810,382
Investments in joint ventures	9	7,404,945	7,404,945
Borrowings due from related parties	10	134,120	121,806
Advances to suppliers for property, plant and equipment	11	389,139	1,854,261
Other non-current assets		170,206	194,829
		326,626,360	251,970,752
Current assets			
Inventories	12	2,326,533	2,415,931
Trade and other accounts receivable	13	5,895,467	6,002,379
Borrowings due from related parties	10	493,803	493,506
Advances to suppliers	14	480,262	534,744
Prepayment for corporate income tax	34	1,334,062	1,780,885
VAT recoverable and other prepaid taxes	15	4,573,841	3,977,062
Other current assets	16	62,080	1,088,462
Short-term bank deposits	17	40,446,533	24,596,351
Cash and cash equivalents	18	13,862,027	14,307,399
		69,474,608	55,196,719
TOTAL ASSETS		396,100,968	307,167,471

SEPARATE STATEMENT OF FINANCIAL POSITION

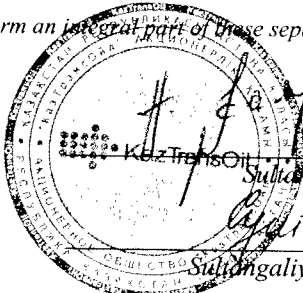
(continued)

<i>In thousands of Tenge</i>	Note	31 December 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity			
Share capital	19	32,916,055	32,916,055
Revaluation reserve	19	107,443,800	45,031,683
Other reserves	19	17,169	17,169
Retained earnings		187,082,304	158,178,492
Total equity		327,459,328	236,143,399
Non-current liabilities			
Loans and borrowings	20	—	9,753,472
Financial guarantee issued on behalf of related party		473,616	614,573
Employee benefit liability	21	2,580,804	2,337,120
Deferred tax liabilities	34	31,293,654	16,673,324
Deferred income	35	1,197,401	1,509,766
Other non-current liabilities		8,465	7,731
		35,553,940	30,895,986
Current liabilities			
Loans and borrowings	20	—	10,238,757
Employee benefit liability	21	141,000	131,880
Trade and other accounts payable	22	14,020,152	12,466,003
Advances received	23	10,757,712	9,676,531
Other taxes payable	24	474,420	276,439
Provisions for taxes	25	3,718,848	3,718,848
Other current liabilities	26	3,975,568	3,619,628
		33,087,700	40,128,086
TOTAL EQUITY AND LIABILITIES		396,100,968	307,167,471

The accounting policy and explanatory notes on pages 7 through 43 form an integral part of these separate financial statements

General Director

Chief Accountant


 Sultan N.S.
 Sultanaliyeva Zh.O.

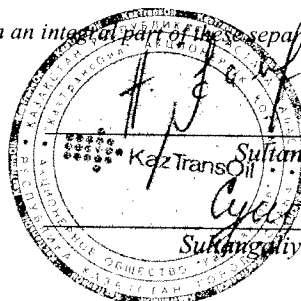
SEPARATE STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of Tenge</i>	Note	For the years ended 31 December	
		2010	2009
Revenue	27	121,138,542	107,101,391
Cost of sales	28	(68,322,050)	(56,240,643)
Gross profit		52,816,492	50,860,748
General and administrative expenses	29	(5,287,515)	(6,708,827)
Other operating income	30	2,066,134	1,069,265
Other operating expenses	31	(641,724)	(661,909)
Reversal / (impairment) of investments in subsidiaries	8	149,466	(1,582,180)
Impairment of property, plant and equipment	6	(13,435,254)	(337,253)
Operating profit		35,667,599	42,639,844
Net foreign exchange loss		(274,514)	(7,043,133)
Finance income	32	1,813,584	2,231,585
Finance costs	33	(779,179)	(1,931,687)
Dividend income from joint ventures		376,871	765,020
Profit before income tax		36,804,361	36,661,629
Income tax expense	34	(7,853,109)	(12,251,809)
Net profit for the year		28,951,252	24,409,820
Other comprehensive income, net of tax			
Impairment of assets		(6,324,124)	(191,756)
Revaluation of property, plant and equipment		76,029,081	574,662
Total other comprehensive income, net of tax		69,704,957	382,906
Total comprehensive income for the year		98,656,209	24,792,726

The accounting policy and explanatory notes on pages 7 through 43 form an integral part of these separate financial statements

General Director

Chief Accountant



SukKangaliyeva Zh.O.

SEPARATE STATEMENT OF CASH FLOWS

In thousands of Tenge

For the years ended 31 December

	Note	2010	2009
Cash flows from operating activities:			
Profit before income tax		36,804,361	36,661,629
Adjustments for:			
Depreciation and amortization	28, 29	20,200,668	15,314,745
Allowance for doubtful debts	29	(2,146,343)	358,450
Finance costs	33	779,179	1,931,687
Finance income	32	(1,813,584)	(2,231,585)
(Reversal) / impairment of investments in subsidiaries		(149,466)	1,582,180
Actuarial losses	31	27,000	276,474
Employee benefits		203,000	191,000
Loss / (gain) on disposal of property, plant and equipment and intangible assets, net	30, 31	112,982	(12,378)
Dividend income from joint ventures		(376,871)	(765,020)
Impairment of property plant and equipment		13,435,254	337,253
Income from write-off of payables	30	(28,425)	(8,100)
Write-off of loans given to employees		1,875	–
Inventory adjustment	30	–	(1,572)
Amortization of deferred income	30	(312,366)	(356,232)
Amortization of financial guarantee issued on behalf of related party	30	(136,934)	(137,083)
Write-off of VAT recoverable	29	328,877	341,258
Unrealized foreign exchange loss		274,514	7,238,015
Reversal of provision for slow-moving and obsolete inventories	29	(2,984)	(121,009)
Operating cash flows before working capital changes:		67,200,737	60,599,712
Changes in inventories		2,798,397	(79,562)
Changes in trade and other accounts receivable		(143,904)	(2,029,372)
Changes in advances to suppliers		54,691	(273,319)
Changes in taxes recoverable and other current assets		1,572,196	(42,488)
Changes in trade and other accounts payable		1,580,139	(153,085)
Changes in advances received		1,081,181	1,616,524
Changes in taxes payable		197,981	(353,570)
Changes in other current and non-current liabilities		231,179	(26,853)
Cash generated from operations:		74,572,597	59,257,987
Income tax paid		(10,004,008)	(8,200,583)
Interest received		1,285,369	3,230,306
Interest paid		(286,934)	(2,100,778)
Net cash flow from operating activities		65,567,024	52,186,932

SEPARATE STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge

For the years ended 31 December

	Note	2010	2009
Cash flows from investing activities:			
Withdrawal of term deposits		50,456,822	44,921,427
Placement of term deposits		(66,000,000)	(49,790,376)
Repayment of loans provided to related parties		5,400	3,880,941
Dividends received		908,485	1,214,930
Purchase of property, plant and equipment		(23,721,874)	(23,903,192)
Proceeds from disposal of property, plant and equipment and intangible assets		739	841,872
Purchase of intangible assets		(121,038)	(84,884)
Decrease in other non-current financial assets		-	21,507
Net cash flow used in investing activities		(38,471,466)	(22,897,775)
Cash flows from financing activities:			
Repayment of loans and borrowings		(20,200,650)	(25,342,560)
Dividends paid		(7,340,280)	(6,023,638)
Net cash flow used in financing activities		(27,540,930)	(31,366,198)
Net change in cash and cash equivalents		(445,372)	(2,077,041)
Cash and cash equivalents at the beginning of the year	18	14,307,399	16,384,440
Cash and cash equivalents at the end of the year	18	13,862,027	14,307,399

NON-CASH TRANSACTIONS

The following non-cash transactions have been excluded from the separate statement of cash flows:

Depreciation included in cost of inventory

The amount of depreciation for 2010 included in cost of inventory was 13,021 thousand Tenge (2009: 15,164 thousand Tenge).

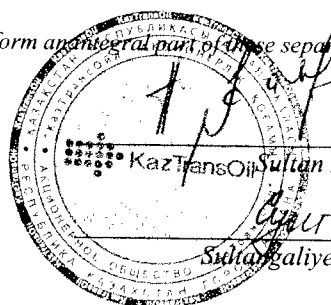
Deferred income

In 2009 the Company recognized deferred income of 1,874,193 thousand Tenge from reconstruction of railroad overpass which was received free-of-charge. Deferred income amortized in 2010 amounted to 312,366 thousand Tenge (2009: 356,232 thousand Tenge).

The accounting policy and explanatory notes on pages 7 through 43 form an integral part of these separate financial statements

General Director

Chief Accountant



KazTransOil

Sultan N.S.

Sultan Galiyeva Zh.O.

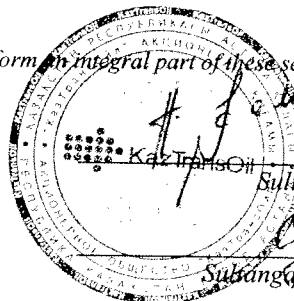
SEPARATE STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Note	Share capital	Revaluation reserve	Other reserves	Retained earnings	Total
As at 31 December 2008		32,916,055	49,581,467	17,169	134,859,620	217,374,311
Net profit for the year		–	–	–	24,409,820	24,409,820
Impairment of property, plant and equipment		–	(191,756)	–	–	(191,756)
Revaluation of property, plant and equipment		–	574,662	–	–	574,662
Total comprehensive income for the year		–	382,906	–	24,409,820	24,792,726
Amortisation of revaluation reserve		–	(4,932,690)	–	4,932,690	–
Dividends	19	–	–	–	(6,023,638)	(6,023,638)
As at 31 December 2009		32,916,055	45,031,683	17,169	158,178,492	236,143,399
Net profit for the year		–	–	–	28,951,252	28,951,252
Impairment of property, plant and equipment		–	(6,324,124)	–	–	(6,324,124)
Revaluation of property, plant and equipment		–	76,029,081	–	–	76,029,081
Total comprehensive income for the year		–	69,704,957	–	28,951,252	98,656,209
Amortisation of revaluation reserve		–	(7,292,840)	–	7,292,840	–
Dividend	19	–	–	–	(7,340,280)	(7,340,280)
As at 31 December 2010		32,916,055	107,443,800	17,169	187,082,304	327,459,328

The accounting policy and explanatory notes on pages 7 through 43 form an integral part of these separate financial statements

General Director

Chief Accountant



Sultan N.S.

Sukangaliyeva Zh.O.

NOTES TO THE SEPARATE 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, in accordance with the requirements of Kazakhstani legislation the Company was reregistered as KazTransOil Joint Stock Company (the "Company").

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

As at 31 December 2010 and 2009, the Company had interest ownership in the following companies:

	Place of incorporation	Principal activities	Interest ownership	
			31 December 2010	31 December 2009
KTO-Service LLP ("KTO-Service")	Kazakhstan	Management of non-production assets	100%	100%
SZTK MunayTas JSC ("MunayTas")	Kazakhstan	Oil transportation	51%	51%
Kazakhstan-China Pipeline LLP ("KCP")	Kazakhstan	Oil transportation	50%	50%
Batumi Capital Partners Limited ("BCPL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products	50%*	50%*
«Batumi Industrial Holdings Limited» («BIHL»)	Cyprus*	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	100%*	100%*

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

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

The Company operates network of main oil pipelines of 5,310 km and water pipelines of 2,155 km within the Republic of Kazakhstan. Also the Company is engaged in storage, loading, transshipment or transfer of crude oil to other related pipeline systems. Company's joint ventures MunayTas and KCP operate Kenkiyak-Atyrau and Atasu-Alashankou pipelines used for transportation of Kazakhstani crude oil to China. Company's subsidiary BIHL operates Batumi Sea Port and Batumi Oil Terminal.

These separate financial statements were approved for issue by the General Director and the Chief Accountant of the Company on 28 February 2011.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**2. POLITICAL AND ECONOMIC 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 Company and its counterparties, which could affect the Company's financial position, results of operations and business prospects.

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

3. BASIS OF PREPARATION

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

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

In addition to these separate financial statements, the Company prepares consolidated financial statements as required by IAS 27. A copy of the consolidated financial statements can be obtained from the Company's head office (*Note 1*).

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's separate financial statements requires management of the Company 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 2010 (previous revaluation was performed 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 methods used to fair value property, plant and equipment were the cost (for specialised assets – depreciated replacement cost approach), the comparative (using comparative sales method) and the income approaches.

In applying the cost approach, key assumptions considered were:

- full reconstruction or replacement cost (amount of expenses on production of an asset with comparable utility by using project and materials, same with those used in the market at the moment);
- remaining useful life;
- depreciable life;
- depreciation (physical depreciation, functional depreciation, economical deterioration).

Comparative approach was used implicitly, in terms of cost method, for calculation of fair value of fixed assets, for which there were active market and available information on sales bids for similar assets (not specialised property, vehicles, pressure and lifting equipment). Comparative approach supposes comparing revalued asset with sales of similar assets, which have taken place in the market. In majority of cases the value was identified on the basis of offer prices.

Income approach procedures were performed for identification of economical deterioration.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)***Revaluation of property, plant and equipment (continued)*

The most significant assumptions affecting profitability test are:

- transportation volumes;
- long term growth rate (inflation rate) – 3.54 percent;
- discounting rate – 11.6 percent;
- liquidation cost of the fixed assets in the end of forecast period – 5% of fixed assets cost (excluding land and technological oil).

No economical obsolescence has been revealed as a result of income approach valuation.

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

Revaluation of technological oil

Technological oil was revalued as of 30 September 2010. Revaluation was performed by an independent appraiser.

The following judgements were taken into account by the Company'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 Company 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 Company 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 to reflect fair value for the technological oil in pipeline that would be determined by informed market participant would be 143 US Dollars per tonne as of 30 September 2010 (21,111 Tenge) (2009: USD 125 (18,579 Tenge) per tonne). As a result of test on adequate profitability in terms of revaluation of technological oil by using income approach no economical deterioration was revealed.

As of 31 December 2010, the amount of oil in the pipeline included as part of property, plant and equipment was 2,136 thousand tons (2009: 2,101 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 Company believes that environmental law relating to extractive industry is not applicable to the Company's operations. However, dismantling of pipeline and land reclamation upon retirement is required by land lease agreements with local authorities. The Company sells pipelines upon abandonment and all dismantling and land reclamation costs are covered by the of the pipelines. As a result, no asset retirement obligation as of 31 December 2010 and 2009 were recognized in these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)***Impairment of property, plant and equipment*

The Company 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 Company 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 Company 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 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 2010 the Company recognized an impairment of 21,340,409 thousand Tenge (2009: 554,287 thousand Tenge), where the impairment of 13,435,254 thousand Tenge (2009: 337,253 thousand Tenge) was recognized in the separate statement of comprehensive income and 7,905,155 thousand Tenge (6,324,124 thousand Tenge, net of tax) was recognized directly in equity (2009: 239,695 thousand Tenge) (*Note 6*).

Useful lives of items of property, plant and equipment

The Company 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".

Allowances

The Company makes allowances for doubtful accounts receivable. Significant judgments are use in estimating doubtful accounts, advances paid and other assets. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the separate financial statements. As of 31 December 2010 and 2009, allowances for doubtful accounts have been created for the amount of 548,788 thousand Tenge and 2,588,276 thousand Tenge, respectively (*Notes 11, 13 and 14*).

Deferred tax assets

Deferred tax assets are recognized for all provisions for doubtful debts, allowances for slow-moving inventories and accruals 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 2010 was 2,614,144 thousand Tenge (2009: 2,269,916 thousand Tenge) (*Note 34*).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)***Tax provisions*

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Company 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 Company, 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 Company may be liable for and the amount is subject to change depending on the outcome of the legal proceedings. As of 31 December 2010, tax provision in the separate financial statements amounted to 3,718,848 thousand Tenge (2009: 3,718,848 thousand Tenge), what the management of the Company believes to be the best estimate of the amount the Company may be required to pay if the legal proceedings are found to be not in the claimants favour (*Note 25*).

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Changes in Accounting Policies and disclosures**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010.

New and amended standards and interpretations

- IFRS 2 *Share-based Payment (Revised): Vesting Conditions and Cancellations* effective 1 January 2010
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31, and IAS 39
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Company adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Company.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and had no material impact on the separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Company.

Improvements to IFRSs

In May 2008 and April 2009, the IASB 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 or performance of the Company.

Issued in May 2008

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Company.

Issued in April 2009

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Company.

IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The amendment has no impact on the financial position nor financial performance of the Company.

IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The amendment has no impact on the financial position nor financial performance of the Company.

IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Company as the annual impairment test is performed before aggregation.

IFRS and Interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***IFRS and Interpretations issued but not yet effective (continued)**IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Company after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Company.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Company:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

Foreign currency translation

These separate financial statements are presented in Tenge, which is the Company's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of separate statement of financial position. All differences are taken to profit or loss. Non-monetary items that are measured in items of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Foreign currency translation (continued)***Exchange rates*

The currency exchange rate of KASE as of 31 December 2010 and 2009 was 147.40 Tenge to 1 US dollar and 148.36 Tenge to 1 US dollar, respectively. This rate was used to translate monetary assets and liabilities denominated in US dollars as of 31 December 2010.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less any impairment in value in these separate financial statements.

The Company assesses at each balance sheet date whether there is any objective evidence that an investment in a subsidiary may be impaired. If any such indication exists, the Company makes an estimate of the investment's recoverable amount. Investment's recoverable amount is higher of an investment's fair value less costs to sell and its value in use and is determined for an individual investment. Where the cost of an investment exceeds its recoverable amount, the investment 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 investments. In determining fair value less costs to sell several methods are applied. These calculations, if applicable, are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment loss is recognized as current expenses in the period when impairment is recognized.

Share in joint ventures

Investments in joint ventures are accounted for in these separate financial statements at initial cost less impairment. As discussed in *Note 1*, the Company participates in three jointly controlled entities, BCPL, KCP and MunayTas; however, due to the fact that the Company directly and indirectly owns 100% of BCPL shares, investments in BCPL were included in investments in BIHL subsidiaries (*Note 8*).

Property, plant and equipment

Property, plant and equipment are stated at revalued cost less accumulated depreciation and impairment. 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 – 60
Machinery and equipment	5 – 40
Pipelines and other transportation assets (excluding technological oil)	10 – 50
Other	2 – 20

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the income statement 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 operating income and expenses.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revaluation of property, plant and equipment**

The Company 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 separate income statement, in which case the increase is recognized in the separate income statement. 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. Transfer from revaluation reserve to retained earnings is included in separate statement of changes in equity.

Upon the retirement or disposal of property, plant and equipment the surplus of the revaluation reserve is transferred directly to retained earnings. This transfer is included in separate statement of changes in equity.

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 immediately upon abandonment of the pipelines.

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 as current period expenses consistent with the function of the intangible asset.

Impairment of non-financial assets

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****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 Company 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 Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

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 Company 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 recognised in profits and losses in finance costs and removed from the available-for-sale reserve.

The Company evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Company 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 Company 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 the profits and losses.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***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 Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass through” arrangement; or the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company’s continuing involvement in the asset.

In that case, the Company 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 Company 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 Company could be required to repay.

Impairment of financial assets

The Company 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 Company 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 Company 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 income statement. 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 income statement. 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 Company. 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 income.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****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 Company 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 Company's financial liabilities include trade and other payables, loans and borrowings and financial guarantee contract.

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 Company 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.

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 income statement 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 Company 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 and bank deposits

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. Bank deposits include deposits with original maturities over three months.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****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 statement of financial position on a net basis.

Due to specifics of tax legislation and the Company'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.

Employee benefits

The Company 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, significant 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 separate income statement, 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 income statement 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 Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects 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 borrowing cost.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company 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 services, is recognized based on actual volumes of oil and water transported in the reporting period.

Rendering of other services

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

Income tax

Income tax for the year comprises current income tax and deferred income 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 and not in the separate statement of comprehensive income.

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 carryforward 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Income tax (continued)**

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

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.

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 separate financial statements are authorized for issue.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

Separate Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of Tenge</i>	Land	Pipelines	Transportati on assets	Buildings	Machinery and equipment	Technolo- gical oil	Other	Construc- tion in progress	Total
Net book value as at 1 January 2009	450,861	52,622,416	4,639,260	23,829,043	63,333,967	38,319,922	8,518,055	7,652,205	199,365,729
Additions	58,110	25,595	1,589,151	77,326	1,454,591	297,200	476,964	21,407,276	25,386,213
Disposals	(10,852)	(298,364)	(33,443)	(51,647)	(831,671)	(150,879)	(1,613,088)	(275,538)	(3,265,482)
Depreciation	-	(4,399,467)	(643,508)	(1,337,850)	(7,129,224)	-	(1,357,258)	-	(14,867,307)
Accumulated depreciation on disposals	-	265,771	26,633	10,912	376,525	-	162,522	-	842,363
Impairment (included in net profit)	-	(129,751)	-	(18,237)	(24,056)	(140,549)	(10,814)	-	(354,592)
Impairment (revaluation reserve)	-	(206,903)	-	(13,961)	(18,457)	-	(374)	-	(239,695)
Increase on account of revaluation reserve	-	-	-	-	-	718,327	-	-	718,327
Recovery of impairment reserve (included in net profit)	-	-	-	-	-	-	-	-	-
Transfer from construction-in-progress	-	-	-	-	897	4,393	49	12,000	17,339
Transfer to intangible assets (Note 7)	469	4,617,660	30,024	4,322,553	9,094,599	-	1,269,012	(19,334,317)	-
Transfers and reclassifications	-	2,074,273	(532,915)	-	-	-	-	(173,936)	(173,936)
Net book value as at 1 January 2010	498,588	54,571,230	5,075,202	26,953,830	64,520,100	39,048,414	7,505,090	9,256,505	207,428,959
Additions	30,603	50,989	559,686	18,044	1,147,359	18,575	686,812	20,273,915	22,785,983
Disposals	(18)	(1,115,453)	(33,924)	(60,019)	(106,082)	(17,784)	(105,337)	(269,506)	(1,708,123)
Depreciation	-	(6,880,516)	(891,809)	(3,360,340)	(7,059,643)	-	(1,542,869)	-	(19,735,177)
Accumulated depreciation on disposals	-	1,090,917	31,991	20,631	65,967	-	92,916	-	1,302,422
Impairment (included in net profit)	(82,396)	(4,208,402)	(343,117)	(2,655,036)	(5,594,179)	-	(582,369)	(41,856)	(13,507,355)
Impairment (revaluation reserve)	-	(1,328,547)	(19,990)	(88,319)	(6,439,527)	-	(28,772)	-	(7,905,155)
Increase on account of revaluation reserve	2,740,477	41,180,232	1,172,471	33,681,382	8,783,966	5,969,407	781,617	726,799	95,036,351
Recovery of impairment reserve (included in net profit)	-	-	-	-	-	72,101	-	-	72,101
Transfer from construction-in-progress	15,938	4,413,219	3,991	7,468,191	9,696,080	-	1,545,671	(23,143,090)	-
Transfer to intangible assets (Note 7)	-	-	-	-	-	-	-	(484,051)	(484,051)
Transfers and reclassifications	-	3,163,996	(230,904)	(12,039)	(3,132,516)	-	184,627	26,836	-
Net book value as at 31 December 2010	3,203,192	90,937,665	5,323,597	61,966,325	61,881,525	45,090,713	8,537,386	6,345,552	283,285,955
As at 31 December 2010									
At revalued cost	3,203,192	96,730,100	5,862,218	64,566,980	65,268,282	45,090,713	9,288,580	6,477,020	296,487,085
Impairment	-	(579,293)	(10,297)	(18,877)	(68,501)	-	(4,739)	(131,468)	(813,175)
Accumulated depreciation	-	(5,213,142)	(528,324)	(2,581,778)	(3,318,256)	-	(746,455)	-	(12,387,955)
Net book value	3,203,192	90,937,665	5,323,597	61,966,325	61,881,525	45,090,713	8,537,386	6,345,552	283,285,955
As at 31 December 2009									
At revalued cost	498,588	70,974,890	6,480,266	30,190,860	81,177,141	50,923,331	10,261,475	9,363,976	259,870,527
Impairment	-	(704,400)	-	(32,547)	(43,581)	(11,874,917)	(11,188)	(107,471)	(12,774,104)
Accumulated depreciation	-	(15,699,260)	(1,405,064)	(3,204,483)	(16,613,460)	-	(2,745,197)	-	(39,667,464)
Net book value	498,588	54,571,230	5,075,202	26,953,830	64,520,100	39,048,414	7,505,090	9,256,505	207,428,959

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment have been revalued to fair value at 30 June 2010, except for technological oil, that was revalued at 30 September 2010. The revaluation was performed based on the reports of independent appraiser, who hold a recognised and relevant professional qualification and experience (Note 4).

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

As of 31 December 2010 and 2009, construction-in-progress ("CIP") mainly includes oil transportation assets under construction: pumping stations, reservoirs; reconstruction and enlargement of: industry safety systems of production facilities, oil pumping station "Kenkiyak", industrial process and production and technological communication automation system.

As of 31 December 2010 and 2009, construction-in-progress includes inventories totalling to 542,388 thousand Tenge and 1,174,163 thousand Tenge, respectively, purchased for construction purposes.

As of 31 December 2010 and 2009, the cost of fully depreciated but still in use property, plant and equipment was 184,621 thousand Tenge and 8,701,103 thousand Tenge, respectively.

As of 31 December 2010 and 2009, the cost of property, plant and equipment which temporarily are not in use was 1,437,698 thousand Tenge and 879,841 thousand Tenge, respectively.

The carrying value of each revalued class of property, plant and equipment that would have been recognized in the separate 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 31 December 2009	498,588	20,551,285	46,081,138	39,067,769	3,716,469	1,147,561	5,588,314	9,256,505	125,907,629
At 31 December 2010	545,111	26,468,040	48,595,176	43,015,633	3,442,977	1,165,650	6,835,414	5,660,609	135,728,611

7. INTANGIBLE ASSETS

In thousands of Tenge

	Licenses	Software	Other	Total
Net book value at 1 January 2009	56,327	1,275,331	28,014	1,359,672
Additions	2,894	61,795	20,195	84,884
Disposals	–	(5,364)	–	(5,364)
Amortisation	(16,912)	(431,344)	(14,344)	(462,600)
Accumulated amortisation on disposals	–	5,042	–	5,042
Transfer from construction-in-progress (Note 6)	–	173,936	–	173,936
Net book value at 1 January 2010	42,309	1,079,396	33,865	1,155,570
Additions	658	111,055	9,325	121,038
Disposals	–	(25,262)	–	(25,262)
Amortisation	(15,077)	(448,924)	(14,511)	(478,512)
Accumulated amortisation on disposals	–	25,262	–	25,262
Transfer from construction-in-progress (Note 6)	234,547	249,504	–	484,051
Transfers and reclassifications	–	325	(325)	–
Net book value at 31 December 2010	262,437	991,356	28,354	1,282,147
As at 31 December 2010				
At cost	317,950	3,175,318	71,216	3,564,484
Accumulated amortisation	(55,513)	(2,183,962)	(42,862)	(2,282,337)
Net book value	262,437	991,356	28,354	1,282,147
As at 31 December 2009				
At cost	82,745	2,839,696	62,216	2,984,657
Accumulated amortisation	(40,436)	(1,760,300)	(28,351)	(1,829,087)
Net book value	42,309	1,079,396	33,865	1,155,570

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**8. INVESTMENTS IN SUBSIDIARIES**

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
KTO-Service	16,435,919	16,435,919
Less: impairment of investments in KTO-Service	(11,997,488)	(12,146,954)
	4,438,431	4,288,965
BIHL	39,061,750	39,061,750
Less: impairment of investments in BIHL	(15,095,694)	(15,095,694)
	23,966,056	23,966,056
BCPL	8,012,800	8,012,800
Less: impairment of investments in BCPL	(2,457,439)	(2,457,439)
	5,555,361	5,555,361
	33,959,848	33,810,382

Movements in the provision for impairment of investments in subsidiaries were as follows:

<i>In thousands of Tenge</i>	2010	2009
As at 1 January	29,700,087	28,117,907
Charge for the year	218,861	1,582,180
Reversal of allowance	(368,327)	—
As at 31 December	29,550,621	29,700,087

On 23 October 2009 and 25 December 2009, the Company contributed property, plant and equipment into the charter capital of KTO – Service. Net book value of property, plant and equipment at the dates of contribution was 622,468 thousand Tenge and 971,479 thousand Tenge, respectively.

As at 31 December 2010, provision for impairment of 29,550,621 thousand Tenge has been recognized in the separate statement of financial position. Net change in impairment allowance on investments was 149,466 thousand Tenge, as the recoverable amount of cash generating units was exceeding its carrying values. The recoverable amount was based on the value in use and was determined at the level of the cash generating units. In determining value in use for the cash-generating unit, the cash flows for KTO-Service, BIHL and BCPL were discounted on a pre-tax basis at a rate of 11.6% (2009: 15.51%), 16.54% (2009: 22.04-23.71%) on the basis of two cash generating units, respectively.

9. INVESTMENTS IN JOINT VENTURES

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
KCP	6,500,000	6,500,000
MunayTas	904,945	904,945
	7,404,945	7,404,945

10. BORROWINGS DUE FROM RELATED PARTIES

As at 31 December 2010 loans to related parties represent financing provided to KTO-Service, amounting to 627,923 thousand Tenge (as at 31 December 2009 - 615,312 thousand Tenge). At initial recognition amounts due from KTO-Service were recorded at the fair values using 9 % discount rate, and thereafter carried at amortized cost. The due amount is to be repaid during 2011-2012.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**11. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT**

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Advances to third parties for property, plant and equipment	488,469	1,953,591
Less: allowance for non-performance	(99,330)	(99,330)
	389,139	1,854,261

Movement in allowance for doubtful debts was as follows:

<i>In thousands of Tenge</i>	2010	2009
As at 1 January	99,330	134,846
Charge for the year	—	4,490
Reversal of allowance	—	(40,006)
As at 31 December	99,330	99,330

12. INVENTORIES

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Spare parts	1,124,799	1,558,613
Fuel	830,814	771,458
Construction materials	23,688	37,692
Other	400,284	253,633
Less: provision for slow-moving and obsolete inventory	(53,052)	(205,465)
	2,326,533	2,415,931

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

<i>In thousands of Tenge</i>	2010	2009
As at 1 January	205,465	327,532
Charge for the year	3,131	151,099
Write-off of inventories	(149,429)	(1,058)
Reversal of provision	(6,115)	(272,108)
As at 31 December	53,052	205,465

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**13. TRADE AND OTHER ACCOUNTS RECEIVABLE***In thousands of Tenge***31 December 2010** 31 December 2009

Accounts receivable for oil transportation coordination	4,034,085	4,722,309
Trade accounts receivable from related parties (Note 35)	1,262,382	912,789
Other accounts receivable from third parties	623,179	492,148
Trade accounts receivable from third parties	368,904	140,669
Other accounts receivable from related parties (Note 35)	55,281	46,267
Less: allowance for impairment of trade and other accounts receivable	(448,364)	(311,803)
	5,895,467	6,002,379

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

*In thousands of Tenge***2010**

2009

As at 1 January	311,803	400,701
Charge for the year	63,150	76,120
Write-off of receivable	–	(88,689)
Reversal of allowance	(33,444)	(63,250)
Reclassifications	106,855	(13,079)
As at 31 December	448,364	311,803

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

Past due but not impaired

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
2009	6,002,379	5,631,639	–	56,102	5,263	9,987	299,388
2010	5,895,467	4,972,582	826,521	52,022	32,298	12,034	10

The current amounts of the Company's trade and other accounts receivables are denominated in the following currencies:

*In thousands of Tenge***31 December 2010** 31 December 2009

Foreign currencies	4,037,675	4,718,196
Tenge	1,857,792	1,284,183
	5,895,467	6,002,379

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**14. ADVANCES TO SUPPLIERS***In thousands of Tenge*

	31 December 2010	31 December 2009
Advances to related parties (Note 35)	277,137	255,589
Advances to third parties	204,219	280,458
Less: provision for non-performance	(1,094)	(1,303)
	480,262	534,744

Movements in allowance for doubtful debts were as follows:

<i>In thousands of Tenge</i>	2010	2009
As at 1 January	1,303	216
Charge for the year	1,097	1,393
Reversal of provision	(1,306)	(306)
As at 31 December	1,094	1,303

15. VAT RECOVERABLE AND OTHER TAXES PREPAID*In thousands of Tenge*

	31 December 2010	31 December 2009
VAT recoverable	2,522,838	2,285,410
Withholding tax (Note 25)	1,592,899	1,592,382
Other taxes prepaid	458,104	99,270
	4,573,841	3,977,062

During 2010, there were significant accrual of output VAT, that was partially offset using accumulated input VAT. Accordingly, the Group reversed impairment of input VAT of 2,175,840 thousand Tenge accrued in prior periods.

16. OTHER CURRENT ASSETS*In thousands of Tenge*

	31 December 2010	31 December 2009
Due from employees	51,670	43,423
Prepaid insurance	8,971	3,074
Deferred expenses	1,439	552,139
Dividends receivable	—	489,826
	62,080	1,088,462

17. SHORT-TERM BANK DEPOSITS*In thousands of Tenge*

	31 December 2010	31 December 2009
Short-term bank deposits	40,000,000	24,576,303
Accrued interest on deposits	446,533	20,048
	40,446,533	24,596,351

At 31 December 2010 short-term bank deposits comprised Tenge denominated time deposits with Kazakhstani banks with maturity from 3 to 12 months, which earn interest of 4% to 7% per annum (2009: 5 – 6% per annum) and repayable in December 2011 (2009: May 2010) (Note 37).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**18. CASH AND CASH EQUIVALENTS***In thousands of Tenge*

	31 December 2010	31 December 2009
Current accounts with banks – Tenge	9,731,884	10,590,562
Time deposits with banks – Tenge	4,000,000	–
Current accounts with banks – US Dollars	109,747	68,333
Current accounts with banks – Russian Rouble	11,844	3,646,702
Cash on hand	1,143	1,619
Other current accounts with banks	7,409	183
	13,862,027	14,307,399

At 31 December 2010 and 2009, most current accounts with Kazakhstani banks carried interest ranging from 2% and 3% per annum, respectively.

19. EQUITY**Share capital**

Company's share capital comprises common shares with par value of 1,000 Tenge. As at 31 December 2010 and 2009 all Company's common shares were authorized, issued and fully paid.

Payments to the shareholder*Dividends*

During 2010, the Company declared and paid dividends for 2009, totalling 7,340,280 thousand Tenge from income for 2009 (2009: 6,023,638 thousand Tenge from income for 2008). The dividend per share amount was 223 Tenge per common stock (2009: 183 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 2010, 20 June 2007, 31 December 2004 and 31 December 1999.

Movements in the revaluation reserve for the years ended at 31 December were as follows:

<i>In thousands of Tenge</i>	Note	2010	2009
As at 1 January		45,031,683	49,581,467
Revaluation of property, plant and equipment	6	95,036,351	718,327
Impairment loss on revaluation of assets	6	(7,905,155)	(239,695)
Deferred tax		(17,426,239)	(95,726)
Amortization net of deferred taxes		(7,292,840)	(4,932,690)
As at 31 December		107,443,800	45,031,683

Other reserves

At 31 December 2010 and 2009, the reserve capital was 17,169 thousand Tenge, which comprised the social objects contributed by the Government of the Republic of Kazakhstan to the Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**20. LOANS AND BORROWINGS**

<i>In thousands of Tenge</i>	Currency	Maturity	Effective Interest rate	31 December 2010	31 December 2009
Natixis Company	US dollars	4 March 2010	Libor+1.70%	–	20,503,864
Less: unamortised transaction costs				–	(511,635)
Total loans and borrowings				–	19,992,229
Less: amounts due for settlement within 12 months				–	(10,238,757)
Long-term portion of loans and borrowings				–	9,753,472

Natixis Company

In accordance with syndicate loan agreement dated 28 August 2008, the Company received a loan from BTMU (Europe) Limited, ING Bank N.V. and Natixis in the amount of US Dollars 275,000 thousand (approximately 33,000 million Tenge), with the interest rate of LIBOR+1.70%. The loan was to be repaid in eight equal semi-annual payments starting from 20 March 2010. The loan was obtained to refinance short-term interest-free loan obtained from the Parent Company in the amount of 36,300,000 thousand Tenge to finance acquisition of 100% of the shares of BIHL. On 10 September 2009, the Company made a prescheduled repayment of US Dollars 138,000 thousand (approximately 20,400 million Tenge) of principal and US Dollars 237 thousand of interest accrued. On 4 March 2010 the Company made a prescheduled repayment of the remaining debt of US Dollars 137,000 thousand (approximately 20,200 million Tenge) of the principal and US Dollars 1,653 thousand of interest accrued. There were no penalties for early repayment of the loan.

21. 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 2010	31 December 2009
Present value of defined benefits obligation at the beginning of the year	2,469,000	1,997,532
Current services cost	203,000	191,000
Unwinding of discount (Note 33)	150,000	122,000
Actuarial losses (Notes 31)	27,000	276,474
Benefits paid	(127,196)	(118,006)
Present value of defined benefit obligation at the end of the year	2,721,804	2,469,000
Less: current portion of present value of defined benefit obligation	(141,000)	(131,880)
Non-current portion of present value of defined benefit obligation	2,580,804	2,337,120

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**21. EMPLOYEE BENEFITS (continued)**

Amounts recognized in the separate statement of financial position and current period profits and losses are as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Present value of defined benefit obligation at end of the year	2,721,804	2,469,000
Net liability	2,721,804	2,469,000
Current service expense	203,000	191,000
Actuarial losses (Note 31)	27,000	276,474
Unwinding of discount (Note 33)	150,000	122,000
Expense recognized in the current period	380,000	589,474

Current and past services costs are included in 'cost of sales' and 'general and administrative expenses'.

Principal actuarial assumptions used for valuation of employee benefit obligation at 31 December 2010 and 2009 were as follows:

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

22. TRADE AND OTHER ACCOUNTS PAYABLE

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Accounts payable to third parties for goods and services	5,073,351	5,456,555
Accounts payable for oil transportation coordination for related parties (Note 35)	4,273,240	3,751,450
Accounts payable for oil transportation coordination for third parties	3,857,236	2,484,364
Accounts payable to related parties for goods and services (Note 35)	529,567	479,423
Other payables	286,758	294,211
	14,020,152	12,466,003

The current amounts of the Company's trade and other accounts payables are denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Tenge	13,292,893	12,428,302
Foreign currencies	727,259	37,701
	14,020,152	12,466,003

23. ADVANCES RECEIVED

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Advances received from related parties (Note 35)	7,008,869	6,454,500
Advances received from third parties	3,748,843	3,222,031
	10,757,712	9,676,531

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**24. OTHER TAXES PAYABLE**

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Personal Income Tax	196,760	122,789
Social Tax	169,487	111,331
Property tax	88,356	7,138
Other taxes	19,817	35,181
	474,420	276,439

25. PROVISIONS FOR TAXES

According to the tax audit results related to the period 2003-2006 the Tax Committee of Astana City ("Tax Authority") proposed an additional assessment 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 the Tax Committee of the Republic of Kazakhstan. On 23 February 2010 the Company received a reply from the Tax Committee, which satisfied an appeal only partially. The Company plans to defend its position in the court and is in process of preparation to the legal proceedings. The management of the Company believes that the Company might be found liable to the Tax Authority. In 2008, the management has therefore made a provision in the separate financial statements in the amount of 3,718,848 thousand Tenge, which it believes to be the best estimate of the amount the Company may be required to pay if the legal proceeding are found to be not in the claimants favour.

In order to avoid the fine accrual on claimed amount, the Company paid 1,572,705 thousand Tenge to tax authorities in 2009 (Note 15).

26. OTHER CURRENT LIABILITIES

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Salaries and wages	3,398,479	3,098,446
Current portion of deferred income from related parties (Note 35)	312,366	312,366
Accounts payable to pension fund	262,679	206,772
Current portion of deferred income from third parties	2,044	2,044
	3,975,568	3,619,628

27. REVENUE

<i>In thousands of Tenge</i>	2010	2009
Crude oil transportation	109,574,473	97,682,797
Water transportation	5,892,098	4,893,092
Pipeline operation services	4,530,016	3,319,662
Oil transportation coordination services	739,740	883,095
Oil storage services	178,499	77,058
Other	223,716	245,687
	121,138,542	107,101,391

Oil transportation coordination services represent an agency fee for cooperation with foreign pipelines operators with respect of oil transportation coordination outside of Kazakhstan (Note 15, 22).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**28. COST OF SALES***In thousands of Tenge*

	2010	2009
Personnel cost	20,950,012	18,415,864
Depreciation and amortization	19,703,069	14,828,593
Electric energy	4,411,748	3,904,715
Repair and maintenance costs	4,267,079	3,517,948
Materials and fuel	3,762,818	4,972,857
Taxes other than corporate income tax	3,460,595	2,360,303
Security services	2,352,145	1,777,257
Gas expense	2,016,140	1,926,169
Air services	1,790,035	808,792
Environmental protection	884,609	489,834
Diagnostics of pipelines	713,129	229,742
Business trip expenses	531,425	690,804
Insurance	371,385	264,202
Communication services	176,076	152,002
Other	2,931,785	1,901,561
	68,322,050	56,240,643

29. GENERAL AND ADMINISTRATIVE EXPENSES*In thousands of Tenge*

	2010	2009
Personnel costs	3,717,909	3,281,215
Depreciation and amortization	497,599	486,152
Social sphere expenses	359,740	130,278
Office services	331,122	310,365
Write off of VAT recoverable	328,877	341,258
Charity expenses	312,740	46,424
Security	186,878	168,080
Repair and maintenance	183,509	152,029
Taxes other than corporate income tax and VAT	181,085	278,763
Consulting	157,662	139,149
Business trip expenses	153,775	189,872
Materials and fuel	134,262	53,381
Training	123,801	67,513
Bank services	96,203	130,860
Communication services	92,804	121,166
Transportation services	85,675	33,401
Advertising expense	86,208	83,630
Insurance	77,414	64,440
Operational rent expenses	75,583	90,859
Information support	74,336	103,930
Reversal of provision for slow-moving and obsolete inventories	(2,984)	(121,009)
(Reversal of) / provision for allowance for doubtful debt	(2,146,343)	358,450
Other	179,660	198,621
	5,287,515	6,708,827

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**30. OTHER OPERATING INCOME**

<i>In thousands of Tenge</i>	2010	2009
Income from fines and penalties	934,985	136,583
Amortization of deferred income	312,366	356,232
Amortization of financial guarantee issued to related party	136,934	137,083
Income from written-off of payables	28,425	8,100
Gain on disposal of property, plant and equipment and intangible assets	–	12,378
Inventory adjustment	–	1,572
Other income	653,424	417,317
	2,066,134	1,069,265

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

31. OTHER OPERATING EXPENSES

<i>In thousands of Tenge</i>	2010	2009
Loss on disposal of property, plant and equipment and intangible assets	112,982	–
Actuarial losses	27,000	276,474
Loss from sale of inventory	–	55,517
Other expenses	501,742	329,918
	641,724	661,909

32. FINANCE INCOME

<i>In thousands of Tenge</i>	2010	2009
Interest income on bank deposits	1,711,935	2,114,555
Dividend income	46,046	–
Employees and related parties loans: unwinding of discount	55,603	117,030
	1,813,584	2,231,585

33. FINANCE COSTS

<i>In thousands of Tenge</i>	2010	2009
Interest on loans and borrowings	621,904	1,755,311
Employee benefits: unwinding of discount	150,000	122,000
Loss on initial recognition of loans to employees and related parties	7,275	54,376
	779,179	1,931,687

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**34. INCOME TAX EXPENSES**

As at 31 December 2010 income tax prepayment in the amount of 1,334,062 thousand Tenge (2009: 1,780,885 thousand Tenge) represents corporate income tax.

Income tax expenses for the years ended 31 December comprise:

<i>In thousands of Tenge</i>	2010	2009
Current Income tax expense	10,659,019	7,396,705
Deferred Income tax (benefit) / expense	(2,805,910)	4,855,104
Income tax	7,853,109	12,251,809

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

<i>In thousands of Tenge</i>	2010	2009
Profit before income tax	36,804,361	36,661,629
Statutory rate	20%	20%
Income tax expense on accounting profit	7,360,872	7,332,326
Tax effect of permanent differences		
Non-deductible employee benefits	50,561	66,926
Non-deductible interest expenses	19,398	22,301
Representative expenses	6,176	—
Charity and social sphere expenses	60,693	15,368
VAT recoverable	90,384	10,056
Fines and penalties	11,592	18,007
Effect of change tax rates in recognized tax assets and liabilities	—	2,264,773
Change in unrecognized deferred income tax assets	(59,787)	1,722,333
Non-taxable dividends income from investments available-for-sale	(84,583)	(153,004)
Adjustment of tax return for prior years	604,798	60,424
Tax effect of items which are not deductible or assessable for taxation purposes	(206,995)	892,299
Corporate income tax expense reported in the statement of comprehensive income	7,853,109	12,251,809

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**34. 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 separate financial statements, are comprised of the following at 31 December:

<i>In thousands of Tenge</i>	31 December 2010	Charged to profit and loss	Credited to revaluation reserve	31 December 2009	Charged to profit and loss	Debited to revaluation reserve	31 December 2008
Tax effect of deductible temporary differences							
Bonuses and other employee compensation and related costs	1,004,403	590,796	-	413,607	(22,293)	-	435,900
Financial guarantee liability	94,723	(28,192)	-	122,915	22,967	-	99,948
Allowance for doubtful debts	109,758	(409,402)	-	519,160	34,090	-	485,070
Allowance for obsolete inventory	10,610	(30,483)	-	41,093	(24,413)	-	65,506
Taxes payable	21,269	(13,482)	-	34,751	32,121	-	2,630
Impairment of investments	5,880,231	(59,787)	-	5,940,018	1,722,333	-	4,217,685
Financial aid to related parties and loans to employees	40,881	5,078	-	35,803	24,374	-	11,429
Due to employees in the form of apartments	-	-	-	-	(7,007)	-	7,007
Income of BIHL	1,030,547	292,386	-	738,161	277,413	-	460,748
Deferred income	301,953	62,473	-	364,426	364,426	-	-
Unrecognised deferred income tax assets	(5,880,231)	59,787	-	(5,940,018)	(1,722,333)	-	(4,217,685)
	2,614,144	344,228	-	2,269,916	701,678	-	1,568,238
Investments in joint ventures	(176,032)	-	-	(176,032)	(44,008)	-	(132,024)
Property, plant and equipment	(33,731,766)	2,443,658	(17,426,240)	(18,749,184)	(5,494,750)	(95,726)	(13,158,708)
Other temporary differences	-	18,024	-	(18,024)	(18,024)	-	-
Net deferred income tax liabilities	(31,293,654)	2,805,910	(17,426,240)	(16,673,324)	(4,855,104)	(95,726)	(11,722,494)

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 as result of revaluation and impairment of property, plant and equipment.

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.

35. RELATED PARTY TRANSACTIONS

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

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

The following tables provides the total amount of transactions, which have been entered into with related parties during 2010 and 2009 and the related balances as at 31 December 2010 and 2009:

Loans to related parties were as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Loans to related parties		
Loans to subsidiary	627,923	615,312
Total loans to related parties	627,923	615,312

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**35. RELATED PARTY TRANSACTIONS (continued)**

At initial recognition amounts due from subsidiary were recorded at the fair values using 9 % discount rate, and thereafter carried at amortized cost. Difference between fair value of the borrowing due from related party and the nominal amount totalling to 64,677 thousand Tenge was debited to the balance of investments in subsidiaries in prior periods.

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

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Trade and other accounts receivable from related parties		
Trade accounts receivable from subsidiaries	-	483
Trade accounts receivable from entities under common control of KazMunayGas	523,220	436,772
Trade accounts receivable from joint venture	739,121	473,974
Trade accounts receivable from entities of Samruk-Kazyna Group	41	1,560
	1,262,382	912,789
Other accounts receivables from entities under common control of KazMunayGas and Samruk-Kazyna Group	55,281	46,267
Total trade and other accounts receivable	1,317,663	959,056

Advances provided to related parties were as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Advances to related parties		
Advances to entities under common control of KazMunayGas	215,146	230,264
Advances to entities of Samruk-Kazyna Group	61,991	25,325
Total advances issued to related parties	277,137	255,589

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

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Current accounts		
Halyk Bank – other affiliate	671,838	826,865
Total current accounts placed in banks which are related parties	671,838	826,865

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Bank deposits		
Halyk Bank – other affiliate	23,000,000	18,983,324
Total bank deposits placed in banks which are related parties	23,000,000	18,983,324

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Interest receivable from bank deposits		
Halyk Bank – other affiliate	228,681	12,078
Total interest receivable from bank deposits	228,681	12,078

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**35. RELATED PARTY TRANSACTIONS (continued)**

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

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Accounts payable for oil transportation coordination for related parties		
Accounts payable for oil transportation coordination for entities under common control of KazMunayGas	4,273,240	3,751,450
	4,273,240	3,751,450
Accounts payables to related parties for goods and services		
Accounts payables to entities under common control of KazMunayGas	299,023	299,550
Accounts payables to entities under control of Samruk-Kazyna Group	113,978	100,101
Accounts payables to subsidiary	116,566	79,772
	529,567	479,423
Total trade and other accounts payable to related parties	4,802,807	4,230,873

Advances received from related parties were as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Advances received from related parties		
Advances to entities under common control of KazMunayGas and under control of Samruk-Kazyna Group	7,008,869	6,454,500
Total advances received from related parties	7,008,869	6,454,500

Other current liabilities to related parties were as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Employee benefits		
Employee benefits of key management personnel	5,024	16,006
	5,024	16,006
Current portion of deferred income from related parties		
Current portion of deferred income from entities under common control of KazMunayGas	312,366	312,366
	312,366	312,366
Total other current liabilities to related parties	317,390	328,372

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

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Deferred income from related parties		
Deferred income from entities under common control of KazMunayGas	1,197,401	1,509,766
Total other non-current liabilities to related parties	1,197,401	1,509,766

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**35. RELATED PARTY TRANSACTIONS (continued)**

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

<i>In thousands of Tenge</i>	2010	2009
Sales to related parties		
Income from main activities from entities under common control of KazMunayGas	66,580,828	38,200,708
Income from main activities from entities of Samruk-Kazyna Group	10,394,200	9,040,592
Income from main activities from joint ventures	3,789,001	2,642,761
Income from other activities from entities under common control of KazMunaiGas	205,700	680,747
Dividends income from joint ventures	376,871	765,020
Dividends income	46,046	—
Income from other activities from subsidiaries	25,286	27,310
Income from other activities from joint ventures	4,721	—
Income from other activities from entities of Samruk-Kazyna Group	4,583	1,285
	81,427,236	51,358,423
Purchases from related parties		
Purchases of services from entities under common control of KazMunayGas	5,896,450	4,130,356
Purchases of services from entities of Samruk-Kazyna Group	1,848,232	1,596,353
Purchases of services from subsidiary	530,347	461,599
Purchases of property, plant and equipment and inventory from entities of Samruk-Kazyna Group	35,121	—
	8,310,150	6,188,308
Interest income from bank deposits		
Halyk Bank – other affiliate	1,056,373	917,004
	1,056,373	917,004

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

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Salary	100,253	105,895
Bonuses	41,187	35,455
Post-employment benefits	176	1,246
	141,616	142,596
Number of persons	7	9

36. CONTINGENT LIABILITIES AND COMMITMENTS**Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2010. As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Environmental matters**

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Company's financial position or results of operations..

Asset retirement obligation

Currently, management does not believe that the Company has or will have legal or constructive obligation related to retirement of its property, plant and equipment. Therefore, no accrual for such obligation has been made in the separate financial statements. Future changes in the regulations or legislation might change management's assessment.

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 Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Covenants*Guarantees*

At 31 December 2010, KazTransOil JSC ("the Guarantor") has guaranteed to EBRD in respect of the obligations of MunayTas under the loan agreement with EBRD. According to the Guarantee Agreement concluded between the Company and EBRD, the Company has to comply with the following covenants:

- 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 2010 and 2009, the Company fully complied with covenants.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Covenants (continued)***Borrowings*

On 28 August, 2008 the Company concluded a syndicate loan facility agreement with BTMU (Europe) Limited, ING Bank N.V. and Natixis (the "Creditors") for amount of 275,000 thousand US Dollars (*Note 20*). 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 repayment date (4 March 2010) and 31 December 2009, the Company fully complied with the covenants.

Contractual commitments

As at 31 December 2010, the Company had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 16,645,820 thousand Tenge (2009: 10,081,162 thousand Tenge). In addition, as at 31 December 2010, the Company has committed to purchase inventory (materials and spare parts) and services for the amount of 5,215,034 thousand Tenge (2009: 2,254,590 thousand Tenge).

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company'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 Company's operations. The Company has trade and other 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 Company reviews and agrees policies for managing each of these risks which are summarised below.

Interest Rate Risk

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

<i>In thousands of Tenge</i>	Increase / decrease in basic points	Effect on profit before tax
2010		
US dollar	-	-
2009		
US dollar	+100	205,039
	-25	(51,260)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

Market risk is the risk that value of financial instrument will fluctuate because of changes in market prices. The Company manages market risk through periodical analysis of potential losses, which may occur due to negative changes in market prices, which are dealt with during production planning.

Credit risk

The Company trades only with recognized, creditworthy parties. It is the Company'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 Company's exposure to bad debts is not significant. Maximal exposure is the carrying amount. There are no significant concentrations of credit risk within the Company.

The Company places deposits with Kazakhstani banks (*Notes 17 and 18*). The Company's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Company'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.

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

In thousand of Tenge

Bank	Location	Rating		2010	2009
		2010	2009		
Halyk Bank of Kazakhstan JSC	Kazakhstan	B3/Stable	F1+	23,908,427	19,822,272
KazKommerstBank	Kazakhstan	Ba3/Negative	Ba2/ Negative	17,635,887	5,601,007
SberBank of Russia JSC	Kazakhstan	Ba2/Stable	Ba1/Negative	12,729,316	13,468,304
RBS Bank Kazakhstan JSC	Kazakhstan	A1/Stable	Ba3/ Negative	33,756	10,468
ATF Bank JSC	Kazakhstan	Ba2/Stable	Ba2/ Negative	12	50
Bank CenterCredit JSC	Kazakhstan	Ba3/Negative	Aa3/Stable	12	7
CITI Bank Kazakhstan JSC	Russia	A3	Caa2/ Negative	7	12
SlavInvest Bank JSC	Kazakhstan	-	Ba1/ Negative	-	11
				54,307,417	38,902,131

Liquidity Risks

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

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2010 and 2009 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 2010						
Interest-bearing loans and borrowings	-	-	-	-	-	-
Trade and other payable	-	14,020,152	-	-	-	14,020,152
Other current liabilities	-	3,661,158	-	-	-	3,661,158
	-	17,681,310	-	-	-	17,681,310
As at 31 December 2009						
Interest-bearing loans and borrowings	-	10,590,242	10,145,314	-	-	20,735,556
Trade and other payable	-	12,466,003	-	-	-	12,466,003
Other current liabilities	-	3,305,218	-	-	-	3,305,218
	-	26,361,463	10,145,314	-	-	36,506,777

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Currency Risk**

The Company 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>	<i>US dollar</i>	<i>Russian Rubble</i>	<i>Euro</i>	<i>Other currencies</i>	<i>Total</i>
At 31 December 2010					
Assets	24,858	4,026,722	-	36	4,051,616
Liabilities	707,236	28,588	11,265	3,060	750,149
At 31 December 2009					
Assets	501,108	4,165,947	94,433	-	4,761,488
Liabilities	20,606,406	14,477	9,004	-	20,629,887

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations.

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

<i>In thousands of Tenge</i>	<i>Increase / decrease in US dollar rate</i>	<i>Effect on profit before tax</i>
2010		
US Dollar	+11.56%	81,756
	-11.56%	(81,756)
2009		
US Dollar	+10%	2,060,641
	-15%	(3,090,961)

Capital management

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

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

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio not higher than 20-35%. The Company 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 2010	31 December 2009
Trade and other payables	17,681,310	15,771,221
Interest-bearing loans and borrowings	-	19,992,229
Less: cash and cash equivalents and bank deposits	(13,862,027)	(14,307,399)
Net debt	3,819,283	21,456,051
Capital and net debt	331,278,611	257,599,450
Capital	327,459,328	236,143,399
Gearing Ratio	0.01	0.08

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Fair value hierarchy**

The Company 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 2010 and 2009 the Company does not have Level 1 and Level 2 financial instruments.

Fair value of financial instruments

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

<i>In thousand of Tenge</i>	Carrying amount		Fair value	
	2010	2009	2010	2009
<i>Financial assets</i>				
Cash and cash equivalents	9,862,027	14,307,399	9,862,027	14,307,399
Bank deposits	44,446,533	24,596,351	44,446,533	24,596,351
Trade and other receivables	5,895,467	6,002,379	5,895,467	6,002,379
Other financial assets	93,971	728,078	93,971	728,078
Loans to related parties	627,923	615,312	627,923	615,312
<i>Financial liabilities</i>				
Floating rate borrowings	-	19,992,229	-	19,992,229
Trade and other payables	14,020,152	12,466,003	14,020,152	12,466,003
Other financial liabilities	3,661,158	3,305,218	3,661,158	3,305,218

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

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.

38. EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the reporting period in the Company.