KazTransOil JSC

Separate Financial Statements

For the year ended 31 December 2011
With Independent Auditors' Report

CONTENT

ERNST & YOUNG

Ernst & Young LLP
Esentai Tower
Al-Farabi Ave., 77/7
Almaty, Kazakhstan
Tel: +7 (727) 258 5960
Fax: +7 (727) 258 5961
www.ey.com/kazakhstan

ТОО «Эрнст энд Янг»
Казахстан, Алматы
пр. Аль-Фараби, 77/7
Здание «Есентай Тауэр»
Тел.: +7 (727) 258 5960
Факс: +7 (727) 258 5961

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 2011, 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.

Ernst & Young

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of KazTransOil JSC as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Gulmira Turmagambetova
Auditor

Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

2 March 2012

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	5	**300,986,425**	283,285,955
Intangible assets	6	**1,207,915**	1,282,147
Investments in subsidiaries	7	**33,478,610**	33,959,848
Investments in joint ventures	8	**7,404,945**	7,404,945
Borrowings due from related parties	32	–	134,120
Advances to suppliers for property, plant and equipment	9	**413,166**	389,139
Bank deposits	15	**6,000,000**	–
Other non-current assets		**350,702**	170,206
		349,841,763	326,626,360
Current assets			
Inventories	10	**1,795,254**	2,326,533
Trade and other accounts receivable	11	**7,186,869**	5,895,467
Borrowings due from related parties	32	**337,537**	493,803
Advances to suppliers	12	**536,784**	480,262
Prepayment for corporate income tax	31	**1,752,554**	1,334,062
VAT recoverable and other prepaid taxes	13	**1,486,242**	4,573,841
Other current assets	14	**180,564**	62,080
Bank deposits	15	**35,123,818**	40,446,533
Cash and cash equivalents	16	**19,833,356**	13,862,027
		68,232,978	69,474,608
Assets classified as held for sale		**29,502**	–
		68,262,480	69,474,608
TOTAL ASSETS		**418,104,243**	396,100,968

SEPARATE STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Note	31 December 2011	31 December 2010
EQUITY AND LIABILITIES			
Equity			
Share capital	17	**34,617,204**	32,916,055
Asset revaluation reserve	17	**106,785,731**	107,443,800
Other capital reserves		**17,169**	17,169
Retained earnings		**207,187,797**	187,082,304
Total equity		**348,607,901**	327,459,328
Non-current liabilities			
Financial guarantee issued on behalf of related party	32	**338,919**	473,616
Employee benefits liability	18	**5,909,892**	2,580,804
Deferred tax liabilities	31	**32,448,046**	31,293,654
Deferred income from related parties	32	**885,036**	1,197,401
Other non-current accounts payable		**–**	8,465
		39,581,893	35,553,940
Current liabilities			
Employee benefits liability	18	**226,000**	141,000
Trade and other accounts payable	19	**14,847,522**	14,020,152
Advances received	20	**10,949,916**	10,757,712
Other taxes payable	21	**608,262**	474,420
Provisions	22	**60,081**	3,718,848
Other current liabilities	23	**3,222,668**	3,975,568
		29,914,449	33,087,700
Total liabilities		**69,496,342**	68,641,640
TOTAL EQUITY AND LIABILITIES		**418,104,243**	396,100,968

The accounting policy and explanatory notes on pages 7 through 41 form an integral part of these separate financial statements

General Director _______________ *Kabyldin K.M.*

Chief Accountant _______________ *Akhmedina A.S.*

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Note	For the years ended 31 December 2011	2010
Revenue	24	**122,258,114**	121,138,542
Cost of sales	25	**(80,330,110)**	(68,322,050)
Gross profit		**41,928,004**	52,816,492
General and administrative expenses	26	**(4,725,247)**	(5,287,515)
Other operating income	27	**1,392,869**	2,066,134
Other operating expenses	28	**(1,743,566)**	(641,724)
(Charge) / Reversal of impairment of investments in subsidiaries	7	**(1,804,355)**	149,466
Reversal of / (charge) impairment of property, plant and equipment	5	**61,250**	(13,435,254)
Operating profit		**35,108,955**	35,667,599
Net foreign exchange loss		**(348,759)**	(274,514)
Finance income	29	**2,810,148**	1,813,584
Finance costs	30	**(237,832)**	(779,179)
Dividend income from joint ventures		**–**	376,871
Profit before tax		**37,332,512**	36,804,361
Income tax expense	31	**(7,869,141)**	(7,853,109)
Profit for the year		**29,463,371**	28,951,252
Other comprehensive income			
Revaluation of property, plant and equipment	5	**13,582,220**	95,036,351
Income tax effect	31	**(2,716,444)**	(19,007,270)
		10,865,776	76,029,081
Impairment of property, plant and equipment	5	**(688,656)**	(7,905,155)
Income tax effect	31	**137,731**	1,581,031
		(550,925)	(6,324,124)
Total other comprehensive income for the year, net of tax		**10,314,851**	69,704,957
Total comprehensive income for the year, net of tax		**39,778,222**	98,656,209

The accounting policy and explanatory notes on pages 7 through 41 form an integral part of these separate financial statements

General Director ______________ Kabyldin K.M.

Chief Accountant ______________ Akhmedina A.S.

SEPARATE STATEMENT OF CASH FLOWS

In thousands of Tenge	Note	For the years ended 31 December 2011	2010
Cash flows from operating activities:			
Profit before income tax		**37,332,512**	36,804,361
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and amortization	28, 29	**25,508,041**	20,200,668
Allowance / (Reversal of) for doubtful debts	29	**40,297**	(2,146,343)
(Reversal of) / Charge of provisions	22	**(3,657,377)**	–
Finance costs	30	**237,832**	779,179
Finance income	29	**(2,810,148)**	(1,813,584)
Impairment / (Reversal) of investments in subsidiaries	7	**1,804,355**	(149,466)
Actuarial losses	18	**1,540,000**	27,000
Employee benefits	18	**1,934,000**	203,000
Loss on disposal of property, plant and equipment and intangible assets, net	28	**48,911**	112,982
Loss on disposal of inventory	28	**51,482**	
Dividend income from joint ventures		**–**	(376,871)
(Reversal of) / Impairment of property plant and equipment	5	**(61,250)**	13,435,254
Income from write-off of payables	27	**(6,718)**	(28,425)
Write-off of loans given to employees		**–**	1,875
Amortization of deferred income	27	**(312,365)**	(312,366)
Amortization of financial guarantee issued on behalf of related party	27	**(136,070)**	(136,934)
Write-off of VAT recoverable	26	**301,452**	328,877
Unrealized foreign exchange (gain) / loss		**(8,435)**	274,514
Allowance / (Reversal of) provision for slow-moving and obsolete inventories	26	**2,892**	(2,984)
Operating cash flows before working capital changes:		**61,809,411**	67,200,737
Changes in inventories		**780,318**	2,798,397
Changes in trade and other accounts receivable		**(1,280,834)**	(143,904)
Changes in advances to suppliers		**(57,659)**	54,691
Changes in taxes recoverable and other current assets		**629,135**	1,572,196
Changes in trade and other accounts payable		**231,165**	1,580,139
Changes in advances received		**192,204**	1,081,181
Changes in taxes payable		**133,842**	197,981
Changes in other current, non-current liabilities and employee benefits		**(987,367)**	231,179
Cash generated from operations:		**61,450,215**	74,572,597
Income tax paid		**(7,909,780)**	(10,004,008)
Interest received		**2,220,014**	1,285,369
Interest paid		**–**	(286,934)
Net cash flow from operating activities		**55,760,449**	65,567,024

SEPARATE STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Note	For the years ended 31 December 2011	2010
Cash flows from investing activities:			
Withdrawal of term deposits		**51,000,000**	50,456,822
Placement of term deposits		**(51,145,540)**	(66,000,000)
Repayment of loans provided to related parties		**304,508**	5,400
Dividends received		**17,608**	908,485
Purchase of property, plant and equipment		**(29,624,124)**	(23,721,874)
Proceeds from disposal of property, plant and equipment and intangible assets		**26,113**	739
Purchase of intangible assets		**(281,937)**	(121,038)
Contribution to investments		**(754,950)**	–
Net cash flow used in investing activities		**(30,458,322)**	(38,471,466)
Cash flows from financing activities:			
Repayment of loans and borrowings		**–**	(20,200,650)
Dividends paid	17	**(19,330,798)**	(7,340,280)
Net cash flow used in financing activities		**(19,330,798)**	(27,540,930)
Net change in cash and cash equivalents		**5,971,329**	(445,372)
Cash and cash equivalents at the beginning of the year	16	**13,862,027**	14,307,399
Cash and cash equivalents at the end of the year	16	**19,833,356**	13,862,027

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 2011 included in cost of inventory was 11,053 thousand Tenge (2010: 13,021 thousand Tenge).

Property, plant and equipment

As of December 31, 2011 the payables for purchases of property, plant and equipment increased by 395,571 thousand Tenge (2010: nil). During 2011 the Company received property, plant and equipment for an amount 1,701,149 thousand Tenge which was paid by shares *(Note 5)*.

Deferred income

In 2009 the Company recognised deferred income of 1,874,193 thousand Tenge from reconstruction of railroad overpass which was received free-of-charge. Deferred income amortized in 2011 amounted to 312,365 thousand Tenge (2010: 312,366 thousand Tenge).

The accounting policy and explanatory notes on pages 7 through 41 form an integral part of these separate financial statements

General Director ______ Kabyldin K.M.

Chief Accountant ______ Akhmedyna A.S.

SEPARATE STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Note	Share capital	Asset revaluation reserve	Other capital reserves	Retained earnings	Total
As at 31 December 2009		**32,916,055**	**45,031,683**	**17,169**	**158,178,492**	**236,143,399**
Profit for the year		–	–	–	28,951,252	**28,951,252**
Other comprehensive Income		–	69,704,957	–	–	**69,704,957**
Total comprehensive income for the year		**–**	**69,704,957**	**–**	**28,951,252**	**98,656,209**
Depreciation transfer of revalued property, plant and equipment		–	(7,292,840)	–	7,292,840	**–**
Dividends	17	–	–	–	(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**
Profit for the year		–	–	–	29,463,371	**29,463,371**
Other Comprehensive Income		–	10,314,851	–	–	**10,314,851**
Total comprehensive income for the year		**–**	**10,314,851**	**–**	**29,463,371**	**39,778,222**
Depreciation transfer of revalued property, plant and equipment		–	(10,972,920)	–	10,972,920	**–**
Shares issuance	17	1,701,149	–	–	–	**1,701,149**
Dividends	17	–	–	–	(19,330,798)	**(19,330,798)**
Other distributions	17	–	–	–	(1,000,000)	**(1,000,000)**
As at 31 December 2011		**34,617,204**	**106,785,731**	**17,169**	**207,187,797**	**348,607,901**

The accounting policy and explanatory notes on pages 7 through 41 form an integral part of these separate financial statements

General Director _______________ *Kabyldin K.M.*

Chief Accountant _______________ *Akhmedina A.S.*

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

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

	Place of incorporation	Principal activities	Interest ownership 31 December 2011	31 December 2010
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, and a computing centre in Astana, and representative offices in the Russian Federation (Moscow, Omsk and Samara) and Ukraine (Kiev).

The Company operates network of main oil pipelines of 5,495 km and water pipelines of 2,148 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 own Kenkiyak-Atyrau and Atasu-Alashankou pipelines used for transportation of Kazakhstani crude oil to China. Company's subsidiary BIHL owns Batumi Oil Terminal and has controlling interest of Batumi Sea Port, main activity of which is storage and transshipment of oil cargoes.

These separate financial statements were approved for issue by the General Director and the Chief Accountant of the Company on 2 March 2012.

2. BASIS OF PREPARATION

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

These separate financial statements have been prepared on a historical cost basis, except for property, plant and equipment which are stated at revalued amounts and financial assets that have been measured at fair value. The separate financial statements are presented in Tenge and all values are rounded to the nearest thousand (000), 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*).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. 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 reporting 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.

3.2. 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 7)*.

3.3. Foreign currency translation

These separate financial statements are presented in Tenge, which is the Company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency spot rate prevailing at the date of the transaction first qualified for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional spot rate of exchange ruling at the reporting date.

All differences are taken to the statement of comprehensive income.

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.

Exchange rates

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

As at 31 December, the currency exchange rate of KASE was:

Tenge	**31 December 2011**	31 December 2010
USD	**148.40**	147.40
RUB	**4.61**	4.84
EUR	**191.72**	195.23

3.4. Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Property, plant and equipment

Property, plant and equipment are measured at fair value less accumulated depreciation (except for land, technological oil and construction in process) and impairment losses recognised after the date of the revaluation. The Company periodically engages independent appraisers to revalue property, plant and equipment to their depreciated replacement cost. Valuations are performed frequently to ensure that the fair value of a revalued asset does not materially differ from its carrying amount.

Any revaluation surplus is recorded in other comprehensive income and, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as expense in the statement of comprehensive income, in this case the increase is recognised through profit in the statement of comprehensive income. A revaluation deficit is recognised as expense in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings	20 – 60
Machinery and equipment	5 – 40
Pipelines and transportation assets	10 – 50
Other	2 – 20

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

3.6. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. 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 amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) 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 groups of assets. Where the carrying amount of an asset or CGU 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 assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised through profit in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

3.8. 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, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value recognised in finance costs in the statement of comprehensive income.

Financial assets designated upon initial recognition at fair value through profit and loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Company has not designated any financial assets at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial assets (continued)

Subsequent measurement (continued)

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 fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Company has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs. The Company did not have any held-to-maturity investments during the years ended 31 December 2011 and 2010.

Available-for-sale financial investments include equity securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated 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 other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the statement of comprehensive income in finance costs and removed from the available-for-sale reserve. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

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 intention to do so significantly changes 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 assets meet the definition of loans and receivables and the Company has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost 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 theremaining 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 statement of comprehensive income.

Derecognition

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

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial assets (continued)

Derecognition (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised 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.

3.9. 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.

For financial assets carried at amortised cost, the Company first assesses 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 been incurred, the amount of the loss is measured as the difference between the assets 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 statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the 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 costs in the statement of comprehensive income.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. 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, 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, financial guarantee contracts.

Subsequent measurement

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

Financial liabilities, recognized at fair value through profit or loss, are classified to this category at the date of initial recognition, solely when it meets criteria of IAS 39. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the statement of comprehensive income.

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 amortization.

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 in the statement of comprehensive income as income or expense.

3.11. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.12. Fair value of financial instruments

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 34*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. 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.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3.14. Cash and cash equivalents, bank deposits

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Bank deposits comprise bank deposits with a primary maturity over than three months.

3.15. 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 some or all of 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. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

3.16. Employees benefits

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the Collective agreement between the Company and its employees. The Collective agreement provides for one-off retirement payments, financial aid for employees' disability, anniversaries and funeral. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

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

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

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

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

3.17. Revenue and other income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Revenue and other income recognition (continued)

Rendering of transportation services

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

Rendering of other services

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

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Dividends

Revenue is recognised when the Company's right to receive the payment is established.

3.18. Taxes

Current income tax

Current income tax assets and liabilities for the current period 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, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised in other comprehensive income is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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

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

- Where the deferred 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
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred 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 utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Taxes (continued)

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or items recognized in other comprehensive income.

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

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.

Revenue, expenses and assets are recognized after deduction of value added tax, except for instances, where amount of value added tax is recognized as a part of costs for asset acquisitions or as a part of expenses.

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 and considered as a corporate asset allocated to existing cash generating units.

3.19. Equity

Share capital

External costs directly attributable to the issue of new shares 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 financial statements are authorized for issue.

3.20. 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 2011:

New and amended standards and interpretations

- IAS 24 *Related Party Disclosures* (amendment) effective 1 January 2011
- IAS 32 *Financial Instruments: Presentation* (amendment) effective 1 February 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Changes in Accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company. The Company decided not to apply permitted by new amendment, exemption from the related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity, and discloses in these financial statements such information.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company because the Company does not have this type of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Company is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Company.

Improvements to IFRSs

In May 2010, the IASB issued its third 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 no impact on the financial position or performance of the Company.

- IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest ("NCI") were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

  The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011. The Company, however, adopted these as of 1 January 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of IFRS 3.

- IFRS 7 *Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the separate financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Changes in Accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

Improvements to IFRSs (continued)

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

- IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

3.21. Standards 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 of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income ("OCI")

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Standards issued but not yet effective (continued)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

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 and financial liabilities 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 hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

4. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's separate financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. 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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the separate financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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.

4. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Revaluation of property, plant and equipment (continued)

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.

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 obsolesce 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 is annually revalued as of 30 September, due to the fact that fluctuations are quite frequent and significant. Technological oil was revalued on 30 September 2011.

The following judgments were taken into account by the Company's management 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 KMG 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 KMG -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 KMG -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 184 US Dollars per tonne as of December 31, 2011 (27,290 Tenge) (2010: 143 US Dollars (21,111 Tenge) per ton). 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 2011, the amount of oil in the pipeline included as part of property, plant and equipment was 2,157 thousand tons (2010: 2,136 thousand tons).

4. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Impairment of property, plant and equipment

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

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

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by the 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 2011 the Company recognized an impairment of 627,406 thousand Tenge (2010: 21,430,409 thousand Tenge) where the recovery of impairment of 61,250 thousand Tenge (2010: impairment of 13,435,254 thousand Tenge) was recognized in statement of comprehensive income and 688,656 thousand Tenge (2010: 7,905,155 thousand Tenge) was recognized in other comprehensive income *(Note 5)*.

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*".

Asset retirement obligation

The Company has a constructive obligation to remove pipelines and the related equipment, once the operation of the pipeline ceases. This will happen when either the crude oil reserves of the entities, using the pipeline, are fully depleted or the pipelines become too obsolete to repair it and the Company has to abandon the pipelines. Currently, management does not believe that the Company has or will have any material liability related to the environmental impact or the restoration upon decommissioning of the pipeline project for activities through December 31, 2011. Therefore, no accrual for such liabilities has been reflected in these separate financial statements. Future changes to regulations or future incidents could require or oblige the Company to incur environmental liabilities or take certain actions upon decommissioning.

Allowances for doubtful debts

The Company accrues allowances for doubtful accounts receivable, advances to suppliers and other assets. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the separate financial statements. As of 31 December 2011 and 2010 allowances for doubtful accounts have been created for the amount of 79,220 thousand Tenge and 548,788 thousand Tenge, respectively (*Notes 9, 11,12 and 13*).

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.

4. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Provisions (continued)

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 2011, tax provision amounted to 60,081 thousand Tenge (2010: 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 proceeding are found to be not in the claimants favour. As a result of legal proceedings dated 25 May 2011 in court of highest resort, the request by Tax Committee was dismissed; as a result of thereof the Company reversed the provision in the amount of 3,718,848 thousand Tenge (*Note 22*).

Deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the such expenses can be utilized. Significant management judgments is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of recognized deferred tax assets as of 31 December 2011 was 2,913,772 thousand Tenge (2010: 2,614,144 thousand Tenge) (*Note 31*).

Employee benefits

The cost of defined long-term employee benefits to employees before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

As there is no active market for corporate securities in Kazakhstan, in determining the appropriate discount rate, management considers the interest rates of government securities (MEOKAM) with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying securities are further reviewed for quality on a timely basis.

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

Further details about the assumptions used are given in *Note 18*.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

5. PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
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 6)*	–	–	–	–	–	–	–	(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**
Additions	44,858	41,781	590,508	1,216,584	1,606,090	6,945	976,087	24,732,728	**29,215,581**
Additions to equity	147,524	723,701	4,156	543,674	282,094	–	–	–	**1,701,149**
Disposals	(1,904)	(186,521)	(34,545)	(516,258)	(180,776)	(1,728)	(210,544)	(282,549)	**(1,414,825)**
Depreciation	–	(9,320,851)	(1,007,656)	(5,418,277)	(7,414,393)	–	(1,853,122)	–	**(25,014,299)**
Accumulated depreciation on disposals	–	161,344	31,702	23,557	95,677	–	126,615	–	**438,895**
Impairment (included in net profit)	–	(73,367)	(132)	(17,904)	(22,347)	–	(1,146)	–	**(114,896)**
Impairment (revaluation reserve)	–	(244,996)	(54)	(433,812)	(8,980)	–	(814)	–	**(688,656)**
Revaluation (reserve of revaluation)	–	–	–	–	–	13,582,220	–	–	**13,582,220**
Recovery of impairment reserve (included in net profit)	–	–	–	–	–	175,822	–	324	**176,146**
Transfer from construction-in-progress	17,197	2,896,812	19,673	2,148,035	5,424,987	–	1,403,461	(11,910,165)	–
Transfer to intangible assets *(Note 6)*	–	–	–	–	(4,347)	–	(3,279)	(143,719)	**(151,345)**
Transfer to non-current assets, held for sale	(2,415)	–	(133)	(25,923)	(1,029)	–	–	–	**(29,500)**
Transfers and reclassifications	–	(13,002)	(137,151)	24,859	(201,582)	–	326,876	–	–
Net book value as at 31 December 2011	**3,408,452**	**84,922,566**	**4,789,965**	**59,510,860**	**61,456,919**	**58,853,972**	**9,301,520**	**18,742,171**	**300,986,425**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment are revalued, depending on changes in fair value of property, plant and equipment. The Company generally revalues property, plant and equipment once in three years, except for technological oil, which is revalued annually as at 30 September, as fluctuations in fair value of technological oil are quite often and significant. Property, plant and equipment have been revalued to fair value at 30 June 2010. The revaluation was performed based on the reports of independent appraiser, who hold a recognised and relevant professional qualification and experience *(Note 3)*.

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.

2011 additions of property, plant and equipment include Kazakhstani part of "Tuimazy-Omsk-Novosibirsk 2" oil pipeline and corresponding infrastructure objects and land plots, for the total amount of 1,701,149 thousand Tenge for the contribution paid for shares issued by the Company *(Note 17)*.

As at 31 December 2011, construction in progress ("CIP") mainly includes production projects under construction, main oil pipelines, (including: construction of main oil pipeline Kumkol-Karakoin, realized as a part of interstate Kazakhstan-China oil pipeline construction project), and reconstruction of fire fighting system, reconstruction of electricity supply systems.

As of 31 December 2010 and 2009 construction-in-progress ("CIP") mainly includes oil transportation assets under construction: pump stations, reserviours, gas-trap and drain systems, pump overpasses; reconstruction and expansion of: industry safety systems of production facilities, oil pumping station "Kenkiyak", industrial process and production and technical communication automation systems.

As of 31 December 2011 and 2010, construction-in-progress includes inventories totaling to 10,664,024 thousand Tenge and 542,388 thousand Tenge, respectively, purchased for construction purposes.

As of 31 December 2011 and 2010, the cost of fully depreciated but still in use property, plant and equipment were 1,782,030 thousand Tenge and 184,621 thousand Tenge, respectively.

As of 31 December 2011 and 2010, the cost of property, plant and equipment which temporarily are not in use were 1,521,241 thousand Tenge and 1,437,698 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	Transpor-tation assets	Techno-logical oil	Other	Construc-tion in progress	Total
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	135,728,610
At 31December 2011	**753,955**	**27,822,058**	**50,155,550**	**42,228,209**	**3,492,273**	**1,172,541**	**7,416,679**	**18,091,024**	**151,132,289**

6. INTANGIBLE ASSETS

In thousands of Tenge	Licenses	Software	Other	Total
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)**
Amortization charge	(15,077)	(448,924)	(14,511)	**(478,512)**
Accumulated amortization on disposals	–	25,262	–	**25,262**
Transfer from construction-in-progress *(Note 5)*	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**
Additions	17,858	263,609	470	**281,937**
Disposals	(1,118)	(14,110)	–	**(15,228)**
Amortization	(61,535)	(442,352)	(908)	**(504,795)**
Accumulated amortization on disposals	1,118	10,933	–	**12,051**
Transfer from construction-in-progress *(Note 5)*	9,056	142,289	–	**151,345**
Transfers from inventory	–	423	35	**458**
Transfers and reclassifications	17,567	(21,357)	3,790	–
Net book value at 31 December 2011	**245,383**	**930,791**	**31,741**	**1,207,915**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

6. INTANGIBLE ASSETS (continued)

In thousands of Tenge	Licenses	Software	Other	Total
As at 31 December 2011				
At cost	361,313	3,546,172	75,511	**3,982,996**
Accumulated amortization	(115,930)	(2,615,381)	(43,770)	**(2,775,081)**
Net book value	**245,383**	**930,791**	**31,741**	**1,207,915**
As at 31 December 2010				
At cost	317,950	3,175,318	71,216	**3,564,484**
Accumulated amortization	(55,513)	(2,183,962)	(42,862)	**(2,282,337)**
Net book value	**262,437**	**991,356**	**28,354**	**1,282,147**

7. INVESTMENTS IN SUBSIDIARIES

In thousands of Tenge	31 December 2011	31 December 2010
KTO–Service	**17,759,036**	16,435,919
Less: impairment of investments in KTO-Service	**(12,489,290)**	(11,997,488)
	5,269,746	4,438,431
BIHL	**39,061,750**	39,061,750
Less: impairment of investments in BIHL	**(16,094,547)**	(15,095,694)
	22,967,203	23,966,056
BCPL	**8,012,800**	8,012,800
Less: impairment of investments in BCPL	**(2,771,139)**	(2,457,439)
	5,241,661	5,555,361
	33,478,610	33,959,848

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

In thousands of Tenge	2011	2010
As at 1 January	**29,550,621**	29,700,087
Charge for the year	**1,804,355**	218,861
Reversal of allowance	–	(368,327)
As at 31 December	**31,354,976**	29,550,621

During 2011, the Company has additionally contributed 1,323,117 thousand Tenge to charter capital of KTO-Service in the form of property, plant and equipment for an amount 562,278 thousand Tenge, inventories for an amount 5,889 thousand Tenge and cash for an amount 754,950 thousand Tenge.

As at 31 December 2011, accumulated impairment for an amount 31,354,976 thousand Tenge has been recognized in the separate statement of financial position. Net change in impairment allowance on investments was 1,804,355 thousand Tenge, as the recoverable amount of cash generating units was less than 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 was discounted on a pre-tax basis at a rate of 11.6% (2010: 11.6%), BIHL and BCPL were discounted on a pre-tax basis at a rate of 16.19% and 16.53% (2010: 16.54%) on the basis of two cash generating units.

8. INVESTMENTS IN JOINT VENTURES

In thousands of Tenge	31 December 2011	31 December 2010
KCP	**6,500,000**	6,500,000
MunayTas	**904,945**	904,945
	7,404,945	7,404,945

9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	**31 December 2011**	31 December 2010
Advances to third parties for property, plant and equipment	**413,166**	488,469
Less: allowance for non-performance	**–**	(99,330)
	413,166	389,139

Movement in allowance for doubtful debts was as follows:

In thousands of Tenge	**2011**	2010
As at 1 January	**99,330**	99,330
Write-off	**(99,330)**	–
As at 31 December	**–**	99,330

Advances issued to suppliers for property, plant and equipment are denominated in Tenge.

10. INVENTORIES

In thousands of Tenge	**31 December 2011**	31 December 2010
Spare parts	**874,202**	911,729
Fuel	**545,816**	830,814
Chemical reagents	**126,207**	213,070
Construction materials	**85,461**	23,688
Commodity	**53,656**	36,348
Other	**160,613**	363,936
Less: provision for slow-moving and obsolete inventory	**(50,701)**	(53,052)
	1,795,254	2,326,533

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

In thousands of Tenge	**2011**	2010
As at 1 January	**53,052**	205,465
Charge for the year	**3,512**	3,131
Reversal of provision	**(620)**	(6,115)
Write-off of inventories	**(5,243)**	(149,429)
As at 31 December	**50,701**	53,052

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

In thousands of Tenge	**31 December 2011**	31 December 2010
Accounts receivable for oil transportation expedition on oil transportation	**4,637,780**	4,034,085
Trade accounts receivable from related parties (*Note 32*)	**1,951,138**	1,262,382
Trade accounts receivable from third parties	**398,686**	368,904
Other accounts receivable from third parties	**218,168**	623,179
Other accounts receivable from related parties (*Note 32*)	**58,933**	55,281
Less: allowance for impairment of trade and other accounts receivable	**(77,836)**	(448,364)
	7,186,869	5,895,467

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

In thousands of Tenge	**2011**	2010
As at 1 January	**448,364**	311,803
Charge for the year	**63,653**	63,150
Reversal of allowance	**(24,493)**	(33,444)
Write-off of receivable	**(409,688)**	–
Reclassifications	**–**	106,855
As at 31 December	**77,836**	448,364

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

11. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

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

			Past due but not impaired				
In thousands of Tenge	Total	Neither past due nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
2011	**7,186,869**	**7,101,031**	**–**	**55,749**	**–**	**16,137**	**13,952**
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 2011	31 December 2010
Foreign currencies	**4,505,373**	4,037,675
Tenge	**2,681,496**	1,857,792
	7,186,869	5,895,467

12. ADVANCES TO SUPPLIERS

In thousands of Tenge	31 December 2011	31 December 2010
Advances to third parties	**305,206**	204,219
Advances to related parties (*Note 32*)	**232,962**	277,137
Less: provision for non-performance	**(1,384)**	(1,094)
	536,784	480,262

Movements in allowance for doubtful debts were as follows:

In thousands of Tenge	2011	2010
As at 1 January	**1,094**	1,303
Charge for the year	**5,609**	1,097
Write-off of allowance for doubtful debts	**(847)**	–
Reversal of provision	**(4,472)**	(1,306)
As at 31 December	**1,384**	1,094

13. VAT RECOVERABLE AND OTHER PREPAID TAXES

In thousands of Tenge	31 December 2011	31 December 2010
VAT recoverable	**1,251,849**	2,522,838
Other taxes prepaid	**234,393**	458,104
Withholding tax	**–**	1,592,899
	1,486,242	4,573,841

During 2011, there were significant accrual of output VAT, that was partially offset using accumulated input VAT. During 2010, the Company reversed impairment of input VAT of 2,175,840 thousand Tenge accrued in prior periods.

14. OTHER CURRENT ASSETS

In thousands of Tenge	31 December 2011	31 December 2010
Deferred expenses to third parties	**614**	1,439
Deferred expenses to related parties (*Note 32*)	**149,104**	–
Due from employees	**22,201**	51,670
Prepaid insurance	**8,645**	8,971
	180,564	62,080

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

15. BANK DEPOSITS

In thousands of Tenge	**31 December 2011**	31 December 2010
Long-term bank deposits	**6,000,000**	–
Short-term bank deposits	**34,155,200**	40,000,000
Accrued interest on deposits	**968,618**	446,533
	41,123,818	40,446,533

At 31 December 2011 short-term bank deposits comprised of Tenge denominated deposits placed with Kazakhstani banks with maturity from 3 to 12 months, which earn interest from 3.75% to 9% per annum (2010: from 5% to 6 % per annum) and US Dollars with interest rate of 5% per annum (2010: 10% per annum), maturing in December 2012 (2010: December 2011).

At 31 December 2011 long-term bank deposits comprised of Tenge denominated deposits placed with Kazakhstani banks with maturity date 13 April 2013, which earn interest of 6% per annum.

16. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**31 December 2011**	31 December 2010
Time deposits with banks – Tenge	**12,000,000**	4,000,000
Current accounts with banks – Tenge	**7,309,563**	9,731,884
Current accounts with banks – US Dollars	**496,073**	109,747
Current accounts with banks – Russian Rouble	**16,090**	11,844
Cash on hand	**1,390**	1,143
Other current accounts with banks	**10,240**	7,409
	19,833,356	13,862,027

At 31 December 2011 most current accounts and time deposits placed with Kazakhstani banks carried interest ranging from 1% to 3.25% per annum, respectively (2010: from 2% to 3% per annum).

17. EQUITY

Share capital

Company's share capital comprises common shares with par value of 1,000 Tenge.

On June 22, 2011, the Company issued 1,701,149 shares with face value of 1,000 Tenge, which were acquired by the Parent Company. In return for the shares Parent Company contributed Kazahstani section of the pipeline Tuimazy-Omsk-Novosibirsk 2 with associated infrastructure facilities and land plots *(Note 5)*.

As at 31 December 2011, Company's share capital comprised of 34,617,204 common shares (2010: 32,916,055 common shares) at par value 1,000 Tenge, authorized, issued and fully paid.

Distributions to the shareholder

Dividends

During 2011, the Company declared and paid dividends for 2010, totalling 19,330,798 thousand Tenge from 2010 income (2010: 7,340,280 thousand Tenge from 2009 income). The dividend per share amount was 558 Tenge per common share (2010: 223 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.

Other distributions

In accordance with the regulations of the Government of the Republic of Kazakhstan No. 411 dated April 13, 2011, and No. 420 dated April 18, 2011, during twelve months ended 31 December 2011, the Company distributed Tenge 1,000,000 thousand Tenge in order to construct housing for residents of West Kazakhstan region affected by the flood.

Asset 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.

18. EMPLOYEE BENEFITS LIABILITY

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. These benefits are unfunded.

On May 20, 2011, the Company approved Collective agreement on social support of employees of the Company ("Agreement"). In Agreement the Company increased amount of post retirement benefits to pensioners and also clarified most of its payments to pensioners, which caused substantial increase of long term obligations as of December 31, 2011.

Changes in defined benefit obligations are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010
Present value of defined benefits obligation at the beginning of the year	**2,721,804**	2,469,000
Past services cost	**1,638,000**	–
Current services cost	**296,000**	203,000
Unwinding of discount (*Note 30*)	**163,000**	150,000
Actuarial losses (*Notes 28*)	**1,540,000**	27,000
Benefits paid	**(222,912)**	(127,196)
Present value of defined benefit obligation at the end of the year	**6,135,892**	2,721,804
Less: current portion of present value of defined benefit obligation	**(226,000)**	(141,000)
Non-current portion of present value of defined benefit obligation	**5,909,892**	2,580,804

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

In thousands of Tenge	**31 December 2011**	31 December 2010
Present value of defined benefit obligation at end of the year	**6,135,892**	2,721,804
Net liability	**6,135,892**	2,721,804
Past service cost	**1,638,000**	–
Current service expense	**296,000**	203,000
Actuarial losses (*Note 28*)	**1,540,000**	27,000
Unwinding of discount (*Note 30*)	**163,000**	150,000
Expense recognized in the current period	**3,637,000**	380,000

Current and past services costs are included in the consolidated statement of comprehensive income as part of 'cost of sales' and 'general and administrative expenses except for 880 thousand Tenge in 2010 capitalized as a part of property, plant and equipment.

Principal actuarial assumptions used for valuation of employee benefit obligation at 31 December 2011 and 2010 were as follows:

	2011	2010
Discount rate	**6.0%**	6.0%
Future salary increases	**6.0%**	4.0%
Mortality rate	**12.0%**	12.0%

19. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**31 December 2011**	31 December 2010
Accounts payable to third parties for goods and services	**5,284,824**	5,073,351
Accounts payable for oil transportation coordination for third parties	**4,688,339**	3,857,236
Accounts payable for oil transportation coordination for related parties (*Note 32*)	**3,915,508**	4,273,240
Accounts payable to related parties for goods and services (*Note 32*)	**581,737**	529,567
Other payables	**377,114**	286,758
	14,847,522	14,020,152

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

19. TRADE AND OTHER ACCOUNTS PAYABLE (continued)

Trade and other accounts payables are denominated as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010
Tenge	**13,213,979**	13,292,893
Foreign currencies	**1,633,543**	727,259
	14,847,522	14,020,152

20. ADVANCES RECEIVED

In thousands of Tenge	**31 December 2011**	31 December 2010
Advances received from related parties (*Note 32*)	**7,021,835**	7,008,869
Advances received from third parties	**3,928,081**	3,748,843
	10,949,916	10,757,712

21. OTHER TAXES PAYABLE

In thousands of Tenge	**31 December 2011**	31 December 2010
Personal Income Tax	**287,000**	196,760
Social Tax	**252,699**	169,487
Property tax	**42,017**	88,356
Other taxes	**26,546**	19,817
	608,262	474,420

22. PROVISIONS

Tax Provisions

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 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.

Based on results of the legal proceedings the resolution of the supervisory Board of the Supreme Court dated May 25, 2011 did not satisfy the claim of the Tax Committee. Accordingly, the Company reversed a tax provision of 3,718,848 thousand Tenge.

Other Provisions

During 2011 the management of the Company has made a provision in the amount of 49,657 thousand Tenge for environmental pollution due to oil spill as result of Tuimazy-Omsk-Novosibirsk 2 pipeline system and for other provisions in the amount of 11,814 thousand Tenge. During 2011 provision was used in the amount of 3,090 thousand Tenge, and as at 31 December 2011 provision for liability due to environmental pollution is 48,267 thousand Tenge (2010: nil) and for other provisions 11,814 thousand Tenge.

23. OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2011**	31 December 2010
Salaries and wages	**2,527,457**	3,398,479
Accounts payable to pension funds	**377,402**	262,679
Current portion of deferred income from related parties (*Note 32*)	**312,365**	312,366
Current portion of deferred income from third parties	**5,444**	2,044
	3,222,668	3,975,568

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

24. REVENUE

In thousands of Tenge	2011	2010
Crude oil transportation	**109,585,457**	109,574,473
Water transportation	**6,119,862**	5,892,098
Pipeline operation services	**5,227,305**	4,530,016
Oil transportation expedition services	**744,331**	739,740
Oil storage services	**282,259**	178,499
Other	**298,900**	223,716
	122,258,114	121,138,542

25. COST OF SALES

In thousands of Tenge	2011	2010
Depreciation and amortization	**24,965,637**	19,703,069
Personnel costs	**24,254,365**	20,950,012
Electric energy	**4,755,050**	4,411,748
Repair and maintenance costs	**4,664,192**	4,267,079
Materials and fuel	**4,447,238**	3,762,818
Taxes other than corporate income tax	**3,732,005**	3,460,595
Security services	**3,400,245**	2,352,145
Gas expense	**1,966,908**	2,016,140
Air services	**1,942,330**	1,790,035
Post-employment benefits	**1,820,207**	–
Environmental protection	**954,632**	884,609
Business trip expenses	**563,474**	531,425
Diagnostics	**419,693**	713,129
Training	**414,238**	–
Insurance	**394,065**	371,385
Communication services	**210,736**	176,076
Other	**1,425,095**	2,931,785
	80,330,110	68,322,050

26. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	2011	2010
Personnel costs	**4,225,972**	3,717,909
Depreciation and amortization	**542,404**	497,599
Consulting	**483,134**	157,662
Social sphere expenses	**406,472**	359,740
Taxes other than corporate income tax and VAT	**364,372**	181,085
Office services	**339,415**	331,122
Write off of VAT recoverable	**301,452**	328,877
Charity expenses	**284,931**	312,740
Security	**221,460**	186,878
Repair and maintenance	**162,779**	183,509
Materials and fuel	**154,395**	134,262
Training	**152,595**	123,801
Business trip expenses	**125,309**	153,775
Bank services	**86,418**	96,203
Communication services	**80,593**	92,804
Advertising expense	**79,673**	86,208
Information expenses	**76,182**	74,336
Transportation services	**65,613**	85,675
Operational rent expenses	**61,117**	75,583
Provision / (Reversal of) for allowance for doubtful debt	**40,297**	(2,146,343)
Insurance	**23,377**	77,414
Provision / (Reversal of) for slow-moving and obsolete inventories	**2,892**	(2,984)
(Reversal of) / Provisions *(Note 22)*	**(3,718,848)**	–
Other	**163,243**	179,660
	4,725,247	5,287,515

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

27. OTHER OPERATING INCOME

In thousands of Tenge	**2011**	2010
Income from fines and penalties	**782,388**	934,985
Amortization of deferred income from related parties *(Note 32)*	**312,365**	312,366
Amortization of financial guarantee issued to related party *(Note 32)*	**136,070**	136,934
Income from written-off of payables	**6,718**	28,425
Other income	**155,328**	653,424
	1,392,869	2,066,134

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.

28. OTHER OPERATING EXPENSES

In thousands of Tenge	**2011**	2010
Actuarial losses	**1,540,000**	27,000
Loss on disposal of inventory	**51,482**	–
Loss on disposal of property, plant and equipment and intangible assets	**48,911**	112,982
Other expenses	**103,173**	501,742
	1,743,566	641,724

29. FINANCE INCOME

In thousands of Tenge	**2011**	2010
Interest income on bank deposits	**2,741,951**	1,711,935
Dividends income *(Note 32)*	**17,608**	46,046
Other finance income	**50,589**	55,603
	2,810,148	1,813,584

30. FINANCE COSTS

In thousands of Tenge	**2011**	2010
Employee benefits: unwinding of discount	**163,000**	150,000
Interest on loans and borrowings	**–**	621,904
Loss on initial recognition of loans to employees and related parties	**–**	7,275
Other finance costs	**74,832**	–
	237,832	779,179

31. INCOME TAX EXPENSE

As at 31 December 2011 income tax prepayment in the amount of 1,752,554 thousand Tenge (2010: 1,334,062 thousand Tenge) represents corporate income tax.

Income tax expenses for the years ended 31 December comprise:

In thousands of Tenge	**2011**	2010
Current Income tax expense	**9,293,462**	10,659,019
Deferred Income tax benefit	**(1,424,321)**	(2,805,910)
Income tax expense	**7,869,141**	7,853,109

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSE (continued)

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:

In thousands of Tenge	2011	2010
Profit before income tax	**37,332,512**	36,804,361
Statutory rate	**20%**	20%
Income tax expense on accounting profit	**7,466,502**	7,360,872
Tax effect of permanent differences:		
Reversal of provisions	**(743,770)**	-
Impairment / (reversal) of investments	**390,764**	(59,787)
Other non deductible expenses / (income)	**495,709**	(52,774)
Tax effect of other adjustments:		
Adjustment of tax return for prior years	**259,936**	604,798
Corporate income tax expense reported in the statement of comprehensive income	**7,869,141**	7,853,109

Deferred income tax balances, calculated by applying the statutory income tax rates in effect at the respective Statement of Financial Position 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:

In thousands of Tenge	31 December 2011	Charged to profit and loss	Charged to revaluation reserve	31 December 2010	Charged to profit and loss	Charged to revaluation reserve	31 December 2009
Deferred tax assets							
Bonuses and other employee compensation and related costs	**1,413,757**	**409,354**	-	1,004,403	590,796	-	413,607
Financial guarantee liability	**67,784**	**(26,939)**	-	94,723	(28,192)	-	122,915
Allowance for doubtful debts	**15,844**	**(93,914)**	-	109,758	(409,402)	-	519,160
Provision for slow-moving and obsolete inventory	**10,140**	**(470)**	-	10,610	(30,483)	-	41,093
Taxes payable	**50,997**	**29,728**	-	21,269	(13,482)	-	34,751
Impairment of investments	**6,270,995**	**390,764**	-	5,880,231	(59,787)	-	5,940,018
Financial aid to related parties and loans to employees	**5,652**	**(35,229)**	-	40,881	5,078	-	35,803
Income of BIHL	**1,110,118**	**79,571**	-	1,030,547	292,386	-	738,161
Deferred income	**239,480**	**(62,473)**	-	301,953	(62,473)	-	364,426
Unrecognised deferred income tax assets	**(6,270,995)**	**(390,764)**	-	(5,880,231)	59,787	-	(5,940,018)
	2,913,772	**299,628**	-	2,614,144	344,228	-	2,269,916
Deferred tax liabilities							
Investments in joint ventures	**(176,032)**	-	-	(176,032)	-	-	(176,032)
Property, plant and equipment	**(35,185,786)**	**1,124,693**	**(2,578,713)**	(33,731,766)	2,443,658	(17,426,240)	(18,749,184)
Other temporary differences	-	-	-	-	18,024	-	(18,024)
	(35,361,818)	**1,124,693**	**(2,578,713)**	(33,907,798)	2,461,682	(17,426,240)	(18,943,240)
Net deferred income tax liabilities	**(32,448,046)**	**1,424,321**	**(2,578,713)**	(31,293,654)	2,805,910	(17,426,240)	(16,673,324)

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.

32. 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.

Halyk Bank of Kazakhstan JSC ("Halyk Bank") is considered to be related party as it is controlled by a member of key management personnel of the KMG and Samruk-Kazyna.

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 2011 and 2010 and the related balances as at 31 December 2011 and 2010:

Borrowings due from related parties were as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010
Long-term portion of borrowings due from related parties	–	134,120
Short-term portion of borrowings due from related parties	337,537	493,803
Total loans to related parties	**337,537**	627,923

Borrowings due from related parties represent financing provided to KTO-Service. 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.

Other non-current assets includes long term trade accounts receivables from related parties are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010
Long-term trade accounts receivable		
Long-term trade accounts receivable from entities under common control of KMG	202,705	–
Total long-term trade accounts receivable from related parties	**202,705**	–

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

In thousands of Tenge	**31 December 2011**	31 December 2010
Trade and other accounts receivable from related parties		
Trade accounts receivable from joint venture	1,396,428	739,121
Trade accounts receivable from entities under common control of KMG	554,503	523,220
Trade accounts receivable from entities of Samruk-Kazyna Group	207	41
	1,951,138	1,262,382
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	58,933	55,281
Total trade and other accounts receivable	**2,010,071**	1,317,663

Advances provided to related parties were as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010
Advances to related parties		
Advances to entities under common control of KMG	170,207	215,146
Advances to entities of Samruk-Kazyna Group	62,755	61,991
Total advances issued to related parties	**232,962**	277,137

32. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of Tenge	**31 December 2011**	31 December 2010
Current accounts		
Halyk Bank – other affiliate	**14,598,972**	671,838
Total current accounts placed in banks which are related parties	**14,598,972**	671,838

At 31 December 2011 current accounts comprised of Tenge denominated deposits placed in Halyk Bank in amount of 12,000,000 Tenge with maturity less than 3 months, which earn interest of 2% per annum (2010: nil) and of other current accounts with interest rate from 0.1% to 3% per annum (2010: from 0.5% to 1.5% per annum).

In thousands of Tenge	**31 December 2011**	31 December 2010
Bank deposits		
Halyk Bank – other affiliate	**5,000,000**	23,000,000
Total bank deposits placed in banks which are related parties	**5,000,000**	23,000,000

At 31 December 2011 bank deposits comprised of Tenge denominated deposits placed in Halyk Bank, which earn interest from 3.5% to 6% per annum (2010: from 4.6% to 6.2% per annum)

In thousands of Tenge	**31 December 2011**	31 December 2010
Interest receivable from bank deposits		
Halyk Bank – other affiliate	**195,528**	228,681
Total interest receivable from bank deposits	**195,528**	228,681

Deferred expenses to related parties are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010
Deferred expenses		
Halyk Bank JSC – other affiliate	**149,104**	–
Total deferred expenses to related parties	**149,104**	–

Financial guarantee issued on behalf of related party are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010
Financial guarantee issued on behalf of MunaiTas JSC	**338,919**	473,616
Total financial guarantee issued on behalf of related parties	**338,919**	473,616

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

In thousands of Tenge	**31 December 2011**	31 December 2010
Deferred income from related parties		
Deferred income from entities under common control of KMG	**885,036**	1,197,401
Total other non–current liabilities to related parties	**885,036**	1,197,401

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

32. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of Tenge	**31 December 2011**	31 December 2010
Accounts payable for oil transportation coordination for related parties		
Accounts payable for oil transportation coordination for entities under common control of KMG	**3,915,508**	4,273,240
	3,915,508	4,273,240
Accounts payables to related parties for goods and services		
Accounts payables to entities under common control of KMG	**449,859**	299,023
Accounts payables to entities under control of Samruk-Kazyna Group	**77,564**	113,978
Accounts payables to subsidiary	**52,554**	116,566
Other payables to entities under control of Samruk-Kazyna Group	**1,760**	-
	581,737	529,567
Total trade and other accounts payable to related parties	**4,497,245**	4,802,807

Advances received from related parties were as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010
Advances received from related parties		
Advances to entities under common control of KMG	**6,111,963**	5,982,993
Advances to entities under common control of Samruk-Kazyna Group	**909,872**	1,025,876
Total advances received from related parties	**7,021,835**	7,008,869

Other current liabilities to related parties were as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010
Employee benefits		
Employee benefits of key management personnel	**4,943**	5,024
	4,943	5,024
Current portion of deferred income from related parties		
Current portion of deferred income from entities under common control of KMG	**312,365**	312,366
	312,365	312,366
Total other current liabilities to related parties	**317,308**	317,390

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

32. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of Tenge	**2011**	2010
Sales to related parties		
Income from main activities from entities under common control of KMG	**66,660,290**	66,580,828
Income from main activities from entities of Samruk-Kazyna Group	**9,156,388**	10,394,200
Income from main activities from joint ventures	**4,372,631**	3,789,001
Income from other activities from entities under common control of KMG	**149,183**	205,700
Income from other activities from subsidiaries	**584,611**	25,286
Income from other activities from entities of Samruk-Kazyna Group	**2,290**	4,583
Income from other activities from joint ventures	**1,060**	4,721
Purchases of property, plant and equipment from entities of Samruk-Kazyna Group	**240,093**	–
	81,166,546	81,004,319
Purchases from related parties		
Purchases of services from entities under common control of KazMunayGas	**6,720,258**	5,896,450
Purchases of services from entities of Samruk-Kazyna Group	**1,753,984**	1,848,232
Purchases of services from subsidiary	**552,922**	530,347
Purchases of property, plant and equipment and inventory from entities of Samruk-Kazyna Group	**24,559**	35,121
	9,051,723	8,310,150
Interest income from bank deposits		
Halyk Bank – other affiliate	**866,440**	1,056,373
	866,440	1,056,373

In thousands of Tenge	**2011**	2010
Dividend income		
Dividend income from joint ventures	–	376,871
Other dividend income	**17,608**	46,046
	17,608	422,917
Other operating income from related parties		
Amortization of deferred income from related parties	**312,365**	312,366
Amortization of financial guarantee issued to related party	**136,070**	136,934
	448,435	449,300
Finance income from related parties		
Income from discounting of debts from related parties	**9,439**	–
	9,439	–
Financial expenses to related parties		
Expenses on discounting of debts from related parties	**74,638**	–
	74,638	–

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

In thousands of Tenge	**31 December 2011**	31 December 2010
Salary	**98,997**	100,253
Bonuses	**37,430**	41,187
Post–employment benefits	**1,908**	176
	138,335	141,616
Number of persons	**7**	7

33. 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 usual. 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 2011.

As at 31 December 2011 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, except as provided for or otherwise disclosed in these separate financial statements *(Note 22).*

Transfer pricing control

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the arm's length principle.

The new law on transfer pricing came into effect in Kazakhstan from 1 January 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Company's position, which could result in additional taxes, fines and interest at December 31, 2011.

As at December 31, 2011 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Company's positions with regard to transfer pricing will be sustained.

Environmental matters

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. 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.

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 has insurance coverage over property, third party liability in respect of property or environmental damage arising from accidents on Company's property or relating to Company's operations.

Covenants

Guarantees

At 31 December 2009, the Company ("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;

33. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Covenants (continued)

Guarantees (continued)

As of 31 December 2011 and 2010, 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.

Contractual commitments

As at 31 December 2011, the Company had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 9,147,588 thousand Tenge (2010: 16,645,820 thousand Tenge). In addition, as at 31 December 2011, the Company has committed to purchase inventory (materials and spare parts) and services for the amount of 47,781 thousand Tenge (2010: 5,215,034 thousand Tenge).

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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 15 and 16*). 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 Statement of Financial Position date using the Moody's credit ratings.

In thousand of Tenge

Bank	Location	Rating 2011	Rating 2010	2011	2010
Halyk Bank of Kazakhstan JSC	Kazakhstan	Ba2/Stable	B3/Stable	**19,794,500**	23,900,519
KazKommerstBank	Kazakhstan	Ba3/Negative	Ba3/Negative	**8,253,742**	17,635,887
SberBank of Russia JSC	Kazakhstan	Ba2/Stable	Ba2/Stable	**19,562,153**	12,729,316
RBS Bank Kazakhstan JSC	Kazakhstan	A2/Negative	A1/Stable	**16,299**	33,756
ATF Bank JSC	Kazakhstan	Ba3/Negative	Ba2/Stable	**13,321,930**	12
Bank CenterCredit JSC	Kazakhstan	B1/Stable	Ba3/Negative	**–**	12
CITI Bank Kazakhstan JSC	Kazakhstan	A1/Negative	A3	**669**	7
AMT Bank LLC	Russia	–	–	**4,622**	4,759
GasBank CJSC JSB	Russia	–	–	**1,860**	3,127
SlavInvest Bank JSC	Russia	–	–	**9**	–
Other	Kazakhstan	–	–	**–**	22
				60,955,784	54,307,417

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2011 and 2010 based on contractual undiscounted payments.

In thousands of Tenge	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	Total
As at 31 December 2011						
Trade and other payable	**–**	**13,590,115**	**1,257,407**	**–**	**–**	**14,847,522**
Other current liabilities	**–**	**2,527,457**	**–**	**–**	**–**	**2,527,457**
	–	**16,117,572**	**1,257,407**	**–**	**–**	**17,374,979**
As at 31 December 2010						
Trade and other payable	–	14,020,152	–	–	–	14,020,152
Other current liabilities	–	3,398,479	–	–	–	3,398,479
	–	17,418,631	–	–	–	17,418,631

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.

In thousands of Tenge	US dollar	Russian Rubble	Euro	Other currencies	Total
At 31 December 2011					
Assets	**24,861**	**4,487,448**	**–**	**81**	**4,512,390**
Liabilities	**1,332,716**	**310,262**	**8,113**	**2,804**	**1,653,895**
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

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.

In thousands of Tenge	Increase / decrease in US dollar rate	Effect on profit before tax
2011		
US Dollar	**+10,72%**	**(140,202)**
	-10,72%	**140,202**
2010		
US Dollar	+11,56%	(81,756)
	-11,56%	81,756

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 2010.

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

As of December 31, 2011 and 2010 the Company does not have significant debts. The Company has sufficient cash, exceeding its debt as of the reporting date.

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:

In thousand of Tenge	Carrying amount		Fair value	
	2011	2010	**2011**	2010
Financial assets				
Cash and cash equivalents	**19,833,356**	13,862,027	**19,833,356**	13,862,027
Bank deposits	**41,123,818**	40,446,533	**41,123,818**	40,446,533
Trade and other receivables	**7,186,869**	5,895,467	**7,186,869**	5,895,467
Other financial assets	**78,293**	93,971	**78,293**	93,971
Loans to related parties	**337,537**	627,923	**337,537**	627,923
Financial liabilities				
Trade and other payables	**14,847,522**	14,020,152	**14,847,522**	14,020,152
Other financial liabilities	**2,527,457**	3,398,479	**2,527,457**	3,398,479

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.

35. EVENTS AFTER THE REPORTING PERIOD

Since 6^{th} of January 2012 Halyk Bank of Kazakhstan JSC and its subsidiaries – members of Halyk Bank Company are not related parties of the Company.