“KazTransOil” Joint Stock Company
(A joint stock company organised under the laws of the Republic of Kazakhstan)

Offering of 38,463,559 ordinary shares

“KazTransOil” Joint Stock Company (the “**Company**” or “**KTO**”) is offering up to 38,463,559 ordinary shares (the “**Offered Shares**”). The offer price per ordinary share will be determined by a Resolution of the Government of the Republic of Kazakhstan and announced after the date of this Investment Memorandum. The Offered Shares are being offered (the “**Offering**”) in the Republic of Kazakhstan to the citizens of the Republic of Kazakhstan and pension funds organised under the laws of the Republic of Kazakhstan in accordance with the legislation of the Republic of Kazakhstan and in reliance on Regulation S under the United States Securities Act of 1933, as amended (the “**Securities Act**”). See “*Subscription and Settlement*”.

The Offered Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority in any State of the United States and will not be offered or sold within the United States. This Investment Memorandum is intended for use only in connection with the Offering of the Shares outside the United States and is not to be sent or given to any person in the United States.

The issue of Offered Shares was registered with the National Bank of the Republic of Kazakhstan (the “**NBRK**”) on 26 June 2012. This Investment Memorandum has been filed with the Kazakhstan Stock Exchange (the “**KASE**”) in connection with the Offering. The Shares will be admitted to the first category of the sector “shares” of the official list of the KASE prior to the opening of the order book, as described in “*Subscription and Settlement*”. No application has been, or is currently intended to be, made for the Shares to be admitted to listing or trading on any other stock exchange.

INVESTING IN THE OFFERED SHARES INVOLVES A HIGH DEGREE OF RISK. PURCHASERS MUST BE PREPARED TO BEAR THE ECONOMIC RISKS OF AN INVESTMENT IN THE SHARES FOR AN INDEFINITE PERIOD OF TIME AND BE ABLE TO WITHSTAND A TOTAL LOSS OF THEIR INVESTMENT. PROSPECTIVE INVESTORS SHOULD READ THIS ENTIRE INVESTMENT MEMORANDUM AND, IN PARTICULAR, THE SECTION ENTITLED *“RISK FACTORS”* BEFORE MAKING AN INVESTMENT DECISION WITH RESPECT TO THE OFFERED SHARES.

Financial Advisers

UBS Investment Bank **Kazkommerts Securities JSC**

The date of this Investment Memorandum is 23 October 2012

The Company accepts responsibility for the information contained in this Investment Memorandum and, to the best of the knowledge and belief of the Company, the information contained in this Investment Memorandum, as of the date hereof, is in accordance with the facts and does not omit anything likely to affect the import of such information.

No undertaking, representation or warranty, express or implied, is made by or on behalf of each of the Financial Advisers or any of their respective affiliates or any person acting on their behalf as to the accuracy or completeness of the information and opinions or beliefs contained in this document. None of such persons has attempted to verify such information and no responsibility or liability is accepted by them for any such information or opinions or beliefs.

The Offered Shares are being offered in the Republic of Kazakhstan to the citizens of the Republic of Kazakhstan and pension funds organised under the laws of the Republic of Kazakhstan in accordance with the legislation of the Republic of Kazakhstan. This document does not constitute an offer to sell, or an invitation to subscribe for or purchase, any Offered Shares, in any jurisdiction outside of the Republic of Kazakhstan. The distribution of this Investment Memorandum and the offering of the Offered Shares in other jurisdictions may be restricted by law. Persons into whose possession this Investment Memorandum comes are required to observe any such restrictions. This Investment Memorandum may only be used for the purpose for which it has been published.

No person is authorised to provide any information or to make any representation not contained in this Investment Memorandum, and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Company or the Financial Advisers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The business, financial condition, result of operations of the Company and other information set forth in the document may have changed since that date; neither the Company nor the Financial Advisers undertakes any obligation to update the information in this Investment Memorandum. The Company does not undertake any obligation to update the information in this Investment Memorandum after the date hereof. The contents of the Company's website as at the date hereof or as at any other date do not form any part of this Investment Memorandum and are not incorporated by reference herein.

In making a decision regarding an investment in the Offered Shares, prospective investors must rely on their own examination of the Company and the terms of the Offering, including the risks involved. Each prospective investor must rely on its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment.

Prospective investors should rely only on the information in this document. Neither the Company nor the Financial Advisers have authorised any other person to provide any information or make any representations other than as contained in this document and, if provided or made, such information or representations must not be relied upon as having been authorised by the Company or the Financial Advisers.

The Financial Advisers are acting exclusively for the Company and not for anyone else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their clients or for providing advice in relation to the transactions and arrangements detailed in this document.

The Offered Shares have not been and will not be registered by the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offered Shares or the accuracy or the adequacy of this Investment Memorandum. Any representation to the contrary is a criminal offence in the United States. The Kazakhstan Prospectus registered by the NBRK on 26 June 2012 (the "Kazakhstan

Prospectus") is the only authorised and official document containing information relating to the Offered Shares pursuant to which the Offering is made in the Republic of Kazakhstan.

Notice to Certain Investors

The Company and the Financial Advisers require persons into whose possession this Investment Memorandum comes to inform themselves about and to observe any restrictions imposed by applicable laws and jurisdictions. No action has been taken that would permit a public offering to be made in any jurisdiction other than the Republic of Kazakhstan.

United States of America

The Offered Shares have not been and will not be registered under the Securities Act and will not be offered or sold within the United States. The Offered Shares are being offered to investors outside the United States in reliance on Regulation S under the Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offered Shares within the United States by a dealer, whether or not participating in the Offering, may violate the registration requirements of the Securities Act.

European Economic Area

No Financial Adviser has offered any Offered Shares to the public in any Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "**Relevant Member State**"), from and including the date on which that Relevant Member State implements the Prospectus Directive (the "**Relevant Implementation Date**") to the date of:

- publication of a prospectus in relation to the Offered Shares; and
- approval of such prospectus by the competent authority in that Relevant Member State or, where applicable, the approval of such prospectus by the competent authority in another Relevant Member State and the notification thereof to the competent authority in that Relevant Member State; all in accordance with the Prospectus Directive.

For the purposes of this provision, the expression "offer the Offered Shares to the public" means, in relation to any Offered Shares in any Relevant Member State, the communication, in any form and by any means, of sufficient information concerning the terms of the Offering and the Offered Shares so as to enable an investor to decide to purchase or subscribe to the Offered Shares, as such information may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Russian Federation

This Investment Memorandum is not a public offer or advertisement of the Offered Shares in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any Offered Shares in the Russian Federation. The Offered Shares are not intended for "placement" or "public circulation" in the Russian Federation and neither the Offered Shares nor any prospectus or other document relating to them have been or will be registered with the Federal Service for Financial Markets of the Russian Federation. Any information on the Offered Shares in this Investment Memorandum is intended for, and addressed to, persons outside of the Russian Federation. The Offered Shares may not be offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

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FORWARD-LOOKING STATEMENTS

This Investment Memorandum may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and certain of the plans, intentions, expectations, assumptions, goals and beliefs of the Company regarding such items. These statements include all matters that are not historical facts and generally, but not always, may be identified by the use of words such as "believes," "expects," "are expected to," "anticipates," "intends," "estimates," "should," "will," "will continue," "may," "is likely to," "plans" or similar expressions, including variations and the negatives thereof or comparable terminology.

Prospective investors should be aware that forward looking statements are not guarantees of future performance and that the Company's actual results of operations and financial condition and the development of the industry in which it operates may differ significantly from those made in or suggested by the forward-looking statements contained in this Investment Memorandum. In addition, even if the Company's results of operations, financial condition and business and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Investment Memorandum, those results or developments may not be indicative of results or developments in subsequent periods.

Factors that could cause actual results to differ materially from the Company's expectations are contained in cautionary statements in this Investment Memorandum and include, among other things, the following:

- the continuing effects of the global financial crisis, whose duration and magnitude cannot be ascertained;
- overall economic and business conditions, including commodity prices;
- inflation, interest rate and exchange rate fluctuations;
- economic and political conditions in Kazakhstan and international markets, including governmental changes;
- changes in government regulations, including regulatory changes in crude oil and water transportation tariffs, and governmental actions that may affect the Company's operations or planned expansion;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- the outcome of certain disputes with tax regulators in Georgia;
- price fluctuations in crude oil, gas and oil products markets and related fluctuations in demand for crude oil, gas and oil products;
- operational limitations, including equipment failures, labor disputes and processing limitations;
- unplanned events or accidents affecting the Company's operations or facilities;
- natural disasters and weather conditions;
- the effects of competition in the area of transportation of crude oil and water in which the Company operates;
- development of technologies utilised by the Company; and
- an inability to implement any potential acquisition or an inability to acquire such interests on terms proposed by the Company.

The sections of this Investment Memorandum entitled "*Risk Factors*", "*Business*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" contain a more complete discussion of the factors that could affect the Company's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward looking events described in this Investment Memorandum may not occur. The Company does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Investment Memorandum.

ENFORCEABILITY OF JUDGEMENTS

The Company is a joint stock company organized under the laws of the Republic of Kazakhstan and all of its officers and certain of its directors and other persons referred to in this Investment Memorandum are residents of the Republic of Kazakhstan. All or substantial portion of the assets of the Company and most of such persons are located in the Republic of Kazakhstan. As a result, it may not be possible (i) to effect service of process upon the Company or any such person outside the Republic of Kazakhstan, (ii) to enforce against any of them, in courts in jurisdictions other than the Republic of Kazakhstan, judgements obtained in such courts that are predicated upon the laws of such other jurisdictions or (iii) to enforce against any of them, in courts of the Republic of Kazakhstan, judgements obtained in jurisdictions other than the Republic of Kazakhstan, and judgements obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

Courts of the Republic of Kazakhstan will not enforce any judgement obtained in a court established in a country other than the Republic of Kazakhstan, unless there is in effect a treaty between such country and the Republic of Kazakhstan providing for reciprocal enforcement of judgements and then only in accordance with the terms of such treaty. There is no such treaty in effect between the Republic of Kazakhstan and the United States. However, the Republic of Kazakhstan is a party to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "**Convention**") and, accordingly, an arbitral award under the Convention should generally be recognised and enforceable in the Republic of Kazakhstan provided the conditions to enforcement set out in the Convention are met.

The Law the Republic of Kazakhstan No. 23-III "On International Commercial Arbitration" (the "**Arbitration Law**") was adopted by the Parliament of Kazakhstan (the "**Parliament**") on 28 December 2004. The Arbitration Law is intended to resolve uncertainty created by prior decisions of the Constitutional Council of the Republic of Kazakhstan regarding enforcement of the Convention in the Republic of Kazakhstan which became effective on 15 February 2002 and 12 April 2002 and were cancelled by the Constitutional Council in February 2008. The Arbitration Law provides clear statutory guidelines for the enforcement of arbitral awards under the conditions set forth in the Convention. In February 2010, the Parliament passed legislation amending laws of the Republic of Kazakhstan to provide for certain immunities for government entities, including national companies, in the context of arbitration and foreign court judgements. While these immunities should apply only to government entities to the extent they are performing sovereign functions and not commercial activities, under the amendments, whether a particular activity is deemed to be sovereign or commercial in nature is subject to determination by courts of the Republic of Kazakhstan on a case-by-case basis.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Certain Terminology

Unless the context otherwise requires, all references in this Investment Memorandum to the "**Company**" or "**KTO**" are to "KazTransOil" Joint Stock Company, and all references in this Investment Memorandum to the "**Group**" refer collectively to the Company and its consolidated subsidiaries. The ordinary shares of the Company are referred to as the "**Shares**".

Presentation of Financial Information

The Company's audited consolidated financial statements for the three years ended 31 December 2011, 2010 and 2009 (the "**Audited Financial Statements**") included in this document have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") promulgated by the International Accounting Standards Board. The Company's unaudited consolidated interim financial statements for the six months ended 30 June 2012 and 2011 (the "**Unaudited Interim Financial Statements**" and together with the Audited Financial Statements, the "**Financial Statements**") included in this document have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". The term "period under review" means the periods for which Financial Statements have been included in this Investment Memorandum. Certain historical financial information as set out herein has been extracted without material adjustment from the Financial Statements.

Independent Auditors

Ernst & Young (Kazakhstan) LLP, independent auditors, whose registered address is 77/7, Al-Farabi street, Almaty, the Republic of Kazakhstan ("**Ernst & Young**"), have audited the annual financial statements of the Company for the years 2011, 2010 and 2009 and have reviewed the interim financial statements of the Company for the six months ended 30 June 2012 and 2011.

Presentation of Non-IFRS Measures

The Company defines EBITDA as gross profit less general and administrative expenses plus depreciation and amortization plus/(less) income/(loss) on allowance for doubtful debts, taxes and obsolete inventory. The Company presents EBITDA because it believes that this measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Company's industry. EBITDA has limitations as an analytical tool, and it should not be considered in isolation, or as a substitute for analysis of the Company's operating results as reported under IFRS. In addition, other companies in the industry may calculate EBITDA differently or may use it for different purposes than the Company does, limiting its usefulness as a comparative measure. EBITDA is a measure of the Company's operating performance that is not required by, or presented in accordance with, IFRS. EBITDA is not a measurement of the Company's operating performance under IFRS and should not be considered as an alternative to profit for the year, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of the Company's liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to the Company to invest in the growth of its business.

Presentation of Industry Data

Certain information contained in this Investment Memorandum has been obtained by the Company from external sources, including other private companies, agencies, international organizations and Kazakhstan authorities, such as the National Statistical Agency of Kazakhstan, the NBRK and other public sources in Kazakhstan, and the Company has relied on that information without carrying out any independent verification. The Company confirms that this data has been accurately reproduced and, so far as it is aware and has been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

However, in the preparation of this Investment Memorandum, this third party information has not been independently verified nor has there been any investigation of the validity of the methodology of, or the basis used by, the third parties in producing such data or making estimates and forecasts. The Company and the Financial Advisers cannot give any assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate.

Currency

In this Investment Memorandum, the following currency terms are used:

- "**Tenge**", "**tenge**" or "**KZT**" means the lawful currency of the Republic of Kazakhstan;
- "**U.S. dollar**", "**Dollar**", "**dollar**" or "**U.S.$**" means the lawful currency of the United States of America;
- "**EUR**", "**Euro**" and "**€**" means the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community;
- "**Rouble**", "**RUB**" and "**Russian Rouble**" means the currency of the Russian Federation.

Currencies and Exchange Rates

The following table shows, for the periods indicated, certain information regarding the exchange rate between the Tenge and U.S. Dollar based on the official exchange rates quoted by the KASE. These rates may differ from the actual rates used in the preparation of the Company's financial statements and other financial information appearing in this Investment Memorandum.

	Tenge per U.S. Dollar			
	High	**Low**	**Average(1)**	**Period end**
2009	151.42	120.80	136.11	148.52
2010	148.52	146.41	147.47	147.50
2011	148.43	145.18	146.81	148.43
2012 (through 23 October 2012)	150.65	147.62	149.57	150.43

(1) The average rates are calculated as mid-value between the highest and lowest rates of Tenge / U.S. Dollar for the relevant period.

The exchange rate between Tenge and U.S. Dollar quoted by the KASE for 30 June 2012 was KZT 194.44 per U.S.$ 1.00.

The exchange rate between Tenge and U.S. Dollar quoted by the KASE for 23 October 2012 was KZT 149.57 per U.S.$ 1.00.

No representation is made that the Tenge or U.S. Dollar amounts in this Investment Memorandum could have been, can or will be able to be, converted to Tenge or U.S. Dollar, as the case may be, at any particular rate or at all.

Rounding

Some numerical and percentage amounts included in this Investment Memorandum have been subject to rounding adjustments. Accordingly, numerical and percentage amounts shown as totals in certain tables may not be an arithmetic aggregation of the amounts that preceded them.

SUMMARY

This summary may not contain all the information that may be important to the investors in the Shares. The investors should read this entire Investment Memorandum, including the more detailed information regarding the Company's business and operations and the Financial Statements included elsewhere in this Investment Memorandum. Investing in the Shares involves risks, and the investors should carefully consider the information set forth under "Risk Factors". Certain statements in this Investment Memorandum include forward-looking statements that also involve risks and uncertainties, as described under "Forward-Looking Statements".

Overview

The Company is the largest oil transportation company in the Republic of Kazakhstan, providing crude oil transportation services for both domestic and export destinations. In 2011 the Company transported via its network of trunk oil pipelines 54,019 thousand tonnes of crude oil. According to the Company's estimates based on information on crude oil and gas condensate production provided by JSC Information-Analytical Center of Oil and Gas, in 2011 the Company transported via its network of trunk oil pipelines approximately 59% of all crude oil extracted in the Republic of Kazakhstan.

KTO owns the largest trunk oil and water pipeline network in the Republic of Kazakhstan by length and throughput capacity, according to the estimates of the National Statistical Agency of the Republic of Kazakhstan. As at 30 June 2012, the Company owned 5,495 km of oil pipelines. The Company's business also includes the provision of water supply services through the Astrakhan-Mangyshlak trunk water pipeline, one of the largest water pipelines in the Republic of Kazakhstan. As at 30 June 2012, the length of the Company's water pipeline network was 2,148 km with installed throughput capacity of 33.6 million cubic metres of water per year. In 2011 and for the first six months of 2012 the total volume of water supplied by the Company amounted to 21,192 thousand cubic metres and 11,058 thousand cubic metres, respectively. The Company also provides services relating to the operating and maintenance of trunk oil pipelines owned by third parties, including those owned by LLP Kazakhstan-China Pipeline ("**KCP**") and JSC NWTC MunaiTas ("**MunaiTas**"), the Company's joint ventures with foreign partners. KCP and MunaiTas own pipelines with an aggregate length of 2,205 km as at 30 June 2012.

Batumi Industrial Holdings Limited ("**BIHL**"), a subsidiary of the Company, provides crude oil and gas transshipment and storage services, dry cargo transshipment services and also other services relating to transshipment of cargo through the Batumi Oil Terminal and the Batumi Sea Port in Georgia.

Through the "Sovereign Wealth Fund "Samruk-Kazyna" JSC ("**Samruk-Kazyna**"), the Government of the Republic of Kazakhstan wholly owns the National Company KazMunaiGas JSC ("**KMG**"), which is the Company's sole shareholder as at the date of this Investment Memorandum. As a result, the Government of the Republic of Kazakhstan indirectly influences all of the business of the Company, including its budget, capital expenditure programme and borrowings programme. After the Offering (assuming all Shares are taken up), KMG will continue to control approximately 90% of the voting shares of the Company. See "*Risk Factors – Risks Related to the Group's Business – The Company has been and will continue to be controlled by KMG, whose interests may conflict with those of other shareholders*".

For the year ended 31 December 2011, the Company's consolidated revenue amounted to KZT 140,478,092 thousand and its EBITDA amounted to KTZ 61,490,627. For the six months ended 30 June 2012, the Company's consolidated revenue amounted to KZT 66,357,554 thousand and its EBITDA amounted to KZT 29,951,520 thousand. See "*Presentation of Financial and Other Information – Presentation of Non-IFRS Measures*".

Competitive Strengths

The Company believes that it benefits from the following competitive strengths:

- The Company is the largest oil transportation company in the Republic of Kazakhstan;
- The Company plays an important role for the economy of the Republic of Kazakhstan;
- The Company has stable operational and financial history; and
- The Company has an experienced management team.

Strategy

The Company's goal is the increase of its market value. The Company intends to achieve that goal by, amongst other things:

- Increasing crude oil transportation and water supply volumes;
- Financial strategy aimed at improving profitability;
- Efficient investment policy and participation in large oil transportation projects; and
- Maintaining high corporate governance, risk management and operational standards.

Summary Consolidated Financial and Operating Data

The following tables set forth the Company's historical consolidated financial information and other operating information as at and for the years ended 31 December 2011, 2010 and 2009 and as at and for the six months ended 30 June 2012 and 2011. The financial information set forth below as at and for the years ended 31 December 2011, 2010 and 2009 has been derived from, and should be read in conjunction with, the Audited Financial Statements included elsewhere in this Investment Memorandum. The financial information set forth below as at and for the six months ended 30 June 2011 and 30 June 2012 has been derived from, and should be read in conjunction with, the Unaudited Interim Financial Statements included elsewhere in this Investment Memorandum. Ernst & Young have audited the Consolidated Financial Statements and reviewed the Interim Financial Statements. The selected consolidated financial information should be read in conjunction with "*Presentation of Financial and Other Information*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" and the Financial Statements and notes thereto included elsewhere in this Investment Memorandum.

This Investment Memorandum also includes certain measures that are not measures defined by IFRS. Such non-IFRS measures should not be considered in isolation, or as a substitute for analysis of the Company's operating results as reported under IFRS. See "*Presentation of Financial and Other Information – Presentation of Non-IFRS Measures*".

	For the six months ended 30 June		For the years ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
	(in thousands of Tenge)				
Consolidated statement of comprehensive income					
Revenue	66,357,554	71,502,222	140,478,092	138,240,940	126,181,133
Cost of sales	(45,834,937)	(44,460,702)	(96,298,683)	(82,406,630)	(71,442,500)
Gross profit	**20,522,617**	**27,041,520**	**44,179,409**	**55,834,310**	**54,738,633**
General and administrative expenses	(4,427,535)	(437,849)	(6,730,370)	(7,114,619)	(9,104,796)
Other operating income	639,922	510,993	1,645,165	2,055,088	1,092,860
Other operating expenses	(312,817)	(514,036)	(2,766,295)	(805,658)	(1,124,886)
Impairment of property, plant and equipment and intangible assets	–	–	(7,409,186)	(22,333,457)	(1,246,788)

Effect of recognizing of liabilities associated with acquisition in 2008	–	–	–	–	(5,017,821)
Impairment of goodwill	–	–	–	(2,370,792)	(1,306,548)
Operating profit	**16,422,187**	**26,600,628**	**28,918,723**	**25,264,872**	**38,030,654**
Net foreign exchange loss	(15,474)	(442,516)	(434,972)	(265,221)	(7,011,967)
Finance income	1,080,365	1,534,384	2,895,026	1,882,967	2,283,646
Finance costs	(98,094)	(119,989)	(308,356)	(863,112)	(1,995,645)
Share in income/ (losses) of joint ventures	2,854,964	320,466	1,602,528	62,702	(2,912,125)
Profit before tax	**20,243,948**	**27,892,973**	**32,672,949**	**26,082,208**	**28,394,563**
Income tax expense	(3,344,189)	(4,788,247)	(6,727,552)	(6,463,907)	(12,856,131)
Profit for the period	**16,899,759**	**23,104,726**	**25,945,397**	**19,618,301**	**15,538,432**

	For the six months ended 30 June	**For the years ended 31 December**		
	2012	**2011**	**2010**	**2009**
		(in thousands of Tenge)		
Consolidated statement of financial position				
Non-current assets	**371,832,583**	376,152,417	342,418,595	264,200,652
Current assets	**87,337,195**	73,876,510	76,296,160	61,132,491
Total assets	**459,169,778**	450,028,927	418,714,755	325,333,143
Total equity	**388,748,722**	371,498,086	338,314,798	242,802,745
Non-current liabilities	**43,733,333**	45,206,572	44,214,263	38,898,617
Current liabilities	**26,687,723**	33,324,269	36,185,694	43,631,781
Total equity and liabilities	**459,169,778**	450,028,927	418,714,755	325,333,143

	For the six months ended 30 June		**For the years ended 31 December**		
	2012	**2011**	**2011**	**2010**	**2009**
			(in thousands of Tenge)		
Consolidated statement of cash flows					
Net cash flow from operating activities	**20,388,113**	31,224,736	58,008,383	67,676,684	60,044,263
Net cash used in investing activities	**1,498,608**	(17,138,449)	(33,452,217)	(39,519,718)	(29,541,110)
Net cash used in financing activities	**94,000**	(37,233)	(19,618,173)	(27,644,075)	(31,925,857)
Net change in cash and cash equivalents	**21,980,721**	14,049,054	4,937,993	512,891	(1,422,704)
Cash and cash equivalents at the beginning of the year	**21,852,387**	16,914,394	16,914,394	16,401,503	17,824,207
Cash and cash equivalents at the end of the year	**43,833,108**	30,963,448	21,852,387	16,914,394	16,401,503

	For the six months ended 30 June		**For the years ended 31 December**		
	2012	**2011**	**2011**	**2010**	**2009**
Non-IFRS Measures					
EBITDA[(1)] (thousands of Tenge)	29,951,520	37,208,485	61,490,627	68,657,429	63,528,375
EBITDA margin[(2)] (per cent.)	45,1	52,0	43.8	49.7	50.3
Gross profit margin[(3)] (per cent.)	30,9	37,8	31,4	40,4	43,4
Net profit margin[(4)] (per cent.)	25,5	32,3	18.5	14.2	12.3
Net debt[(5)] (thousands of Tenge)	(43,433,992)	(21,549,206)	(21,549,206)	(16,322,730)	4,290,926

(1) EBITDA means gross profit less general and administrative expenses plus depreciation and amortization plus/(less) income/(loss) on allowance for doubtful debts, taxes and obsolete inventory. .
(2) EBITDA margin is EBITDA divided by Revenue.
(3) Gross profit margin is Gross profit divided by Revenue.
(4) Net profit margin is Profit for the year divided by Revenue.
(5) Net debt is Long-term and short-term borrowings less Cash and cash equivalents.

The following table reconciles the EBITDA calculation to Profit for the reporting period:

	For the six months ended 30 June		For the years ended 31 December		
	2012	2011	2011	2010	2009
			(thousand tenge)		
Profit for the reporting period	**16,899,759**	**23,104,726**	**25,945,397**	**19,618,301**	**15, 538,432**
plus income tax expense	3,344,189	4,788,247	6,727,552	6,463,907	12,856,131
Income before tax	**20,243 948**	**27 892 973**	**32,672,949**	**26,082,208**	**28,394,563**
plus foreign exchange loss	15,474	442,516	434,972	265,221	7,011,967
plus finance costs	98,094	119,989	308,356	863,112	1,995,645
less finance income	(1,080,365)	(1,534,384)	(2,895,026)	(1,882,967)	(2,283,646)
less share in income/ (loss) of joint ventures	(2,854,964)	(320,466)	(1,602,528)	(62,702)	2,912,125
Operating profit	**16,422,187**	**26,600,628**	28,918,723	25,264,872	38,030,654
plus depreciation and amortization	13,805,708	14,300,575	27,715,962	22,058,358	17,204,943
plus other operating expenses	312,817	514,036	2,766,295	805,658	1,124,886
less other operating income	(639,922)	(510,993)	(1,645,165)	(2,055,088)	(1,092,860)
impairment of goodwill	–	–	–	2,370,792	1,306,548
plus effect of recognizing of liabilities associated with acquisition in 2008	–	–	–	–	5,017,821
plus impairment of property, plant and equipment and intangible assets	–	–	7,409,186	22,333,457	1,246,788
accruals (reversal) of reserves on doubtful debt, taxes and outdated inventories	50,730	(3,695,761)	(3,674,374)	(2,120,620)	689,595
EBITDA	**29,951,520**	**37,208,485**	**61,490,627**	**68,657,429**	**63,528,275**

	For the six months ended 30 June		For the years ended 31 December		
	2012	2011	2011	2010	2009
Selected Operating Information (1)					
Crude oil transported (thousands of tonnes)	26,395	27,255	54,019	52,505	50,885
Crude oil turnover (millions of tonnes/km)	16,694	18,239	34,493	34,223	33,513
Water transported (thousands of cubic meters)	11,058	10,127	21,192	21,361	18,926

(1) Unconsolidated information relating to KTO on a standalone basis.

OVERVIEW OF THE OFFERING

Company	JSC "KazTransOil", a joint stock company organised under the laws of the Republic of Kazakhstan.
Financial Advisers	UBS Investment Bank and JSC "Kazkommerts Securities" (a subsidiary of JSC "Kazkommerzbank").
Offering	The Offering comprises 38,463,559 ordinary shares issued by the Company. The Offered Shares are being offered in the Republic of Kazakhstan to the citizens of the Republic of Kazakhstan and pension funds organised under the laws of the Republic of Kazakhstan in accordance with the laws of the Republic of Kazakhstan and in reliance on Regulations S under the Securities Act.
Offered Shares	38,463,559 ordinary shares of the Company.
Offer Price	The price per Share will be determined by a Resolution of the Government of the Republic of Kazakhstan.
Closing of the Order Book	5 December 2012
Use of Proceeds	The Company intends to use the net proceeds from the Offering for the financing of its investment projects. See "*Use of Proceeds*".
Charter Capital	On 5 June 2012 KMG, the sole shareholder of the Company at that time, decided on a share split of the ordinary shares of the Company in the 1:10 proportion. The share split was registered with the NBRK on 26 June 2012. Prior to the Offering, the Company's charter capital amounted to KZT 34,617,204 thousand and consisted of 34,617,204 issued and fully paid ordinary shares. The Company's ordinary shares are subject to applicable provisions of the legislation of the Republic of Kazakhstan and the Company's charter, and provide to its holders the rights described under "*Description of Charter Capital and Certain Requirements Legislation of the Republic of Kazakhstan*".
Dividends	The distribution of dividends by the Company will be dictated primarily by, and will be adjusted from time to time to reflect the investment needs of the Company. The declaration and payment of dividends are governed by the legislation of the Republic of Kazakhstan and depend, among other things, on the Company's net profit, financial condition and capital requirements. If dividends are declared, they are paid in KZT or, subject to consent of the general meeting of shareholders, in shares or bonds issued by the Company. See "*Dividends and Dividend Policy*" for more information on the Company's dividend policy and applicable legislation of the Republic of Kazakhstan.
Subscription and Settlement	See "*Subscription and Settlement*".

Allocation Procedures	See "*Allocation Procedures*".
Risk Factors	Any investment in the Offered Shares involves a high degree of risk. Prospective purchasers should carefully consider certain risks relating to the Company, the industry in which it operates and the Shares discussed under "*Risk Factors*" and elsewhere in this Investment Memorandum.

RISK FACTORS

An investment in the Shares involves a high degree of risk. Prospective investors should consider carefully, amongst other things, the risks set forth below and the other information contained in this Investment Memorandum prior to making any investment decision with respect to the Shares.

If any of the risks described below actually materialises, the Company's business, prospects, financial condition, cash flows or results of operations may be materially adversely affected. If that were to happen, the trading price of the Shares may decline, or the Company may be unable to pay dividends or other amounts on or in connection with any Shares and investors may lose all or part of their investment. Some of these risk factors are contingencies which may or may not occur and the Company does not comment on the likelihood of any such contingency occurring or not occurring. The Company believes that the factors described below represent the principal risks inherent in investing in the Shares, but the inability of the Company to pay dividends or other amounts in relation to the Shares or decrease in the price at which the Shares are traded may occur for other reasons which may not be considered significant risks by the Company based on information currently available to it or for reasons which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Investment Memorandum and reach their own views prior to making any investment decision.

The order in which the risk factors are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Company's business, prospects, financial condition, cash flows or results of operations.

Risks Related to the Group's Business

Global economic developments and market conditions on a regional level may adversely affect the Company

The Company's business, results of operations and financial condition are significantly influenced by the general economic conditions in the countries in which it and its customers operate. These markets have, in recent years, been adversely affected by weakening economic conditions and the turmoil in the global financial markets.

Since 2010, concerns about sovereign debt, in particular the sovereign debt of certain member states of the European Union, including Greece, Ireland, Spain, Italy and Portugal, have had an adverse impact on the global capital markets. The financial crises in the distressed countries have led to downgrades of their sovereign ratings and in some cases to their default. Other countries in the Euro zone may be required to provide further financial assistance to the European countries significantly affected by the crisis, which may in turn have a negative impact on the financial condition of the donor states. Turmoil in the financial markets, including as a result of the present European sovereign debt crisis, and its impact on financial institutions and economic conditions in general may adversely impact the Company's business, financial condition and results of operations primarily as a result of, *inter alia*, a decrease in the business activity of the Company's customers, which may result in lower demand for the Company's services, increase in borrowing costs and limited (or no) access to capital markets due to unfavorable market conditions, a decrease in the level of funding of the Company's investment projects, and a delay in the implementation of large regional crude oil transportation projects in which the Company plans to be involved.

Domestic and global demand for crude oil is a major factor that determines the volume of crude oil transported through the Republic of Kazakhstan. The Company's projections for future transportation volumes and revenue are based on an expected increase in or stability of the global demand for crude oil and continued investment by crude oil producers to support an increase in the levels of crude oil produced. The current global economic situation could result in lower demand and lower prices for oil products, which could in turn reduce crude oil production activity. Thus, according to forecasts prepared by the World Bank, the potential fall in the growth of China's GDP to 8% in 2012 may, *inter* *alia*, result in decreased Chinese demand for commodities, including crude oil, which will adversely affect developing markets such the Republic of Kazakhstan because China is the main export market for many countries in the Caspian Region.

International crude oil prices have fluctuated widely in recent years in response to changes in many factors over which the Company has no control, including, but not limited to, such factors as global economic developments; economic and political events in crude oil producing regions, particularly in the Middle East; global regional supply and demand and expectations regarding future supply and demand; the ability of members of the OPEC and other crude oil producing nations to agree upon and maintain specified global production levels; other actions taken by major crude oil producing or consuming countries; prices and availability of alternative fuels; global economic and political conditions; prices and availability of new technologies; and weather conditions. Thus, according to information published by BP, international Brent crude oil annual average prices in 2009, 2010 and 2011 were recorded at U.S.$61.67, U.S.$79.50 and U.S.$111.26 per barrel respectively. According to RBC, the consensus forecast for 2012 for Brent annual average crude oil price stood at U.S.$113.1 per barrel, whereas estimates ranged from U.S.$90 to U.S.$127.4.

If any decrease in crude oil prices were to persist for an extended period of time, it could result in a decrease in investment in exploration and development of hydrocarbon deposits, which in turn could lead to a decreased level of crude oil transportation in the long term. In the event oil prices remain high for an extended period of time, alternative methods of transportation of crude oil could become more economically viable for Kazakh companies, since the costs of transportation relative to the revenues from sale of crude oil would fall. This in turn may cause the Company's share of the market for crude oil transportation in the Republic of Kazakhstan to fall. In addition, an extended period of high oil prices could lead to decrease in crude oil consumption in international markets.

The Government of the Republic of Kazakhstan has not unequivocally stated its intent to adjust the domestic and export crude oil prices. The Government of the Republic of Kazakhstan makes efforts to support increases in the supply of crude oil to domestic refineries by means of tax, administrative and other leverage. The Government of the Republic of Kazakhstan may also use tariff regulation for this purpose, maintaining low tariff rates for transportation of crude oil to domestic refineries relative to tariff rates for export transportation. These factors may lead to a decrease in volumes of crude oil transported by the Company for export, and may have an adverse effect on the Company's profitability since the tariffs for domestic transport are much lower than those for export. This may in turn affect the Company's ability to undertake planned capital investments and, thus, have a material adverse effect upon the Company's business, results of operations and financial condition.

Therefore, the dynamics of the actual crude oil demand in the international and regional markets, together with high volatility of crude oil prices and regulatory measures applied by the Government of the Republic of Kazakhstan to crude oil exports may significantly affect the plans for crude oil development and investment of oil companies in Kazakhstan which, in turn, may ultimately reduce demand for the Company's crude oil transportation services. Any prolonged or material decline in the demand for the Company's services may have a material adverse effect on the Company's business, financial condition and results of operations.

A decrease in the volumes of crude oil transported along the trunk pipeline system operated by the Company and the revenue therefrom may have a material adverse impact on the Company

The core business of the Company is to provide services for crude oil transportation (oil acceptance, pumping, delivery, transshipment, discharge, loading, storage, and blending) using trunk pipelines located in the Republic of Kazakhstan and owned and operated by the Company. The revenue earned by the Company from crude oil transportation for 2009, 2010 and 2011, and for the six months ended 30 June 2012, amounted to 77.4%, 79.1%, 78% and 76.2%, respectively, of the total revenue of the Company on a consolidated basis.

The revenue earned by the Company from crude oil transportation services depends primarily on the volume of crude oil transported. The volumes of crude oil transported increased by 2.9% in 2011 as compared to 2010, and by 3.2% in 2010 as compared to 2009. During the first six months of 2012, the Company transported 26,395 thousand tonnes of crude oil, which, compared to 27,255 thousand tonnes of crude oil during the first six months of 2011, is a decrease of 3% over the volume transported.

According to the Company forecasts, the volume of crude oil transportation via trunk pipelines could decrease by as much as 5% between 2011 and 2014 due to various factors including, but not limited to, the following:

- Decrease in crude oil production from deposits by oil companies that ship crude oil via the Company's trunk pipeline system. In particular, according to the forecasts of the Ministry of Oil and Gas of the Republic of Kazakhstan (the "**MOG**"), the volumes of crude oil produced at the deposits of Kumkolsky region are expected to diminish by 3 million tonnes per year between 2012 and 2016. In the first six months of 2012, crude oil volumes that the Company transported for certain customers decreased compared to the first six months of 2011, with the highest volume decrease related to "Exploration Production "KazMunaiGas" JSC (decrease by about 286 thousand tonnes), "Karakudukmunai" LLP (decrease by about 104 thousand tonnes), "Turgai Petroleum" JSC (decrease by about 156 thousand tonnes), "PetroKazakhstanKumkolResources" JSC (decrease by about 187 thousand tonnes) and "SNPS-Aktobemunaigas" JSC (decrease by about 95 thousand tonnes).

- Redistribution by the Government of the Republic of Kazakhstan of oil supplies in favour of the domestic market for the purpose of securing the load of domestic oil refineries. Because tariffs for transport of crude oil to domestic refineries are substantially lower than tariffs for transportation of crude oil for export, such redistribution of oil supplies will adversely affect the Company's revenue.

- A cessation or decrease of the supply of Russian crude oil to oil refineries in the Republic of Kazakhstan. For example, in the first six months of 2012 Transneft JSC reduced its supply of crude oil from the Omsk-Pavlodar pipeline to the Pavlodarsky Petrochemical Plant in the Republic of Kazakhstan. This decrease in oil from Russia also meant that certain volumes of Kazakh oil intended for export were redistributed to domestic destinations for the purpose of ensuring the load of domestic refineries. Because the tariff for domestic oil transportation is lower than the tariff for transportation of oil for export, this redistribution resulted in decrease of the Company's income in the first six months of 2012 by 7.2% compared to the first six months of 2011.

- Reorientation of shippers of crude oil to competitors of the Company in relation to the transportation of crude oil in the Republic of Kazakhstan, or to alternative methods of shipment of crude oil, not controlled by the Company.

  The Company's chief competitor in the area of transportation of crude oil in the Republic of Kazakhstan is "Caspian Pipeline Consortium" JSC, the operator of the Caspian Pipeline Consortium pipeline (the "**CPC pipeline**"), a "closed system", which may be used exclusively by the shareholders of Caspian Pipeline Consortium JSC and their affiliates. The CPC pipeline is used for transportation of Caspian oil from Tengiz and Karachaganak deposits, and prospectively from Kashagan deposit. Given that some of the shareholders of "Caspian Pipeline Consortium" JSC or their affiliates are currently involved in exploring the Tengiz, Karachaganak and Kashagan deposits, there is a risk that the share of crude oil from these deposits transported via the CPC pipeline will increase in the future, which would potentially result in a decrease of oil transportation volumes by the Company. In particular, according to the data of TOO TengizChevrOil, after the implementation of the project to increase the capacity of the CPC pipeline, it may re-orient those volumes that are currently transported through the Company's trunk pipelines to the CPC pipeline.

- Uncertainty regarding the dates of commencement and volumes of production and distribution at the Kashagan deposit, which is in the Kazakh sector of the Caspian Sea. According to the MOG, crude oil reserve estimates for the Kashagan deposit fluctuate in the range from 9 to 16 billion barrels. According to Wood Mackenzie the production at Kashagan is expected to be 60 thousand barrels of oil per day in 2013 and to increase to 315 thousand barrels per day by 2016. However, this project has been postponed repeatedly and there can be no guarantee that such timing or production levels will be met.

  The Company expects that the crude oil produced from the Kashagan deposit will be transported, inter alia, through the Company's trunk pipelines and could have a significant impact on the overall volumes transported by the Company. However, there is a risk that crude oil from Kashagan deposit will be transported to Novorossiysk via the CPC pipeline. Representatives of the MOG have declared in the past that the crude oil from Kashagan deposit will be transported to Novorossiysk mainly through the CPC pipeline; in connection with this, the Government plan to increase the quota of the Republic of Kazakhstan in the CPC pipeline to 52.5 million tonnes by 2015. The Company is also currently considering the prospects of participation in the project on construction of Eskene-Kuryk pipeline, a part of the Kazakhstan Caspian transportation system, through which the crude oil from Kashagan deposit may be potentially transported to the crude oil terminal at Kuryk dock in the Republic of Kazakhstan, to be further transferred to tankers. However, no assurance can be given that this project will be implemented and that the Company will be able to take part in it.

- Occurrence of major accidents, natural disasters or other adverse events at trunk pipeline system facilities of the Company. In particular, a shut-down of the Company's junction crude oil transfer pumping stations, such as Atyrau or Aktau, which can hold a large volume of the transported crude oil at a time, may cause interruptions in crude oil transportation by the Company.

- Emergency shutdown of operations, as well as interruptions or accidents at the Company's partner companies, including those involved in crude oil production.

- Potential increase in the share of crude oil transported in Kazakhstan by rail.

A reduction in the volumes of transportation of crude oil via the trunk pipeline system of the Company may materially adversely affect the business, liquidity, financial condition and results of operations of the Company.

The Company's crude oil export transportation operations rely on transportation systems operated by foreign countries or third parties outside of the Company's control

Kazakhstan's crude oil for export is transported primarily through trunk pipelines, and also by sea through the Caspian Sea, using routes passing through other countries. Currently the primary routes along which crude oil is exported by the Company via trunk pipelines are (i) to the border with Russia through Samara (for further export to Black Sea and Baltic Sea ports and to European markets), (ii) through the terminal of Aktau sea port in the direction of Baku-Batumi and Makhachkala-Tikhoretsk-Noovorossiysk, (iii) shipment to Atasu-Alashankou pipeline and (iv) shipment to the CPC pipeline for the purpose of further export in the direction of the Black Sea.

For the periods ended 31 December 2009, 2010 and 2011, and for the six months ended 30 June 2012, export crude oil transportation volumes amounted to 39,680 thousand tonnes, or 78%, 39,803 thousand tonnes, or 76%, and 40,517 thousand tonnes, or 75%, and 19,247 thousand tonnes, or 73%, of the total volumes of crude oil transported by the Company during these periods respectively.

The Company's crude oil export operations are dependent on transportation systems owned by foreign countries or third parties outside the control of the Company. In particular, the Company's export shipments of crude oil through the Uzen-Atyrau-Samara pipeline (the "**UAS pipeline**") to Samara and through the Atasu-Alashankou pipeline to China depend on intergovernmental treaties entered into between the Republic of Kazakhstan and Russia and among the Republic of Kazakhstan, Russia and China, respectively.

In addition, taking into consideration the close integration of crude oil transportation systems of the Republic of Kazakhstan and the CIS countries, the Company's ability to increase the volumes of crude oil it transports depends to significant extent on the cooperation between the Company and the crude oil transportation companies of Russia and Belarus, which are involved in the transit of Kazakh crude oil to export markets (in particular, Transneft JSC in Russia and OAO Gomeltransneft Druzhba in Belarus). The transit of oil is made through the Atyrau-Samara part of the UAS pipeline based on agreements concluded between the Company and the above oil transportation enterprises of foreign countries. Termination of or a failure to extend or renew these agreements may have a material adverse effect on the Company's export transportation operations. In particular, in 2010 OAO Ukrtransnafta unilaterally terminated its agreement with the Company for oil transit in the territory of Ukraine, which could have resulted in interruptions in oil transportation through the UAS pipeline on export markets (in this case the Company reached an agreement with its foreign partners regarding redistribution of affected flows outside of the territory of Ukraine).

Any reduction or cessation in the availability of pipelines owned by foreign governments or third parties due to, amongst others, breakdowns, security issues, political developments or natural disasters, would materially adversely affect exports, which, in turn, could have a material adverse impact on the Company's business, financial condition or results of operations.

The government may impose tariffs on regulated services provided by the Company, including crude oil transportation services, at levels which are unfavourable for the Company

In accordance with the legislation of the Republic of Kazakhstan, the Company and its joint ventures, KCP and MunaiTas, are considered natural monopolies which provide regulated services the payment for which is charged on the basis of tariffs.

The amount of tariffs charged for such regulated services is prescribed by the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies ("**AREM**"). This tariff covers costs for financing, use and technical maintenance of pipelines, and is meant to allow for some level of profit. The profit level is limited by the allowed level, which is calculated on the basis of long-term assets and net working capital, required for the performance of oil transportation activities. After the tariff is set, the Company is entitled to apply to AREM to raise the tariff not more often than once every year.

If a tariff increase is approved by AREM, its implementation may be postponed or delayed, which may have a negative effect on the financial results of the Company's operations. For example, in 2012 AREM delayed its decision on tariff increases in relation to a number of regulated services provided by the Company, including the services of unloading/loading and transfer of crude oil, by three months, which resulted in a shortfall of approximately KZT 400 million of the Company's profits.

Some tariffs prescribed in relation to certain regulated services provided by the Company, including the tariff for transportation of crude oil to the domestic market, may also be affected by social and political factors. Such tariffs have traditionally been adjusted very rarely. For example, the tariff for crude oil transportation services into the domestic market was last amended by AREM more than ten years ago. No assurance can be given that the actions of AREM in relation to the setting of tariffs for transportation of crude oil to the domestic market, including those causing a delay in increasing such tariffs, will not result in a material adverse effect on the business, financial condition, cash flows and results of operations of the Company.

Any change to the current procedures of tariff setting or any refusal or delay in approval by AREM of a tariff at a level that is acceptable to the Company in relation to its business and expenses, may lead to a decrease in the Company's revenues or expected revenues, which in turn may result in a material adverse effect on the business, financial condition or results of operations of the Company.

The Company may be unable to achieve its strategic objective of increasing crude oil transportation turnover by expanding its network

As part of its strategy to strengthen its position as a key regional crude oil transportation company, the Company is planning to expand its transportation network by developing new transportation routes and increasing the capacity of the existing trunk pipelines. The Company is planning to achieve this aim by means of increasing, together with KCP and MunaiTas, the capacity of the Kazakhstan – China pipeline system, and increasing the capacity of the Kalamkas – Karazhanbas – Atkau and Uzen – Zhebytai – Aktau pipelines. In addition, the Company is considering the possibility of building a pipeline from Eskene to Kuryk, which will form part of the Kazakhstan Caspian Transportation System. However, there can be no assurance that the Company will be able to achieve rapid growth or that its aims and forecasts will be achieved and met, due to such potential risks as worsening economic conditions and turmoil in global financial markets, funding shortfall of the Company's projects or changes in the political environment, amongst other risks.

The Company's ability to achieve targeted increases of crude oil cargo turnover is also dependent on continued increases in crude oil production in the Republic of Kazakhstan (including increased production at the Karachaganak and Tengiz crude oil deposits and commencement of crude oil production at the Kashagan deposit), continued supplies of Russian crude oil to oil refineries in the Republic of Kazakhstan. Any of these factors may have a material adverse effect on the business, financial condition and results of operations of the Company.

The Group's operations require significant capital expenditures

The Group's business requires significant expenditures related to, amongst other things, technical maintenance of pipelines, modernisation of infrastructure and compliance with environmental legislation.

In 2009, 2010 and 2011, the Group's payments relating to capital expenditures (incurred in development and modernisation of assets and acquisition of fixed assets) amounted to KZT 29.3 billion, KZT 25.6 billion and KZT 33.7 billion, respectively. In particular, for the years ended 31 December 2009, 2010 and 2011 the most significant payments relating to capital expenditures of the Group included:

- KZT 17 billion, KZT 17.3 billion and KZT 15.8 billion, respectively, in repairs and technical maintenance of pipelines system;

- KZT 3.4 billion, KZT 2 billion and KZT 2.2 billion, respectively, in modernisation and maintenance of Batumi Sea Port and the Batumi Oil Terminal; and

- KZT 670.8 million, KZT 659.6 million and KZT 1.878 million, respectively, on the maintenance of the Astrakhan-Mangyshlak water pipeline.

During the last three years the Company financed its capital expenditure using its amortisation deductions and profit from services provided in its core business. The level of capital expenditures in any particular period is relatively fixed and does not vary depending on the volume of oil transported by the Company. If crude oil transportation levels were to decrease for any reason, or if the Company were to apply its cash flows from its core business for any other purposes, the Company may need to fully or partially finance its capital expenditures from external sources such as bank borrowings or offerings of debt securities in the domestic and international capital markets.

The Company's ability to arrange future financing and the cost of such financing generally depend on many factors, including but not limited to:

- the condition of the economy, the debt markets and the capital markets generally;
- investor confidence in the Company, the Republic of Kazakhstan and in the oil and gas and crude oil transportation sectors in the Republic of Kazakhstan;
- the recent financial performance of the Company and its prospects;
- the availability and terms of credit from banks and other lenders within and outside of the Republic of Kazakhstan; and
- provisions of tax and securities laws that regulate the process of raising capital by Kazakh borrowers.

There can be no assurance that the Company will be able to generate or raise sufficient funds to meet its actual or future capital expenditure requirements, or to do so on commercially reasonable terms. Interest rates for borrowings in the Republic of Kazakhstan tend to be higher than those that can be obtained from non-Kazakh lenders. Although the Company may also seek financing from KMG or the Government, via Joint-Stock Company "National Welfare Fund Samruk-Kazyna" ("**Samruk-Kazyna**"), through capital increases or otherwise, there can be no assurance that the Company will be able to receive such financing on acceptable terms.

If the Company is unable to raise necessary financing either from the Government, banks or capital markets, it may need to reduce its planned capital expenditures and investments, downsize or abandon certain projects, which in turn could adversely affect its operating results and financial condition. In such circumstances, any such reduction in capital expenditures could adversely affect the Company's ability to expand its business, and if the reductions are severe enough, could adversely affect its ability to maintain its operations at current levels, which may have a material adverse effect on the Company's business, finance condition or results of operations.

A significant part of the Company's transportation facilities are relatively old and require substantial maintenance and modernisation

The Company's transportation facilities largely rely on aging infrastructure (originally constructed mainly during the 1970s and 1980s), the technical maintenance of which may substantially exceed budgeted amounts and the deterioration of which could materially adversely affect the Company's activities.

According to the Company's data, as of 30 June 2012, over 60% of all pipelines operated by the Company have been in operation for more than 20 years, 7% in operation from 10 to 20 years and only 13% in operation for less than 10 years. Further, more than 8% of the Company's storage tanks have been in operation for more than 30 years, 31% in operation for more than 20 years, 24% in operation from 10 to 20 years and 35% in operation for up to 10 years.

While recently there have been no significant delays or curtailments of the supply of crude oil through the pipelines of the Company due to failures of the Company's equipment, there can be no assurance that such delays or curtailments will not occur in the future due to the stress on and corrosion of pipelines, defective construction of booster stations, problems associated with the harsh climate or the insufficient maintenance or refurbishment of the network. Any such problems or adverse changes affecting the Company's operations could have a material adverse effect on the Company's business, financial condition or results of operations.

In accordance with the requirements of the legislation of the Republic of Kazakhstan, the Company conducts on a regular basis the running maintenance of equipment, start-up and commissioning, engineering, diagnostic works and aerial surveillance of the linear part of its trunk pipeline system.

The Company put in place an extensive maintenance, diagnostics and upgrade program, which is annually updated, as a result of which it has been able to extend the physical life of many of its pipelines from their initial lifetime (for those pipelines constructed during the Soviet era). In 2009, 2010 and 2011, the Company invested KZT 15.8 billion, KZT 17.3 billion and KZT 17 billion, respectively, in the repairs and technical maintenance of the pipeline system. Also during this period the Company invested KZT 20 billion in further modernisation of its pipeline system to increase its capacity as well as the safety of the West and East branches pipeline system safety. The Company also plans to spend approximately KZT 85 billion for the period from 2013 through 2016 for technical maintenance of its trunk pipeline system.

If the Company becomes unable to apply necessary funds to maintenance and modernisation of its transport infrastructure, it may experience interruptions in crude oil delivery, which may have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has limited access to its operations in remote areas

Although the Company has the necessary material and technical resources, because of the remote location of many of its trunk pipelines, booster stations and other facilities, the Company generally does not have easy access to the relevant equipment or facilities to address problems such as, amongst other things, equipment breakdown or equipment failures. In addition, a large number of the Company's pipelines are located in areas that experience difficult weather conditions and extreme variability in temperatures, which can accelerate wear and tear on pipelines and related equipment. Unfavorable weather conditions, the remoteness of certain of the Company's facilities and the poor road conditions in rural areas of Kazakhstan can make it difficult to gain access to conduct repair or maintenance quickly. Equipment breakdown or failures affecting the Company's transportation operations could result in delays or curtailment in the Company's ability to transport of crude oil in certain regions, which could have a material adverse effect on the Company's business, financial condition or results of operations.

The remote location of many of the Company's facilities also increases the threat to its assets and infrastructure, including the possibility of acts of terrorism, sabotage, illegal tapping of pipelines and natural disasters. Because of the remote nature of the Company's operations and difficulties in accessing some parts of the Company's infrastructure, the Company may not be able to swiftly respond to and immediately repair or mitigate damage resulting from such acts. Should any of these events occur, it could have a material adverse effect on the Company's business, financial condition or results of operations.

The Company relies on the services of third parties

The Company relies on its own human resources and material resources as well as, to a certain extent, external contractors in order to maintain and repair its assets and infrastructure. The Company also relies on external contractors in most of the regions of the Republic of Kazakhstan to perform major work, such as turnaround and routine repairs and maintenance of pipelines and other infrastructure and equipment, and the supply of goods, repair of isolation covering systems for pipes, replacement of defective parts of the pipelines, designing, reconstruction, modernisation, technical upgrade, and construction of production facilities. In case of accidents or emergencies in production facilities, the Company uses its own material and technical resources and operating personnel to address such situations; if necessary, the Company may also retain third parties for assistance. The Company is largely dependent on the satisfactory performance by its external contractors and the fulfillment of their obligations for the operation of its business.

Some of the services required for the Company's operations and implementation of some of its projects are currently available on commercially reasonable terms only from a limited number of providers. Any failure or delay in the performance of such services to a level of quality satisfactory to the Company may lead to operational interruption or other adverse effect on the Company's operations and projects, including delays or curtailment of the transportation of crude oil. Such delays or interruptions could have a material adverse effect on the Company's business, results of operations and financial condition.

Furthermore, the Company is subject to the rules for procurement of goods, works and services imposed by Samruk-Kazyna and entities in which Samruk-Kazyna directly or indirectly holds in ownership or trust management 50 and more percent of voting shares (participatory interests), approved by the board of Samruk-Kazyna on 26 May 2012 (the "Samruk-Kazyna Rules") pursuant to which the Company purchases most goods, works and services (including those of external advisers, such as the Company's technical consultants, environmental experts, financial and legal advisers, as well as other consultants, contractors and suppliers) mainly by holding an open tender. The Samruk-Kazyna Rules require the Company to prepare detailed tender documents and to announce its intention to solicit bids from suppliers and service providers at least 15 calendar days prior to the deadline for submitting bids. The Company also is required to establish a tender commission for each tender, which will select the winner of the tender. As a general rule the agreement is entered into by the Company for one year, although in specific cases agreements can be entered into for a longer term. Agreements can be renewed only after completion of a further tender. This requires the Company to undertake and implement a significant number of tenders for goods, works and services, which results in delays, increased costs and increased management time associated with procurement. The Company's inability to engage the necessary external advisers, suppliers and contractors in a timely fashion or to establish long-term commercial relationships with preferred third parties as a result of being obliged to comply with the Samruk-Kazyna Rules could impair its operations and increase its operating costs. See "*Regulation of Transportation of Oil and Oil Products in the Republic of Kazakhstan–Regulation of Natural Monopolies and Tariffs–Procurement*".

If the Company has to replace a service provider, there can be no assurance that such replacement can be found timely and without significant additional expense. Any failure in performance by third party service providers, external contractors or consultants, increase in costs or inability to find adequate replacement services on a timely basis, if at all, could result in delays or curtailment of the transportation of crude oil by the Company which in turn could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company has been and will continue to be controlled by KMG, whose interests may conflict with those of other shareholders

As of the date of this Investment Memorandum, the Company is wholly owned by KMG, the national oil and gas company of the Republic of Kazakhstan, which ultimately is controlled by the Government of the Republic of Kazakhstan. Immediately following the Offering, KMG will continue to own 90% of the voting shares in the Company (assuming that the Offering will be fully subscribed). Accordingly, as long as it holds the majority of the Company's ordinary shares, KMG will have the power to control the outcome of most matters to be decided by vote at a general shareholders' meeting and to control the election of members of the Board of Directors.

While the Company believes that the involvement of KMG in its operations will continue to be important in the pursuit and implementation of its strategy, KMG may from time to time take actions in relation to the Company, including with regard to the nature of proprietary investments and the acquisition and disposal of assets, or to make the Company declare significant dividends or make other distributions or payments to shareholders, or may initiate a change of management of the Company that may not be in the best interest of the Company or its minority shareholders and may adversely affect the business of the Company and the value of the Shares. In addition, the Company may be forced by KMG to engage in activities outside of its core activities or acquire assets not on an arm's length basis.

The Government of the Republic of Kazakhstan, through KMG, may also adopt decisions in relation to the Company which will correspond to domestic and external policy of the Government of the Republic of Kazakhstan which, however, may differ from decisions which would be adopted by a private company operating in the oil and gas sector of the Republic of Kazakhstan as the Company. The Government of the Republic of Kazakhstan may also impose certain social duties, such as construction of social and recreational infrastructure, charitable activities and implementation of community development programmes, on the Company. Thus, in the past, the Company at its own expense has undertaken construction and electrification of roads in Kulsary. The Company also took part in the construction of the capital of the Republic of Kazakhstan, the city of Astana. In particular, in Astana, the Company commissioned a sports and recreation centre Caspium and a multi-disciplinary clinic Meyirim. Such activities require significant capital expenditures which the Company otherwise could apply toward development its business, expansion of its operations or payment of dividends.

The interests of the Government, Samruk-Kazyna or KMG may differ from those of the Company's minority shareholders and they may prevent the Company from making certain decisions or taking certain actions that would benefit the Company or protect the interests of its other shareholders. This may adversely affect the value of the Shares and may have a material adverse effect on the Company's business, results of operations or financial condition.

The Company's operations are dependent on obtaining and maintaining licences, leaseholds, land rights and permits necessary for its business

The Company's ability to carry out various business activities, including the transportation of crude oil through the trunk pipelines operated by the Company, is dependent upon the issuance, renewal or continued validity of the relevant licences, leaseholds, land rights, permits and consents of regulatory authorities, which are issued only for limited periods of time, are subject to certain conditions and may provide for their cancellation in certain circumstances. There can be no assurance that such licences, leaseholds, land rights, permits and consents of regulatory authorities will be issued, renewed or remain valid on terms acceptable to the Company or at all. If the necessary licences, leaseholds, land rights, or permits and consents of regulatory authorities are not obtained or are suspended or terminated, this may result in a material adverse effect on the business, results of operations and financial condition of the Company.

The Government may resolve to restructure the Company

In establishing the Company, it was the strategy of the Government of the Republic of Kazakhstan that all the largest pipeline assets of the Republic of Kazakhstan ensuring export and domestic crude oil supplies should be consolidated in one Government-controlled company. Thus, in 1997 the Company was established, which included the Eastern Branch, being the owner of Omsk-Pavlodar-Shymkent trunk pipeline established on the basis of "Trunk Pipelines of Kazakhstan and Middle Asia" Operating Department, and the Western Branch, being the owner of UAS pipeline established on the basis of "Yuzhnefteprovod" Operating Department. As of the date of its incorporation, the Company owned and operated more than 6,400 km of crude oil pipelines and more than 2,000 km of water pipelines.

As at 30 June 2012, the majority of the assets of the Company which allow the Company to provide crude oil transportation and pipeline operation services were divided between the Western Branch and the Eastern Branch of the Company, which operated most of the largest trunk pipelines and water pipelines of the Company with a total length exceeding 5,000 km.

In the past there was discussion in the Republic of Kazakhstan regarding possibility of restructuring the Company into a number of smaller companies by establishing the Western Branch and the Eastern

Branch as separate legal entities or by transferring part of assets of the Company to other companies, including for the purpose of stimulating development and increasing competition in the crude oil transportation sector. Although such a restructuring would contradict the strategy underlying the original formation of the Company, there can be no assurance that the Government's strategy will not change. In case of such a restructuring, there is a risk that the Company may not retain its largest pipeline assets, which would have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company is a participant in two joint ventures, over which it has limited control

The Company is a party to two joint ventures: KCP, a 50/50 joint venture with the China National Oil and Gas Exploration and Development Corporation ("**CNODC**"); and MunaiTas, a joint venture with CNPC Exploration and Development Company Ltd., in which the Company holds 51%interest.

Pursuant to contractual arrangements with CNODC and CNPC Exploration and Development Company Ltd., the Company and its joint venture partners exercise joint control over the operations of joint ventures. The operation of KCP and MunaiTas depend on the Company and these partners complying with the relevant obligations related to the development of these joint ventures, including ensuring the transportation of target volumes of crude oil through the pipelines owned by KCP and MunaiTas. In addition, under the foundation documents of KCP and MunaiTas, a large number of actions require the approval of both founders. The foundation documents of KCP and MunaiTas do not contain dead-lock provisions typical in joint venture documents. Thus, any failure of the joint venture partners to agree on decisions requiring the approval of both parties may have an adverse effect on the operations and financial results of KCP and MunaiTas.

Accordingly, the Company cannot control entirely the operations or assets of these joint venture companies and is equally unable to independently make key decisions in relation to these companies. This restricts on the Company's ability to cause these companies to take actions which would be consistent with the interests of the Company or to cause these companies to refrain from taking actions contrary to the interests of the Company.

Fluctuations in the Tenge against foreign currency exchange rates may affect the Group's consolidated results of operations

The Group is exposed to foreign currency exchange rate risks, especially fluctuations in the KZT/US$ exchange rate. The U.S. dollar and Tenge exchange rates have significantly affected the Group's results of operations historically principally because the Company had significant borrowings denominated in U.S. dollars, whereas the majority of the Group's consolidated revenue from crude oil transportation services is denominated in Tenge. Accordingly, if the Company in the future continues to make borrowings in currencies other than Tenge, material fluctuations in exchange rates of such currencies and the Tenge may significantly affect the Group's consolidated results of operations and financial condition.

A part of the Group's revenue from the provision of services is denominated in currencies other than Tenge, in particular, in Russian rubles and Georgian lari. Fluctuations in the exchange rates of such currencies and Tenge therefore also may affect the Group's results of operations and financial condition.

The Group's joint ventures, KCP and MunaiTas, have raised significant financings in the past to support pipeline construction. While MunaiTas has repaid a significant portion of its debt, KCP still has an outstanding balance of KZT 188 billion. These debt balances are denominated in foreign currencies and are not hedged.

On 4 February 2009, the National Bank of Kazakhstan devalued the Tenge by 18% to the U.S. dollar. The devaluation of the Tenge caused significant impact on the financial performance of the Company for the year ending 31 December 2009. The Company recorded a net loss from currency exchange rate fluctuation of KZT 7,011,967 thousand for the year ending 31 December 2009, primarily resulting from the fact that it had significant bank loans denominated in U.S. dollars. The joint ventures also recorded foreign currency exchange losses for this reason. Although the NBRK has stated that it does not plan to revisit the regulation of the currency exchange rate, there can be no assurances that its policy will not change, and any future decisions to support the currency exchange rate may have an adverse effect on the national budget and the economy of the Republic of Kazakhstan which in turn may adversely affect the business, financial condition and results of operations of the Group.

Reduction in the volumes of transshipment in the Batumi Sea Port may lead to the loss of this asset by the Group

The agreement between the Ministry of Economic Development of Georgia and Batumi Port Holdings Limited involving a transfer of 100% of exclusive management rights in relation to Batumi Sea Port LLC owned by the Government of Georgia to Batumi Port Holdings Limited (subsequently assigned to Batumi Oil Terminal LLC), provides that if the Batumi Sea Port transships less than 4 million tonnes of cargo per year for two consecutive years, the Government of Georgia may, in accordance with the procedure described in the agreement, unilaterally terminate this agreement.

In 2011, the aggregate volume of crude oil, oil products, gas and dry cargo passing through the Batumi Sea Port amounted to 5,355 thousand tonnes and 1,518 thousand tonnes, respectively, compared to 6,116 thousand tonnes and 1,223 thousand tonnes, respectively, in 2010. According to internal forecasts, the Company's management believes that the cargo turnover (including the transshipment of dry cargo, hydrocarbons (crude oil and oil products) and the volumes passing through the container terminal) of the Batumi Sea Port continue to satisfy the contractual quota.

However, it is expected that there will be further reductions in the volume of oil and oil products transportation through Batumi Sea Port as a result of a number of factors, including reorientation of volumes to the Kulevi terminal (built in 2008 and partially owned by the Azerbaijan state oil company SOCAR) which benefits from the political support of Azerbaijan, and strained relations between Russia and Georgia, due to which goods (including Kazakh oil) are not transported to Georgia by rail through the territory of Russia. Other factors include political conflicts, volatility in the global and regional financial markets, emergence of alternative routes of transportation of cargo and other factors. Due primarily to the factors described above, in particular, in the period from 2009 to 2011, the transportation volumes of oil and oil products through Batumi Oil Terminal in Batumi Sea Port decreased by 19%. There can be no assurance that the future turnover will in fact exceed the annual requirement of 4 million tonnes. The termination of the agreement by the Government of Georgia and the resultant loss by the Group of the exclusive management rights in relation to Batumi Sea Port LLC may adversely affect the business, financial condition and results of operations of the Company.

Tax liabilities of the BIHL group may have an adverse effect on the Group's operations in Georgia

Under the Tax Code of Georgia, tax authorities may take a written reasoned decision on the market prices to be used for taxation purposes in case of a related party transaction. Although the Tax Code of Georgia provides for some guidelines on defining market terms for goods and services, the mechanics of such guidelines are poorly developed and Georgia does not have separate legislation on transfer pricing. Due to such uncertainty, the position of the tax authorities when considering the taxation of a related party transaction is hard to predict.

The BIHL group is involved in a significant number of transactions with the Group's foreign subsidiaries, as well as internally. These transactions are deemed related party transactions and may be challenged by Georgian tax authorities. According to the management of the BIHL group, they have essential arguments to prove that the pricing in the transactions with the Group's companies is done on market terms. However, since the law does not define such market terms, the tax authorities may be of a different opinion on this matter, which may result in penalties being imposed on the BIHL group.

In October 2011, the BIHL group requested the Georgian tax authorities to issue a preliminary tax decision regarding VAT taxation of Batumi Sea Port's services on cargo transshipment for export and import in order to clarify the provisions of the Georgian Tax Code regarding this matter. The current position of the Georgian tax authorities expressed in the final tax decision on this matter is that transshipment operations must be divided to unloading, storage and loading operations. In order to estimate whether a certain component is exempt from VAT, one should check whether the cargo was declared for export prior to commencement of transshipment services. In case the cargo was not declared for export prior to commencement of its unloading, the cargo transshipment component will be subject to VAT.

The management of the BIHL group opposes this position of the Georgian tax authorities and has initiated an official challenge of the decision. As of the date of this Investment Memorandum, the management of the BIHL group cannot calculate the effect of the tax decision if it is upheld.

The Company may be subject to claims and liabilities for breaches of environmental laws and regulations, which could be significant

The operations of the Company relating to the environment are governed by the Environmental Code of the Republic of Kazakhstan, as well as other laws and requirements applicable to companies operating in the oil and gas industry in the Republic of Kazakhstan. The Company's operations, which are often hazardous, are subject to limitations as to air emissions, water use and disposal, waste management, impact on wildlife as well as land use and reclamation. Although the level of pollution and potential clean-up is difficult to assess, the Company, like most other crude oil transportation companies operating in the CIS, was burdened with a Soviet-era legacy of environmental mismanagement which the Company has been gradually harmonising with international standards.

The Company has established a comprehensive environmental program for the period 2009-2015 and is monitoring its implementation in an effort to meet international environmental standards. The Company is also conducting on a regular basis a number of activities aimed at prevention of negative impact on the environment, including monitoring of air, subsoil, ground, and surface water and soil, utilisation of wastes of equipment and technique (e.g., tires, accumulators, waste oils) and control of emissions.

As Kazakhstan's environmental regulations continue to evolve, stricter standards, such as those governing emissions to air and water, the handling and disposal of solid and hazardous wastes, land use and reclamation and remediation of contamination, are being imposed. Environmental authorities are in turn moving towards a stricter interpretation of environmental legislation. Compliance with such environmental requirements may make it necessary for the Company, at costs which may be substantial, to undertake new measures in connection with the storage, transport, or disposal of hazardous materials and wastes and the remediation of contamination. Moreover, the Company could be adversely affected by future actions and fines imposed by the environmental authorities. To the extent that any provision in the Company's accounts relating to remediation costs for environmental liabilities proves to be insufficient, this could have a material adverse effect on the Company's business, results of operations or financial condition.

The cost of environmental damage prevention and mitigation can be significant. In 2011, the Company's expenses relating to environmental measures amounted to KZT 738 million, of which KZT 3.8 million were penalties and KZT 731 million represented costs associated with an accident at the Uzen-Atyrau-Samara pipeline in 1985 which resulted in a significant oil spill.

The Company's operations are subject to regular inspections from government authorities responsible for monitoring compliance with environmental and health and safety laws and regulations. Although the Company is obliged to comply with all applicable environmental laws and regulations, due to constant changes of such laws, there can be no assurance that there will not be any negative environmental impact from its operations. The negative impact is mostly caused by unauthorised tappings into the Company's pipelines which can, among other things, cause damages to environment because of oil spill caused by the tappings themselves or the bail out of the oil. In particular, for the year of 2011, the Company, KCP and MunaiTas discovered 18, 18 and 10 unauthorised tappings in its pipelines respectively. In the first six months of 2012, the Company discovered 16 unauthorised tappings into its trunk pipelines. Among them, in the first six months of 2012 the Company recorded two oil spills on the surface that took place as a result of unauthorised tapping on the Pavlodar-Shymkent section of the Company's pipeline, resulting in recovery costs to the Company of KZT 270 million in excess of the Company's insurance. Since 30 June 2012, the Company has experienced five additional cases of tapping; these required the Company to make expenditures for repair of the pipeline equipment but did not result in environmental damage.

Any imposition of environmental fines, increase in the costs associated with compliance or suspension or revocation of licences or contracts required for the Company's operations could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's insurance may be inadequate

The Company's insurance coverage may not adequately protect it from the risks associated with its business. The insurance industry is not yet fully developed in the Republic of Kazakhstan, and many forms of insurance protection common in other more developed countries, such as business interruption insurance, are not yet available in the Republic of Kazakhstan on comparable terms.

The Company has obtained mandatory third party liability insurance as is required under the law of the Republic of Kazakhstan for companies operating hazardous facilities; however, such insurance may not be adequate to fully cover losses of such third parties.

The Company does not currently maintain any key-man or business interruption insurance. In addition, the Company's coverage cap in respect of its mandatory environmental insurance, as of the date of this Investment Memorandum, is KZT 229,756,000, which may be insufficient in case of an insured event. For example, in 2012 the Company incurred expenses in the amount of KZT 270 million in excess of its environmental liability coverage in connection with an oil spill resulting from illegal tapping into the Pavlodar-Shymkent trunk pipeline. The limit under the environmental liability insurance had been exceeded due to an accident on the TON-2 pipeline that occurred in September 2011.

The Company also obtains insurance covering employee accidents. Since 2009, eight accidents were registered in the Company, which included three accidents that resulted in death, the last one being in September 2012. The oil transportation industry is inherently dangerous and there can be no guarantee that there will not be further accidents or damage to the life and health of employees resulting from the Company's operations.

The Company can give no guarantees that the insurance proceeds will be sufficient to cover additional costs and expenses connected with damages and liability. Accordingly, the Company may incur material losses as a result of uninsured risks or insufficient insurance coverage.

If a significant event were to affect the Company's facilities, the Company could experience substantial property loss and material interruptions in its operations, for which it would not be compensated. Depending on the severity of the damage, the Company may be unable to repair or rebuild such damaged property in a timely manner or at all. Any such loss or third-party claim for damages may have a material adverse effect on the Company's business, results of operations and financial condition.

The Company may not be able to effectively manage its growing business and expansion if it cannot attract and retain a sufficient number of qualified workers and experienced managers

The Company's growth largely depends on the ability to attract and retain a sufficient amount of qualified employees and experienced managers. Generally there is a lack of qualified employees in the Republic of Kazakhstan according to the Ministry of Education of the Republic of Kazakhstan.

The Company is the largest crude oil transportation and water supply company in the Republic of Kazakhstan and it plans to retain its leading positions in the future through internal growth and potential acquisitions of new assets.

Failure in the future to successfully manage the Company's growth and development, including through hiring and retention of qualified employees and experienced managers, could have a material adverse effect on the overall growth, prospects, financial condition and results of operations of the Company.

The Company's growth and development will require, amongst other things, continued training of its personnel, improvement of management control and stringent control of financial systems and operations.

The Company also relies on the abilities of its key management, including the Company's general director, Mr. Kabyldin, who has extensive experience in the industry and in the region in which the Company operates. Other key senior managers include the deputy general directors Mr. Utegaliyev, Mr. Otarov, Mr. Mestoev, Mr. Ileuov and Mr. Zakirov. In the event that the Company is unable to retain its key senior managers or to find equivalent replacements, it may adversely affect the results of operations and financial condition of the Company.

The Company's accounting systems and system of internal control over financial reporting may not be as sophisticated or robust as those of companies organised in more developed jurisdictions

Similar to many other companies in emerging markets that have recently transitioned to reporting under IFRS from the standards of their local jurisdictions, the Company has identified, and may in the future identify, areas of internal control and financial reporting that require improvement. While the Company believes that its accounting and reporting systems and internal controls are more developed than those of its peer companies in the Republic of Kazakhstan, such systems are not as sophisticated or robust as those of foreign companies with a longer history of reporting under IFRS.

The Company's lack of experience in preparing regular management accounts on a basis consistent with IFRS, and its evolving internal financial reporting systems, may delay the production of IFRS financial statements and could lead to incorrect presentation and interpretation of financial matters affecting the Group, which may negatively impact the quality of decision-making by the Group's management and may cause the financial statements provided to the public to be less reliable than those produced by companies more experienced with IFRS. This may in turn have a material adverse effect on the Company's business, results of operations and financial condition.

Weaknesses in the Company's accounting system and internal controls are largely driven by a shortage of qualified IFRS accounting personnel, which is a result of a lack of such personnel in Kazakhstan generally, and the limitations of the system of collection and consolidation of information used by the Company in connection with the preparation of its IFRS annual and interim financial statements.

The Company's management is paying considerable attention to the development of information systems, accounts preparation procedures and internal controls in order to minimise the risks of misstatements in the financial statements of the Company which could lead to the adoption of decisions by the Company's management based on incomplete or inaccurate information. Thus, the Company has developed an IFRS training program for its accounting employees and a plan for futher improvement of its IFRS accounting procedures, including introduction of additional IT capabilities to support compliance with reporting requirements and enhance internal control procedures. In addition, in June 2012 the Company retained TOO KPMG Tax & Advisory to assess the effectiveness of and make recommendations to improve the internal control system and risk management system, including with respect to the Company's financial reporting processes and preparation of financial statements of the Company.

However, despite the efforts undertaken by the Company, it may be unable to remedy certain weaknesses in its accounting and internal control systems, in which case there is a risk that the consolidated financial statements of the Company will contain misstatements which will not be detected within a timely period by employees in the normal course of performing their assigned functions.

Risks Related to the Republic of Kazakhstan

Investments in emerging markets such as the Republic of Kazakhstan are generally subject to greater risks than investments in more developed markets

Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors in emerging markets, such as in the Republic of Kazakhstan, should be aware that these markets are subject to greater risk because of the undeveloped nature of these markets, including, in some cases, significant legal, economic and political risks. Investors should also note that economic conditions in emerging markets, such as the Republic of Kazakhstan, are subject to rapid change and that the information set out in this Investment Memorandum may become outdated relatively quickly.

The disruptions recently experienced in the global and regional capital markets have led to reduced liquidity and increased credit risk for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets such as the Republic of Kazakhstan may be particularly susceptible to these disruptions and to reductions in the availability of credit or increased financing costs, which could result in financial difficulties. In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in these markets, and, as such, any factors that impact market confidence, for example, a decrease in credit ratings or state or central bank intervention, could affect the price or availability of funding for entities within any of these markets.

As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies may dampen foreign investment in the Republic of Kazakhstan and adversely affect Kazakhstan's economy. In addition, during such times, companies operating in emerging markets can face severe liquidity constraints as foreign capital is withdrawn. Accordingly, investors should exercise particular care in evaluating the risks associated with an investment in the Shares.

The economic and political environment in the Republic of Kazakhstan has a significant impact on the Company

The Republic of Kazakhstan became an independent sovereign nation in 1991 following the break-up of the Union of Soviet Socialist Republics (the "**USSR**" or the "**Soviet Union**"). Since then the Republic of Kazakhstan has undergone major change as part of its transformation from a centralised planned economy to a free-market economy. Initially, this transformation was accompanied by political uncertainty and strain, where economic downturns were accompanied by high inflation, volatility in the national currency and rapid, although incomplete, changes to the legal environment.

Following the break-up of the Soviet Union, a number of the former republics of the USSR went through periods of political instability, civil unrest, military action and territorial disputes accompanied by violence. From the period of independence up to the date of this Investment Memorandum, the political situation in the Republic of Kazakhstan has generally remained calm. At the same time, no assurances can be given that the situation will not change as a result of an internal conflict or outside influence. An example of this is provided by the events which occurred on 16 December 2011 in the city of Zhanaozen in the Mangistau region of the Republic of Kazakhstan. Mass riots which started in the city's main square during the celebrations of the 20th anniversary of Kazakhstan's independence resulted in dozens of people being killed or injured and significant damage being caused to the city's infrastructure. According to some sources, the riots were caused by discontent amongst oil workers, including over low wages.

As at the date of this Investment Memorandum, the political situation in the republics neighboring Kazakhstan also remains relatively calm. However, disruptions may occur and adversely affect the situation in the Republic of Kazakhstan. One example of this is the 2010 events in the neighboring Republic of Kyrgyzstan, which led to the removal of the country's president and caused tensions on the border between Kyrgyzstan and Kazakhstan.

The Government of the Republic of Kazakhstan government began implementing free-market economic reforms in 1992, including a privatisation program, promotion of direct foreign investment, especially in the oil and gas sector, and development of the legal environment. Despite uneven progress in these areas, the Republic of Kazakhstan has undergone significant economic change over the last years. From mid-1994, the Government pursued a programme of macroeconomic stabilisation aimed at lowering inflation, cutting the budget deficit and increasing foreign currency reserves. According to the data of the National Statistical Agency of Kazakhstan, the country's GDP has continued to grow in real terms following the adoption of a floating foreign exchange rate policy in April 1999. However, no assurances can be given that the GDP will continue to grow, and any future fall in the GDP or its rate of growth may have an adverse impact on the development of the Republic of Kazakhstan.

With respect to a number of export commodities, including crude oil, natural gas, steel, copper, ferrous alloys, iron ore, aluminum, coal, lead, zinc and wheat, Kazakhstan is dependent on its neighboring countries, through which it gains access to the global markets. Thus, the export potential of the Republic of Kazakhstan depends on good relations with its neighbors. Should access to these export routes be materially impaired, this could adversely impact the economy of the Republic of Kazakhstan. In addition, an unfavorable economic situation in the regional markets may adversely impact the economy of the Republic of Kazakhstan.

Since 1991 and until present, Kazakhstan has had only one president, Nursultan Abishevich Nazarbayev, and the country has been largely free from political instability. Under President Nazarbayev's leadership, the foundations of a market economy have been established, including the privatisation of state-owned assets, liberalisation of capital controls, tax reforms and pension system development. The Company's operations have benefited from these stable conditions. In 2007, Kazakhstan's Parliament voted to amend Kazakhstan's Constitution to allow President Nazarbayev to run in an unlimited number of elections. In April 2011, President Nazarbayev was re-elected for a further five year term by the majority of votes (95.5%). Despite the above amendments to the Constitution, there is no guarantee that President Nazarbayev will remain in office for a long period of time. Given that an independent Kazakhstan has not had to face a Presidential succession, there can be no assurance that the handing over of power to a new president will be smooth and democratic. Further, if a future president is elected with a different political platform, the business regime in Kazakhstan may change. Upon the results of elections to the Majilis (the lower chamber of the Kazakh Parliament) held on 15 January 2012, the NurOtan party headed by President Nazarbayev remains the majority party with 81% of the votes (with 83 seats in the Majilis) and has formed the Majilis with two other parties, the AkZhol Party with 7.5% of the votes (with 8 seats in the Majilis) and the Communist People's Party with 7.2% of the votes (with 7 seats in the Majilis).

The Republic of Kazakhstan is currently experiencing a general economic slowdown, which has resulted, and is likely to continue to result, in higher unemployment, reduced corporate profitability, increased corporate insolvency rates, increased personal insolvency rates and increased interest rates on bank loans. Factors outside Kazakhstan also have had an impact on Kazakhstan's economy, specifically on the finance and banking sector. For example, in February 2009, S&P downgraded the credit ratings of five of Kazakhstan's largest commercial banks, while Moody's downgraded the bank financial strength ratings of six banks. The rating agencies have stated that these downgrades are the consequence of the increasingly negative impact of the global economic crisis on the Kazakhstan economy and its financial institutions, mounting asset quality and liquidity problems and the inability of Kazakhstan banks to refinance their large foreign wholesale debt in large part because of the devaluation of the Tenge in February 2009. Several commercial banks in Kazakhstan have experienced difficulty in refinancing maturing international debt and, as a result, have sought short-term funding from the NBRK and substantially limited their issuance of new loans. Pursuant to the terms of financial stability legislation adopted by the Government in February 2009, some of Kazakhstan's banks were effectively nationalised by the Government of the Republic of Kazakhstan. It is not clear what impact this will have on the prospects of Kazakhstan's banks and their customers, including the Company. The housing and construction industries and small and medium sized enterprises have been particularly affected while larger companies, subsoil use companies and state owned companies have continued to have access to offshore funding albeit on a more limited basis and on less favourable terms.

There also remains a need for substantial investment in many sectors of Kazakhstan's economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the significant size of the shadow economy (or black market) in Kazakhstan may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government of the Republic of Kazakhstan has stated that it intends to address these problems by improving the business infrastructure and tax administration and by continuing the privatisation process. However, there can be no assurance that these measures will be effective and any failure to implement them may adversely affect the economy of the Republic of Kazakhstan which, in turn, may adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

The Kazakhstan economy is highly dependent on crude oil exports, foreign investment in domestic oil sector infrastructure and the overall condition of the global oil industry

The economy and state budget of the Republic of Kazakhstan, as with other countries in the Central Asian region, rely on the export of crude oil and oil products and other commodities, the import of capital equipment and significant foreign investment in infrastructure projects. As a result, the Republic of Kazakhstan could suffer from volatility or a sustained decline in oil and other commodity prices or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries participating in such projects.

In addition, any fluctuations in the value of the U.S. dollar relative to other currencies may cause volatility in earnings from U.S. dollar-denominated crude oil exports. An oversupply of crude oil or other commodities in world markets or a general downturn in the economies of any significant markets for crude oil or other commodities would have an adverse effect on the Kazakhstan economy, which, in turn, could have an adverse effect on the business, financial condition and results of operations of the Company.

Sustained periods of high inflation could adversely affect the Company's business

The Company's assets are located principally in Kazakhstan and a majority of the Company's operations are also conducted in Kazakhstan. Since the majority of the Company's expenses are denominated in Tenge, inflationary pressures in Kazakhstan are a significant factor affecting the

Company’s expenses. Employee and contractor wages, consumer prices and utility costs have been, and are likely to continue to be, sensitive to monetary inflation in Kazakhstan.

The Republic of Kazakhstan has experienced relatively high levels of inflation in recent years. According to the NBRK, inflation was 6.2%, 7.8% and 7.4%, respectively, in 2009, 2010 and 2011. Moreover, according to the IMF, inflation in the Republic of Kazakhstan is expected to be 7.9% in 2012.

There can be no assurance that the Government of the Republic of Kazakhstan and the NBRK will be able to control inflationary pressures. Accordingly, no assurance can be given that changes in the rates of inflation will not materially adversely affect the Company’s business, financial condition or results of operations.

The NBRK may again decide to support the exchange rate of the tenge, which would adversely impact the financial sector and the economy of the Republic of Kazakhstan

The national currency of the Republic of Kazakhstan is the tenge, which was introduced in November 1993. For the purpose of current account transactions, the tenge is considered a convertible currency, although it is not freely convertible for the purpose of financial transactions outside the Republic of Kazakhstan. Since the NBRK set a floating exchange rate for the tenge in April 1999, the currency fluctuated significantly prior to its devaluation in February of 2009. The exchange rate is also affected by the level of inflation in the Republic of Kazakhstan, because higher rates of inflation may lead to devaluation of the currency.

On 4 February 2009, the NBRK devalued the tenge by 18% against the U.S. dollar, with the exchange rate being 143.98 tenge to 1.00U.S. dollar, in part due to the pressure on the current account of the Republic of Kazakhstan caused by falling commodity prices (in particular, crude oil and gas). The devaluation was also aimed at increasing the competitiveness of Kazakh exports. As at 31 December 2009, the official tenge/U.S. dollar exchange rate, according to KASE, was 148.36 tenge to 1.00U.S. dollar, reflecting a devaluation of 22.8% from the 31 December 2008 level. The official tenge/U.S. dollar exchange rate remained relatively stable during the period from 2010 to 2012. As at 31 December 2010, 31 December 2011 and 30 June 2012, the official tenge/U.S. dollar exchange rate set by the NBRK was 147.4tenge to 1.00U.S. dollar, 148.4 tenge to 1.00U.S. dollar and 149.42 tenge to 1.00U.S. dollar, respectively.

Although the NBRK announced that it does not plan to revisit the regulation of the currency exchange rate, there are no assurances that its policy will not change, and any future decision to support the currency exchange rate may cause an adverse effect on the national budget and the economy of the Republic of Kazakhstan which in turn may adversely affect the business, financial condition or results of operations of the Company.

Kazakhstan’s legislative framework is still evolving; therefore, court decisions can be difficult to predict and tax liabilities can be difficult to ascertain

Although a large volume of legislation has been enacted since early 1995 (including new tax codes in January 2002 and January 2009 and the relevant amendments to the latter in January 2010, laws relating to foreign arbitration and foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, and State enterprise reform and privatisation), the legislation in the Republic of Kazakhstan (although one of the most developed among the countries of the former Soviet Union) is still evolving compared to countries with established market economies.

The judicial system, judges and other state officials in the Republic of Kazakhstan may not be fully independent of external social, economic and political forces. There have been instances of improper payments being made to public officials, administrative decisions have been inconsistent in some cases, and court decisions have been difficult to predict. Kazakhstan is a civil law based jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions.

Further, due to numerous ambiguities in commercial legislation of the Republic of Kazakhstan, in particular in its newly adopted tax legislation, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities the legal and tax risks involved in doing business in the Republic of Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

It is also expected that tax legislation in Kazakhstan will continue to evolve, which may result in additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the business, financial condition results of operations and prospects of companies operating in Kazakhstan, including the Company.

The Government of the Republic of Kazakhstan has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Government will continue such policy or that such policy, if continued, will ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Company's business, financial condition, results of operations and prospects.

The taxation system in Kazakhstan is still evolving, which significantly increases the risks with respect to the Company's operations

Tax legislation in the Republic of Kazakhstan has been in force for only a relatively short time and continues to evolve. Tax authorities may impose extremely severe fines, penalties and interest charges for noncompliance. Tax laws and regulations are not always easily interpreted and have not always been applied by the authorities in a consistent manner. The uncertainty of their application creates a risk that the Company may be required to make additional and substantial payments of penalties, fines or interest which it could not have anticipated and which could have a material adverse effect on the Company's business, financial condition and results of operations.

The full impact of the 2009 Tax Code (and its 2010 Amendment) on the Company cannot be determined at this time. Additionally, there can be no assurance that any tax legislation passed in the future will not materially adversely affect the Company's business, financial condition, or results of operations.

In respect of the Company or its management, it may be potentially difficult to effect service of legal process and enforce judgments obtained outside of the Republic of Kazakhstan

The Company was organised under the laws of the Republic of Kazakhstan and a substantial part of its businesses, assets and operations are located in the Republic of Kazakhstan. In addition, a substantial majority of its directors and other executive officers reside in the Republic of Kazakhstan and substantially all of their assets are also located in Kazakhstan. It may be difficult to effect service of process against the Company and its management in connection with the enforcement of a foreign judgment, including with respect to matters arising under United States federal securities laws or other applicable United States state laws.

Moreover, Kazakhstan's courts will not enforce any judgment in a court established in a country other than the Republic of Kazakhstan unless there is in effect a treaty between such country and the Republic of Kazakhstan providing for reciprocal enforcement or procuring of enforcement of judgments in accordance with the terms of such treaty. The Republic of Kazakhstan has no such treaty in effect with the United States of America, the United Kingdom or many other countries. As a result of the absence of such treaties, recognition and enforcement in the Republic of Kazakhstan of judgments of a court in (without limitation) the United States of America and the United Kingdom in relation to any matter may be difficult.

Further, in February 2010, a number of amendments were introduced in certain legislative acts relating to the state's sovereign immunity and its property, including national companies, such as the Company, in the context of arbitration and foreign court judgments. While these immunities should apply only to government entities to the extent they are performing sovereign functions and not commercial activities, and the issue of the Shares should be considered a commercial activity under the laws of the Republic of Kazakhstan, whether a particular activity is deemed to be sovereign or commercial in nature is subject to determination by a Kazakhstan court on a case by case basis.

The level of corruption within the Republic of Kazakhstan could adversely affect the Company

Despite the changes in the political, legal and economic situation occurring in the Republic of Kazakhstan since it became an independent country in 1991, instances of private and governmental corruption have been reported. According to the 2011 Corruption Perceptions Index published by Transparency International, which measures the perceived level of public corruption in 182 countries, the Republic of Kazakhstan was ranked number 120, indicating that the corruption in the country remains widespread.

The effects of corruption on the Company are difficult to predict. Under certain circumstances, this could have a material adverse effect on its business and financial condition.

The transport system of the Republic of Kazakhstan is in a poor condition, which may adversely affect the Company's business activity

The infrastructure of the Republic of Kazakhstan was for the most part built during the Soviet era and has not been properly financed or maintained since that time.

According to the Program on Development of Transportation Infrastructure in the Republic of Kazakhstan for 2011-2014 approved by the Resolution of the Government of the Republic of Kazakhstan on 30 September 2010, No. 1006, the share of rail transport in the total cargo and passenger turnover in the Republic of Kazakhstan is approximately 60%, and its corresponding share of total revenues generated from transportation by all kinds of transport is 20%. This makes the modernisation of railway transport one of the key priorities in resolving the infrastructure problems of the country.

Highways represent one of the key elements of the transport and communications complex of the Republic of Kazakhstan. The current road network of the Republic of Kazakhstan does not meet European standards. Incompatibility of technical parameters of the transport infrastructure with international standards and systems of the existing trading partners of the Republic of Kazakhstan constitutes an obstacle to regional integration and the development of trading and transportation relations.

Currently, the Government of the Republic of Kazakhstan is considering plans to restructure the railway sector. In September 2010, the Government of the Republic of Kazakhstan approved a programme for the development of the transport infrastructure of the Republic of Kazakhstan for the period of 2010-2014. Any such restructuring may lead to increased tariffs and levies in order to finance the program.

The transportation of goods, including good required for the operation of the Company's business, within the territory of the Republic of Kazakhstan may take considerably more time and be more expensive than in countries with a more developed infrastructure. This may result in increased operating expenses for the Company, or interruptions in the operation of its business in the event goods are not able to be transported efficiently.

The Company cannot ensure the accuracy of official statistics and other data published by state authorities of the Republic of Kazakhstan or other third party information provided in this Investment Memorandum

Official statistics and other data published by the state authorities of the Republic of Kazakhstan may not be as complete or reliable as those published by the competent authorities of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries.

The Company has not independently verified such official statistics and other data, or other information obtained from third party sources, and therefore there is uncertainty regarding the completeness or reliability of such information. Specifically, investors should be aware that the statistical information and other data contained in this Investment Memorandum was extracted from official Government sources and other third party sources and was not prepared for the purposes of this Investment Memorandum.

Risks Related to the Shares and the Offering

The securities market of the Republic of Kazakhstan is less developed and Kazakh companies are subject to less stringent disclosure and other requirements than in more developed securities markets

An organised securities market was established in the Republic of Kazakhstan in the late 1990s. This market may currently be subject to legal uncertainties, technical difficulties and delays with respect to settlements, clearing operations and registration of transactions with securities. Although in recent years the securities market has undergone a series of significant changes, the development of comprehensive legislation required for the capital markets in the Republic of Kazakhstan to function effectively has not yet been completed in full.

In particular, laws and regulations intended to offer protection from market manipulation and insider trading are not as developed and their enforcement is not as strict in the Republic of Kazakhstan as it is in the United States of America and Western European countries, and existing laws and regulations may be applied inconsistently. The disclosure requirements applicable to companies listed on KASE are similarly less stringent than in more developed markets. In addition, investors in Kazakh companies, including the Company, receive less information on such companies from public sources than investors in companies in the United States of America or Western European countries. These factors may adversely affect the holders of the Shares.

A liquid trading market for the Shares may not develop and the Shares may experience significant price and volume fluctuations

As at the time of the Offering there is no established trading market for the Shares, and one may never develop. If such market does develop, it may not be highly liquid. The only trading market for the Shares will be the KASE and the Company currently has no plans to list the Shares on any other stock exchange in the future. The KASE is materially less liquid than the stock exchanges in more developed jurisdictions, and is behind them in terms of the trading volumes. Therefore, investors may not be able to sell their Shares easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

The initial offer price of the Shares may not be indicative of the market price for the Shares after the listing. Following admission of the Shares to trading on the KASE, the market price and trading volume of the Shares may be subject to significant fluctuations, as a result of actual or supposed changes in the financial performance of the Company and others in its industry, unfavorable economic factors, changes in the level of competition affecting the Company, changes in the environment in which the Company operates, changes to financial analyses by financial analysts, actual or planned sales of a large number of Shares, changes in the price or availability of commodities or other goods or services required by the Company, changes in the market valuation of similar companies, announcements by the Company relating to significant contracts, acquisitions, strategic partnerships, joint ventures or capital investment commitments, loss of a significant customers, employment or termination of key staff, shortfall in revenues or net profits or any increase in expenses in comparison to forecasts, as well as other factors. As a result, investors who purchase Shares in the Offering could lose all or part of their investment.

In addition, in recent years global financial markets have encountered significant fluctuations in prices and trading volumes. The market price of the Shares is influenced by the state of the economy and markets in the Republic of Kazakhstan.Furthermore, even if the economy of the Republic of Kazakhstan remains relatively stable, economic turmoil in other emerging markets, including other CIS countries, could materially adversely affect the market price of the Shares.

The Company may not pay dividends in the future

The stable and predictable cash flows of the Company historically allowed it to pay substantial cash dividends to its sole shareholder, amounting to KZT 6,024 million in 2009, KZT 7,340 million in 2010, KZT 19,331 million in 2011. In August 2012 the sole shareholder of the Company decided to pay dividends in the amount of KZT 60,002 million for 2011, which dividends are payable to KMG by 31 December 2012.

However, these historical amounts of dividends are not representative of the dividends that the Company expects to distribute as a public company. There are a number of factors that could affect the Company's determination to pay dividends and the amount of such dividends in the future. Such factors include, but are not limited to, the Company's investment program, its cash requirements, financial performance and profitability over the relevant period, restrictions under its credit arrangements, existing market conditions and the general economic climate, as well as other matters, including taxation. The Company may also enter into new financing agreements in the future that may restrict its ability to pay dividends to its shareholders.

The Company may violate the free float requirements of the KASE, which could result in the transfer of the Offered Shares into the lower category of the KASE

The Resolution of the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organisations dated 26 May 2008 establishes the requirements for the free float of companies listed on the KASE. For the Offered Shares to be admitted to and listed in the first category of the sector "shares" of the official list of the KASE, the number of listed Shares of the Company must represent a free float of not less than (i) 10% within the six months from the first trading date of the Shares, (ii) 15% within one year from such trade date and (iii) 25% within two years from such trading date. The Offered Shares comprise less than 10% of the Company's total amount of shares. As a result, if the Company is not able to issue additional Shares (or if KMG does not sell additional Shares into the public float) within six months after the first trading date of the Shares in order to achieve a free float of 10%, the Company will breach the free float requirement. This may result in the Offered Shares being transferred from KASE's first category of the sector "shares" to the second category of the sector "shares". If the Shares are transferred into the lower category it might result in the decrease of trading volume on the Shares which might in turn adversely affect the price and liquidity of the Shares.

Future offerings of debt or equity securities by the Company may adversely affect the market price of the Shares and dilute existing shareholders

In the future, the Company may attempt to obtain financing or to further increase its capital resources by issuing additional shares or offering debt or equity securities. Issuing additional shares or offering other equity securities may dilute the economic and voting rights of the Company’s shareholders or reduce the market price of the Shares, or both. Because the Company’s decision to issue securities in any future offering will depend on market conditions and other factors, the Company cannot predict or estimate the amount, timing or nature of the Company’s future offerings. Thus, holders of the Shares bear the risk that future equity offerings by the Company may reduce the market price of the Shares and dilute their level of ownership in the Company.

USE OF PROCEEDS

The Company intends to use the net proceeds from the Offering (after deduction of consultancy fees and other expenses relating to the Offering) to implement the following projects in the near to medium term, in line with its strategy, as well as for general corporate purposes:

- Increasing the installed throughput capacity of the Kalamkas–Karazhanbas–Aktau and the Uzen–Zhetybai–Aktau trunk oil pipelines owned by the Company and connecting the Kalamkas and Karazhanbas fields in the Buzhachi peninsula with the Aktau Sea Port and the UAS pipeline. Additionally, the Company plans to reconstruct oil pumping facilities in Karazhabas, Tauchik and Zhetybai which constitute a component of the Kalamkas–Karazhanbas–Aktau and Uzen–Zhetybai–Aktau trunk oil pipelines.

- Increasing the installed throughput capacity of the Kazakhstan–China pipeline system up to 20 million tonnes of crude oil per year by 2017.

Until the net proceeds of the Offering are used for the purposes described above, the Company intends to deposit the proceeds from the Offering in interest bearing bank accounts. For more detailed information about these projects, see section "*Business – Operations – Investment Projects*" and "*Risk Factors – Risks Related to the Group's Business – The Company may be unable to achieve its strategic objective of increasing crude oil transportation turnover by expanding its network".*

DIVIDENDS AND DIVIDEND POLICY

The Company's dividend policy will primarily be dictated by, and will be adjusted from time to time to reflect, the investment needs of the Company. The payment of dividends is governed by legislation of the Republic of Kazakhstan, the Company's charter and its dividend policy approved by KMG, the sole shareholder of the Company, on 3 July 2012 (the "**Dividend Policy**"). Dividends on the Company's shares may be paid on the basis of annual, semi-annual or quarterly results as reported in the Company's financial statements prepared in accordance with IFRS.

The Dividend Policy is intended to ensure a balance of interests of the Company and its shareholders and transparency in relation to the determination of the amounts of dividends paid to the shareholders. In accordance with the Dividend Policy, the Company currently intends to pay annual dividends of no less than 40% of the net income of the Company, subject to any semi-annual or quarterly dividends paid in the same year, and semi-annual and quarterly dividends of no less than 10% of its net income in the relevant period. The dividends are to be calculated on the basis of the higher of the net income reported in the Company's consolidated financial statements or the net income reported in its standalone financial statements. The actual amount of dividends paid by the Company may amount to or exceed 100% of the net income of the Company under the Company's consolidated financial statements, subject to any contractual obligations assumed by the Company. Dividends exceeding net income of the Company are paid from retained earnings of the Company. In determining the amount of any dividends to be recommended to the shareholders, the Board of Directors of the Company takes into account the Company's net income, financial condition, debt obligations, and its short-term and long-term plans, including the necessity of allocating funds to investment projects, among other items.

According to legislation of the Republic of Kazakhstan, decisions to pay dividends are adopted by the general shareholders meeting of the Company and dividends may be paid if the Company has net income in the reporting financial year or on the basis of quarter and/or semi-annual IFRS results, as the case may be. Dividends on the Company's shares may not be distributed if:

(i) the equity capital of the Company is or may become negative as a result of such dividend distribution; or

(ii) the Company is or would be qualified for insolvency or bankruptcy in accordance with the bankruptcy laws of the Republic of Kazakhstan as a result of such dividend distribution; or

(iii) a decision on liquidation has been adopted by a court or the general shareholders meeting of the Company.

Dividends may not be distributed and paid on shares that have not been placed or that have been repurchased by the Company. If dividends on the Company's shares are declared, they are paid in Tenge or, subject to the written consent of the shareholder receiving the dividends, in shares or bonds issued by the Company.

In the years 2011, 2010 and 2009 the Company paid aggregate dividends in the amounts of:

- KZT 19,331 million, or KZT 558 per outstanding Share (without recalculation for the share split in June 2012), for the year ended 31 December 2010;
- KZT 7,340 million, or KZT 223 per outstanding Share (without recalculation for the share split in June 2012), for the year ended 31 December 2009; and
- KZT 6,024 million, or KZT 183 per outstanding Share (without recalculation for the share split in June 2012), for the year ended 31 December 2008.

On 2 August 2012 KMG approved the payment of dividends by the Company in the amount of KZT 60,002 million or KZT 173 per outstanding Share (taking into account the share split in June 2012), for the year ended 31 December 2011. Of this amount, the Company had paid KZT 52,000 million to KMG as of the date of this Investment Memorandum, and the remainder is expected to be paid prior to 31 December 2012.

Potential investors in the Shares should note that the substantial cash dividends paid by the Company historically to KMG are not representative of the dividends that the Company expects to distribute as a public company in the future. See "*Risk Factors – Risks Related to the Shares and the Offering – The Company may not pay dividends in the future*".

SELECTED FINANCIAL AND OPERATING INFORMATION OF THE COMPANY

The following tables set forth the Company's historical consolidated financial information and other operating information as at and for the years ended 31 December 2011, 2010 and 2009 and as at and for the six months ended 30 June 2012 and 2011. The financial information set forth below as at and for the years ended 31 December 2011, 2010 and 2009 has been derived from, and should be read in conjunction with, the Audited Financial Statements included elsewhere in this Investment Memorandum. The financial information set forth below as at and for the six months ended 30 June 2011 and 30 June 2012 has been derived from, and should be read in conjunction with, the Unaudited Interim Financial Statements included elsewhere in this Investment Memorandum. Ernst & Young have audited the Consolidated Financial Statements and reviewed the Interim Financial Statements. The selected consolidated financial information should be read in conjunction with "*Presentation of Financial and Other Information*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" and the Financial Statements and notes thereto included elsewhere in this Investment Memorandum.

This Investment Memorandum also includes certain measures that are not measures defined by IFRS. Such non-IFRS measures should not be considered in isolation, or as a substitute for analysis of the Company's operating results as reported under IFRS. See "*Presentation of Financial and Other Information – Presentation of Non-IFRS Measures*".

	For the six months ended 30 June		For the years ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
	(in thousands of Tenge)				
Consolidated statement of comprehensive income					
Revenue	66,357,554	71,502,222	140,478,092	138,240,940	126,181,133
Cost of sales	(45,834,937)	(44,460,702)	(96,298,683)	(82,406,630)	(71,442,500)
Gross profit	**20,522,617**	**27,041,520**	**44,179,409**	**55,834,310**	**54,738,633**
General and administrative expenses	(4,427,535)	(437,849)	(6,730,370)	(7,114,619)	(9,104,796)
Other operating income	639,922	510,993	1,645,165	2,055,088	1,092,860
Other operating expenses	(312,817)	(514,036)	(2,766,295)	(805,658)	(1,124,886)
Impairment of property, plant and equipment and intangible assets	–	–	(7,409,186)	(22,333,457)	(1,246,788)
Effect of recognizing of liabilities associated with acquisition in 2008	–	–	–	–	(5,017,821)
Impairment of goodwill	–	–	–	(2,370,792)	(1,306,548)
Operating profit	**16,422,187**	**26,600,628**	**28,918,723**	**25,264,872**	**38,030,654**
Net foreign exchange loss	(15,474)	(442,516)	(434,972)	(265,221)	(7,011,967)
Finance income	1,080,365	1,534,384	2,895,026	1,882,967	2,283,646
Finance costs	(98,094)	(119,989)	(308,356)	(863,112)	(1,995,645)
Share in income/ (losses) of joint ventures	2,854,964	320,466	1,602,528	62,702	(2,912,125)
Profit before tax	**20,243,948**	**27,892,973**	**32,672,949**	**26,082,208**	**28,394,563**
Income tax expense	(3,344,189)	(4,788,247)	(6,727,552)	(6,463,907)	(12,856,131)
Profit for the period	**16,899,759**	**23,104,726**	**25,945,397**	**19,618,301**	**15,538,432**

	For the six months ended 30 June	For the years ended 31 December		
	2012	**2011**	**2010**	**2009**
		(in thousands of Tenge)		
Consolidated statement of financial position				
Non-current assets	371,832,583	376,152,417	342,418,595	264,200,652
Current assets	87,337,195	73,876,510	76,296,160	61,132,491

Total assets	**459,169,778**	**450,028,927**	**418,714,755**	**325,333,143**
Total equity	388,748,722	371,498,086	338,314,798	242,802,745
Non-current liabilities	43,733,333	45,206,572	44,214,263	38,898,617
Current liabilities	26,687,723	33,324,269	36,185,694	43,631,781
Total equity and liabilities	**459,169,778**	**450,028,927**	**418,714,755**	**325,333,143**

	For the six months ended 30 June		**For the years ended 31 December**		
	2012	**2011**	**2011**	**2010**	**2009**
			(in thousands of Tenge)		
Consolidated statement of cash flows					
Net cash flow from operating activities	20,388,113	31,224,736	58,008,383	67,676,684	60,044,263
Net cash used in investing activities	1,498,608	(17,138,449)	(33,452,217)	(39,519,718)	(29,541,110)
Net cash used in financing activities	94,000	(37,233)	(19,618,173)	(27,644,075)	(31,925,857)
Net change in cash and cash equivalents	21,980,721	14,049,054	4,937,993	512,891	(1,422,704)
Cash and cash equivalents at the beginning of the year	21,852,387	16,914,394	16,914,394	16,401,503	17,824,207
Cash and cash equivalents at the end of the year	43,833,108	30,963,448	21,852,387	16,914,394	16,401,503

	For the six months ended 30 June		**For the years ended 31 December**		
	2012	**2011**	**2011**	**2010**	**2009**
Non-IFRS Measures					
EBITDA(1) (thousands of Tenge)	29,951,520	37,208,485	61,490,627	68,657,429	63,528,375
EBITDA margin(2) (per cent.)	45,1	52,0	43.8	49.7	50.3
Gross profit margin(3) (per cent.)	30,9	37,8	31,4	40,4	43,4
Net profit margin(4) (per cent.)	25,5	32,3	18.5	14.2	12.3
Net debt(5) (thousands of Tenge)	(43,433,992)	(21,549,206)	(21,549,206)	(16,322,730)	4,290,926

(1) EBITDA means gross profit less general and administrative expenses plus depreciation and amortization plus/(less) income/(loss) on allowance for doubtful debts, taxes and obsolete inventory. .
(2) EBITDA margin is EBITDA divided by Revenue.
(3) Gross profit margin is Gross profit divided by Revenue.
(4) Net profit margin is Profit for the year divided by Revenue.
(5) Net debt is Long-term and short-term borrowings less Cash and cash equivalents.

The following table reconciles the EBITDA calculation to Profit for the reporting period:

	For the six months ended 30 June		**For the years ended 31 December**		
	2012	**2011**	**2011**	**2010**	**2009**
			(thousand tenge)		
Profit for the reporting year	**16,899,759**	**23,104,726**	**25,945,397**	**19,618,301**	**15, 538,432**
plus income tax expense	3,344,189	4,788,247	6,727,552	6,463,907	12,856,131
Income before tax	**20,243 948**	**27,892 973**	**32,672,949**	**26,082,208**	**28,394,563**
plus foreign exchange loss	15,474	442,516	434,972	265,221	7,011,967
plus finance costs	98,094	119,989	308,356	863,112	1,995,645
less finance income	(1,080,365)	(1,534,384)	(2,895,026)	(1,882,967)	(2,283,646)
less share in income/ (loss) of joint ventures	(2,854,964)	(320,466)	(1,602,528)	(62,702)	2,912,125
Operating profit	**16,422,187**	**26,600,628**	28,918,723	25,264,872	38,030,654
plus depreciation and amortization	13,805,708	14,300,575	27,715,962	22,058,358	17,204,943
plus other operating expenses	312,817	514,036	2,766,295	805,658	1,124,886
less other operating income	(639,922)	(510,993)	(1,645,165)	(2,055,088)	(1,092,860)
impairment of goodwill	–	–	–	2,370,792	1,306,548
plus effect of recognizing of liabilities associated with acquisition in 2008	–	–	–	–	5,017,821
plus impairment of property, plant and equipment and intangible assets	–	–	7,409,186	22,333,457	1,246,788
accruals (reversal) of reserves on doubtful debt, taxes and outdated inventories	50,730	(3,695,761)	(3,674,374)	(2,120,620)	689,595
EBITDA	**29,951,520**	**37,208,485**	**61,490,627**	**68,657,429**	**63,528,375**

	For the six months ended 30 June		For the years ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
Selected Operating Information [(1)]					
Crude oil transported (thousands of tonnes)	26,395	27,255	54,019	52,505	50,885
Crude oil turnover (millions of tonnes/km)	16,694	18,239	34,493	34,223	33,513
Water transported (thousands of cubic meters)	11,058	10,127	21,192	21,361	18,926

(1) Unconsolidated information relating to KTO on a standalone basis.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth, as at 30 June 2012, the Company's consolidated cash and cash equivalents, indebtedness and capitalisation.

The table below has been prepared for illustrative purposes only and does not represent the Company's actual financial position or results. The following table should be read in conjunction with the Financial Statements and the accompanying notes thereto included in this Information Memorandum.

	As at 30 June 2012
	(KZT thousand)
Cash and cash equivalents	43,833,108
Short-term loans and borrowings	399,116
Long-term loans and borrowings	–
Equity	
Share capital	34,617,204
Asset revaluation reserve	132,256,840
Other capital reserves	17,104
Foreign currency translation reserve	9,685,101
Retained earnings	212,172,473
Total equity	**388,748,722**
Total capitalisation[(1)]	**389,147,838**

Notes:
(1) Total of long-term and short-term borrowings and total equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis are intended to assist in the understanding and assessment of the trends and significant changes in the Company's consolidated results of operations and financial condition. Historical results may not indicate future performance. The forward-looking statements contained in this discussion and analysis are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Such factors include, but are not limited to, those discussed in "Forward-Looking Statements" and "Risk Factors". The following discussion should be read in conjunction with such Financial Statements, the notes thereto and the other information included elsewhere in this Investment Memorandum.

Overview

KTO is the largest crude oil transportation company in Kazakhstan, providing crude oil transportation services for both domestic and export destinations. In 2011 the Company transported via its network of trunk crude oil pipelines 54,019 thousand tonnes of crude oil. According to the Company's estimates based on information on crude oil and gas condensate production provided by JSC Information-Analytical Center of Crude oil and Gas, in 2011 the Company transported via its network of trunk crude oil pipelines approximately 59% of all crude oil extracted in the Republic of Kazakhstan.

KTO owns the largest trunk crude oil and water pipeline network in the Republic of Kazakhstan by length and throughput capacity, according to estimates of the National Statistical Agency of Kazakhstan. As at 30 June 2012, the Company owned 5,495 km of crude oil pipelines. KTO's business also includes the provision of water supply services through the Astrakhan-Mangyshlak trunk water pipeline, one of the largest water pipelines in the Republic of Kazakhstan. As at 30 June 2012, the length of KTO's water pipeline network was 2,148 km with installed throughput capacity of 33.6 million cubic metres of water per year. In 2011 and the first six months of 2012, the total volume of water supplied by the Company amounted to 21,291 thousand cubic metres and 11,058 thousand cubic metres, respectively. The Company also provides services relating to the operating and maintenance of trunk crude oil pipelines owned by third parties, including those owned by KCP and MunaiTas, the Company's joint ventures with foreign partners. KCP and MunaiTas own pipelines with an aggregate length of 2,205 km as at 30 June 2012.

BIHL, a subsidiary of KTO, provides crude oil and gas transshipment and storage services, dry cargo transshipment services and also other services relating to transshipment of cargo through the Batumi Oil Terminal and the Batumi Sea Port in Georgia.

Through Samruk-Kazyna, the Government of the Republic of Kazakhstan wholly owns KMG, which is the Company's sole shareholder as at the date of this Investment Memorandum. As a result, the Government of the Republic of Kazakhstan indirectly controls the Company, including its budget, capital expenditure programme and borrowings programme. After the Offering (assuming all Shares are taken up), KMG will continue to own approximately 90% of the voting shares of the Company. See "*Risk Factors – Risks Related to the Group's Business – The Company has been and will continue to be controlled by KMG, whose interests may conflict with those of other shareholders*".

In the six months ended 30 June 2012, the Company's consolidated revenue was KZT 66,357,554 thousand and EBITDA was KZT 29,951,520 thousand. In 2011 the Company's consolidated revenue was KZT 140,478,092 thousand and EBITDA was KZT 61,490,627 thousand. See "*Presentation of Financial and Other Information – Non-IFRS Measures*".

Primary Factors Affecting Results of Operations

The primary factors that have affected the Company's results of operations during the periods under review, and that can be expected to affect the Company's results of operations in the future, are set out below.

Transportation Volumes of Crude Oil and Delivery Turnover

The following table sets forth crude oil transportation volumes and delivery turnover through the Company's pipelines for the periods indicated:

	For the six months ended 30 June		For the years ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
Transportation volume of crude oil (in thousands of tonnes)	26,395	27,255	54,019	52,505	50,885
Domestic market	7,148	6,280	13,502	12,702	11,205
Export	19,247	20,975	40,517	39,803	39,680
Crude oil delivery turnover (in millions of tonnes per km)	16,694	18,239	34,493	34,223	33,513

The Company's ability to generate revenue from its crude oil transportation services depends primarily on the transportation volumes of crude oil. In recent years, the volumes of crude oil transportation through the Company's network of main pipelines have generally increased. The Company's crude oil transportation volumes increased by 2.9% in 2011 (from 52,505 thousand tonnes in 2010 to 54,019 thousand tonnes in 2011) and by 3.2% in 2010 (from 50,885 thousand in 2009 to 52,505 thousand tonnes in 2010). However, in the six months ended 30 June 2012 the transportation volume of crude oil was 26,395 thousand tonnes, representing a decrease of 3% as compared to the six months ended 30 June 2011. The decrease in the transportation volume of crude oil is due to a decrease in the volume of crude oil delivered by crude oil processing plants into the network of main pipelines and a decrease in the deliveries of Russian crude oil through the Omsk-Pavlodar pipeline for transportation to crude oil processing plants in Kazakhstan. Further, the volumes of Kazakhstan's crude oil designated for export were redistributed to such domestic crude oil processing plants as Pavlodar crude oil chemical plant and TOO "PetroKazakhstan Crude Oil Products" to ensure their sufficient load, and the Company charged a domestic tariff for such transportation. The decrease in the transportation volumes of crude oil in the six months ended 30 June 2012 resulted in a decline in revenue for the same period by 7.2%, as compared to the six months ended 30 June 2011. See "*Risk Factors – Risks Related to the Group's Business – A decrease in the volumes of crude oil transported along the trunk pipeline system operated by the Company and the revenue therefrom may have a material adverse impact on the Company*".

Crude oil is transported through the Company's network of trunk distance pipelines and through the pipelines of its joint ventures, KCP and MunaiTas. However, because the Company accounts for its joint ventures under the equity method, the share in the income of joint ventures is reflected in the line item "Share in Income of Joint Ventures". Accordingly, in the table set out above and in the context of discussion of the Company's revenue and cost of sales, data is provided only for the Company and its consolidated subsidiaries, without taking into account the revenue and costs of the joint ventures.

Tariffs for Crude Oil Transportation Services

Most of the Company's revenue is generated from tariffs charged to consumers for the services of crude oil transportation through the Company's network of main pipelines. Such operations of the Company are regulated by the Law on Natural Monopolies and Regulated Markets and tariffs for such services are set by AREM. The tariff generally covers the costs of financing, operating and maintaining the pipeline, increased by a profit level calculated on the basis of fixed assets and net working capital required to carry out crude oil transportation operations. Please refer to the description of the calculation of the tariff in "*Business – Tariffs and Other Revenues – Tariff Calculation*".

AREM establishes different tariffs for crude oil transportation for domestic and export markets. Tariffs for crude oil transportation to the domestic market have always been lower than the tariffs for delivery abroad in order to stimulate full utilisation of Kazakhstan's crude oil processing plants. The current tariff that KTO is able to charge for domestic crude oil transportation has not changed for more than 10 years. This tariff does not cover expenses on crude oil transportation, which are subsidised by application of a higher profit rate when transporting abroad. An increase in the volume of crude oil transported to the domestic market as a proportion of the total volume of crude oil transported would reduce the Company's income and profitability if the domestic tariff were not increased. The Company has requested AREM to review the tariff levels for crude oil transportation to the domestic and export markets. In its application the Company justifies the need to increase the tariff level taking into account the Company's operating and other costs as well as its investment needs.

In 2011, 2010 and 2009 the domestic crude oil transportation tariff was KZT 1,303 per tonne per 1,000 km. The export crude oil transportation tariff was increased to KZT 3,331 per tonne per 1,000 km in 2010 from KZT 3,015 per tonne per 1,000 km in 2009 and remained the same in 2011. As of the date of this Investment Memorandum, there have been no changes to the domestic or export crude oil transportation tariffs. See "*Risk Factors – Risks Related to the Group's Business – The government may impose tariffs on regulated services provided by the Company, including crude oil transportation services, at levels which are unfavourable for the Company*".

Changes in the Share of Income of Joint Ventures

The Company accounts for its interests in its joint ventures, KCP and MunaiTas, on the basis of the equity method, under which the Company's consolidated statement of comprehensive income reflects the Company's shares in net income or loss of the joint ventures as a single line item. Accordingly, the share in income of joint ventures affects the Company's profit. In 2009, the Company recorded a loss due to significant losses of KCP. See "*– Joint Ventures*".

Currency Exchange Rate Fluctuations

The Group's presentation currency and functional currency is the Tenge. The Company generates almost all of its domestic and export revenues in Tenge. Currently, the Company does not have borrowings in foreign currencies. In the past, the Company obtained a substantial amount of foreign currency denominated borrowings, primarily in U.S. dollars, and may obtain such borrowings in the future. Also, the Company's joint ventures and subsidiaries have obtained and currently have borrowings in U.S. dollars. Accordingly, fluctuations in the Tenge/US Dollar exchange rate may affect the Company's consolidated results of operations.

On 4 February 2009, the NBRK devalued the Tenge by 18% against the U.S. dollar, due in part to pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular crude oil and gas). Devaluation of the Tenge significantly affected the results of the Company's operations for the year ended 31 December 2009. The Company recorded a net foreign exchange loss of KZT 7,011,967 thousand for the year ended 31 December 2009 as it had significant bank loans denominated in U.S. dollars.

As at 31 December 2010, the official KZT/U.S.$ exchange rate reported by the KASE was KZT 147.50 per U.S.$1.00 compared to KZT 148.52 as at 31 December 2009. As at 31 December 2011, the official KZT/U.S.$ exchange rate reported by the KASE was KZT 148.43 per U.S.$1.00. The official KZT/U.S.$ exchange rate has remained relatively stable throughout 2012; as at 30 June 2012, the official KZT/U.S.$ exchange rate reported by the KASE was KZT 149.44 per U.S.$1.00, whilst as at 23 October 2012, the official KZT/U.S.$ exchange rate reported by the KASE was KZT 149.57 per U.S.$1.00.

The following table sets forth the period average and period end KZT/U.S.$ exchange rates reported by the KASE (after rounding adjustment) for the periods indicated:

	For the six months ended 30 June		For the years ended 31 December		
	2012	2011	2011	2010	2009
	(KZT per U.S.$1.00)				
Average rate for the period[(1)]	148.48	146.28	146.81	147.47	136.11
As of the period end	149.44	145.80	148.43	147.50	148.52

Note:
(1) The average of the rate reported by the KASE for each month during the relevant period.

The Group also has certain assets and liabilities denominated in Russian Roubles, Euro and Georgian Lari, as well as certain other foreign currencies that give rise to exchange rate exposure. The Group does not have any hedging or other arrangements to mitigate foreign currency exchange risks. See "*Risk Factors – Risks Related to the Group's Business – Fluctuations in the Tenge against foreign currency exchange rates may affect the Group's consolidated results of operations*".

Seasonal Fluctuations

The Group's operating costs are subject to seasonal fluctuations, with higher expenses for materials, repair, technical maintenance and other services usually occurring in the second half of the year than in the first six months. These fluctuations are mainly due to the pipeline repairs that are performed during the second half of the year. In addition, the income from water transportation tends to be higher in the second half of the year due to increased demand from agricultural enterprises for water from June through September.

Economic Environment

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns occurring elsewhere in the world. The global economic crisis of 2008-2009 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and tighter credit conditions within Kazakhstan and generally for Kazakhstan companies and, through mid-2009, weakened global demand for and decline in prices of crude oil and other commodities. Although 2010 and 2011 have seen certain positive economic signs, in 2012 uncertainties remain. These uncertainties in the global financial markets have also contributed to bank failures globally, including in Kazakhstan, and have put downward pressure on emerging markets currencies, including the Tenge. Kazakhstan is continuing to pursue economic reforms and development of its legal, tax and regulatory frameworks and, while the Government has introduced a range of stabilisation measures aimed at providing liquidity and supporting refinancing of foreign debt for Kazakhstan banks and companies, there continues to be uncertainty regarding the Company's access in future to capital and the cost of capital. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. Global economic circumstances and related developments in Kazakhstan had a material adverse effect on the Company's financial position and results of operations in 2009 and may continue to do so in the future, despite some recovery in 2010, 2011 and the first half of 2012.

Although the Company is unable to estimate the effects on the Group's consolidated financial position and its results of operations of any further deterioration in the financial markets or of any increased volatility in the currency, commodities and equity markets, the economic climate resulting from the global financial crisis and any decline in prices of and demand for crude oil and other goods, may continue to negatively impact the Group's business activities. Such market conditions could have an impact on, among other things, the Group's revenue, cash balances at Kazakhstan banks, the cost of funding of the Group's investment projects and the U.S.$/KZT exchange rate and, accordingly, may have a material adverse effect on the Group's business, prospects, financial condition, cash flows and results of operations. See "*Risk Factors – Risks Related to the Group's Business – Global economic developments and market conditions on a regional level may adversely affect the Company*".

Ability to Implement Investment Projects

The Company's ability to increase volumes of crude oil transportation and crude oil delivery turnover through its crude oil pipeline network depends on the successful implementation of the Company's investment projects, including the increase of the production capacity of the Kalamkas – Karazhanbas – Aktau and Uzen – Zhetybay – Aktau crude oil main pipelines as well as increase of the production capacity of the Kazakhstan – China pipeline network together with KCP and MunaiTas. The implementation of these investment projects depends, in its turn, on the availability of financing, obtaining of governmental permits and timely construction. The strategy of the Government of Kazakhstan as well as general economic and political environment may also affect the implementation of the Company's investment projects. See "*Business – Operations – Investment Projects*", "*Risk Factors – Risks Related to the Group's Business – The Company may be unable to achieve its strategic objective of increasing crude oil transportation turnover by expanding its network*" and "*Risk Factors – Risks Related to the Republic of Kazakhstan – The economic and political environment in the Republic of Kazakhstan has a significant impact on the Company*".

Inflation

Since the majority of the Company's expenses are denominated in Tenge, inflationary pressures in Kazakhstan are a significant factor affecting the Company's expenses. Employee and contractor wages, consumer prices and utility costs have been, and are likely to continue to be, sensitive to monetary inflation in Kazakhstan. The operating expenses affected by inflation may not be within the defined set of expenses taken into account by AREM in setting the tariffs applicable to the Company, and if they are within such defined set of expenses, their increase as a result of inflation may not lead to an increase in tariffs. In the event AREM did increase the tariffs, such increase could occur a substantial period of time after the increase in expenses. Any inability to compensate for increased operating expenses as a result of inflation may have an adverse effect on the Company's profitability. See "*Risk Factors – Risks Related to the Republic of Kazakhstan – Sustained periods of high inflation could adversely affect the Company's business*".

Impact of Regulatory Changes

On 4 July 2012, the Trunk Pipeline Law (as defined herein) came into force. The Trunk Pipeline Law is a special law governing matters relating to the design, construction, operation, conservation and decomissioning of trunk pipelines. Under the Trunk Pipeline Law, the Company is obliged to bring the decommissioned pipelines into safe condition and to make arrangements for the restoration of the environment, including land reclamation. The Company is performing an analysis to estimate the amount of future costs for dismantling and removing pipelines and environmental restoration and to determine whether any provision is required. It also plans to assess the risk of potential liabilities and present it in its consolidated financial statements for future periods.

Segments

The Company has identified three reportable segments in accordance with IFRS: (1) *crude oil transportation and related services*, which relate to the Company's main operating activities or are associated with the Company's pipelines, and include crude oil transportation, crude oil storage, water supply, expedition services, and services for support and maintenance of pipelines; (2) *crude oil transshipment*, which includes services for transshipment, storage of crude oil and crude oil products through Batumi Oil Terminal at Batumi Sea Port and expedition services relating to transshipment of crude oil and crude oil products by railway from the Azerbaijanian-Georgian border to Batumi Oil Terminal; and (3) *other services*, including transshipment of dry cargo at Batumi Sea Port and railway terminal services.

The following table sets forth the revenue by segments for the periods indicated:

	For the six months ended 30 June		For the years ended 31 December		
	2012	2011	2011	2010	2009
	(in thousands of Tenge)				
Crude oil transportation and related services	57,305,118	62,940,959	122,258,114	121,138,542	107,101,391
Crude oil transshipment	6,963,816	6,407,503	14,296,770	13,557,526	16,464,835
Other	2,351,387	2,420,106	4,460,955	4,054,581	3,024,835
Total by segments	**66,620,321**	**71,768,568**	**141,015,839**	**138,750,649**	**126,591,061**
Adjustments and eliminations(1)	(262,767)	(266,346)	(537,747)	(509,709)	(409,928)
Consolidated revenue	**66,357,554**	**71,502,222**	**140,478,092**	**138,240,940**	**126,181,133**

Note:
(1) Elimination of intersegment sales

Joint Ventures

The Company has a 50% interest in KCP and a 51% interest in MunaiTas, both of which are jointly controlled entities. The Company has contractual arrangements with CNPC's subsidiaries, CNDOC in the case of KCP and CNPC Exploration and Development Company Ltd in the case of MunaiTas, according to which the Company and its joint venture partners exercise joint control over the business of the joint ventures, including financial and operational policies. The Company's investment in the joint ventures is accounted for using the equity method. The consolidated statement of comprehensive income of the Group reflects the share of the results of operations of the joint ventures. The investments in joint ventures are accounted for in the consolidated financial statements at cost plus changes upon acquisition of the share of net assets of the joint ventures.

After application of the equity method, the Company determines whether it is necessary to recognise impairment loss on the investments in the joint ventures. If there is any objective evidence that the investments are impaired, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its balance value and recognises this amount in the statement of comprehensive income. See Note 4.2 to the Audited Financial Statements. In 2009, the Company's investment in KCP was reduced to nil due to the significant losses of KCP which exceeded the carrying amount of the Company's investment. The losses were related to the significant depreciation of the Tenge against the U.S. dollar which adversely affected KCP due to its substantial borrowings in U.S. dollars. The balance of investments in KCP remained at nil for 2010 and increased to KZT 22,879,691 thousand as at 31 December 2011 and KZT 25,251,361 as at 30 June 2012.

The following table sets out the Company's investments in KCP and MunaiTas for the dates indicated.

	For the six months ended 30 June	For the years ended 31 December		
	2012	2011	2010	2009
	(in thousands of Tenge)			
KCP	25,251,361	22,879,691	-	-
MunaiTas	10,024,193	9,539,213	9,118,148	5,262,464
Total	**35,275,554**	**32,418,904**	**9,118,148**	**5,262,464**

The following table sets out the consolidated share in income of the joint ventures for the periods under review:

	For the six months ended 30 June		For the years ended 31 December		
	2012	2011	2011	2010	2009
	(in thousands of Tenge)				
Share in income / (losses) of joint ventures......................................	2,854,964	320,466	1,602,528	62,702	(2,912,125)

Recent Developments

Transportation Volumes

The following table sets out the volumes of crude oil and water transported by the Company and its consolidated subsidiaries through 30 September 2012.

	Six months ended 30 June 2012	Three months ended 30 September 2012	Nine months ended 30 September	
			2012	2011
Crude oil transportation volumes (thousand tonnes)................................	32,963	15,742	48,705	50,402
Crude oil turnover (millions of tonnes/km).......................	23,699	7,492	31,191	32,908
Water supply (thousand cubic metres)......	11,058	6,395	17,453	16,202

The decline in crude oil transportation volumes in the first nine months of 2012 compared to the first nine months of 2011 was primarily due to a decrease in the volume of oil delivered by oil processing plants into the network of trunk pipelines and a decrease in the deliveries of Russian oil through the Omsk-Pavlodar oil pipeline for transportation to oil processing plants in the Republic of Kazakhstan. Further, the volumes of Kazakhstan's oil designated for export were redistributed to such oil processing plants as Pavlodar oil chemical plant and TOO "PetroKazakhstan Oil Products" to ensure their sufficient load.

Dividends

In August 2012, KMG as the Company's sole shareholder approved the payment of dividends by the Company in the amount of KZT 60,002 million, or KZT 173 per Share (taking into account the share split in June 2012), for the year ended 31 December 2011. Of this amount, the Company had paid KZT 52,000 million to KMG as of the date of this Investment Memorandum, and the remainder will be paid prior to 31 December 2012. See "*Dividends and Dividend Policy*".

Sale of Subsidiary

In August 2012 the Company adopted a decision to increase the share capital of its subsidiary, KazTransOil–Service JSC, which renders medicine, health treatment, sports and tourism related services, by way of an additional share issuance. The total amount paid by the Company for these shares comprised KZT 6,496,889 thousand. On 21 September 2012 the Company completed the sale of 100% of shares in KazTransOil–Service JSC to LLP KazMunaiGas-Service for KZT 11,647,889 thousand in accordance with the valuation of the market value of the stake conducted by an independent appraiser, Privatisation and Investment Bureau LLP. The sale of this stake was approved by AREM. The Company believes that the sale of KazTransOil–Service JSC will benefit the Company by reducing its consolidated expenses without affecting its core businesses.

Regulatory Change

On 4 July 2012 the Law of the Republic of Kazakhstan "On Trunk Pipeline" came into force. Under this law, an owner of a main pipeline must ensure the pipeline's safe condition upon its decommissioning and take measures to restore the environment, including measures aimed at land recultivation. The Group plans to evaluate the potential impact of future costs on dismantlement, disposal of the pipelines and environmental restoration measures. See "*Regulation of Transportation of Oil and Oil Products in the Republic of Kazakhstan – Regulation of Trunk Pipelines*".

Key Line Items in the Consolidated Statement of Comprehensive Income

Revenue

The Group's revenue comprises revenue from the following services: (i) crude oil transportation through the Company's trunk oil pipeline system; (ii) crude oil and crude oil products transshipment in Batumi Oil Terminal and railway transportation from the border of Azerbaijan-Georgia to Batumi Oil Terminal, including freight forwarding services provided by Petrotrans owned by BIHL group; (iii) water supply to crude oil producing companies for their technical needs, agricultural companies, and others through the Company's water pipeline; (iv) operation and maintenance of pipelines provided by the Company to its joint ventures and third parties; (v) freight forwarding services (operational activities on unified routing); (vi) dry cargo transshipment in Batumi Sea Port; (vii) crude oil storage services in accordance with the terms of contracts for oil transportation services; (viii) other services, including the Company's services not connected with its principal activity, such as energy and heat supply to the population and local companies which do not have other energy supply sources, as well as services of AO "KazTransOil-Service" (recreational, medical and other additional services). See Note 27 to the Audited Financial Statements.

Cost of Sales

Cost of sales comprises the following categories of costs: depreciation and amortisation, personnel costs, costs for railway services, costs for fuel and materials, electricity, repairs and maintenance, taxes (other than corporate income tax), security services, gas costs, aerial surveillance services, post-employment costs, environmental protection, operational lease, travel expenses, insurance, pipeline diagnostics, communication services and others. See Note 28 to the Audited Financial Statements.

General and Administrative Expenses

General and administrative expenses include the following: personnel costs, depreciation and amortisation, consulting services, taxes, save for corporate income tax, costs associated with social sphere; charitable contributions, costs associated with VAT write-off subject refund, insurance and security, repairs and maintenance, operational lease, travel expenses, materials and fuel, training, post-employment benefits, communication services, bank services, advertisement, transport, information support, office maintenance as well as provisions for doubtful debts, out-of-date inventory and taxes and other costs. See Note 29 to the Audited Financial Statements.

Other Operating Income

Other operating income comprises income from fines and penalties charged by the Company if consignors breach contractual terms and conditions for crude oil transportation (mainly for the crude oil volume ordered and not supplied), amortisation of deferred income, income from sale of inventory, income from write-off of payables; income from CPC management services, amortisation of the Company's financial guarantee issued to EBRD to secure MunaiTas' obligations under its loan agreement with EBRD; gain on disposal of other non-current assets and inventory; and other income. See Note 30 to the Audited Financial Statements.

Other Operating Expenses

Other operating expenses include actuarial losses, loss on disposal of property, plant and equipment and intangible assets, loss on disposal of other non-current assets, loss on disposal of inventory and other expenses. See Note 31 to the Audited Financial Statements.

Impairment of Property, Plant and Equipment and Intangible Assets

The Group usually revalues property, plant and equipment assets once every three years, except for process crude oil which is revalued annually as at 30 September. The Group's property, plant and equipment assets comprise the following categories: land, buildings, plant and equipment, pipelines, transport assets, process crude oil, construction-in-progress and other.

Finance Income

The Group's finance income comprises interest income on bank deposits, income from guarantees, income from dividends of subsidiary and joint ventures and other finance income. See Note 33 to the Audited Financial Statements.

Finance Costs

The Group's finance costs comprise principally interest expense on loans and write-off of discount from employee remuneration upon termination of employment according to the report of independent actuary. See Note 34 to the Audited Financial Statements.

Share in Income/ (Losses) of Joint Ventures

See "–Joint Ventures" above.

Income Tax Expense

Income tax expense reflects current income tax expense and deferred income tax benefits or expense. See Note 35 to the Audited Financial Statements.

Results of Operations

Overview

The following table sets forth the Company's consolidated income statement line items, by category, for the periods indicated:

	For the six months ended 30 June		For the years ended 31 December		
	2012	2011	2011	2010	2009
			(in thousands of Tenge)		
Revenue	66,357,554	71,502,222	140,478,092	138,240,940	126,181,133
Cost of sales	(45,834,937)	(44,460,702)	(96,298,683)	(82,406,630)	(71,442,500)
Gross profit	**20,522,617**	**27,041,520**	**44,179,409**	**55,834,310**	**54,738,633**
General and administrative expense	(4,427,535)	(437,849)	(6,730,370)	(7,114,619)	(9,104,796)
Other operating income	639,922	510,993	1,645,165	2,055,088	1,092,860
Other operating expenses	(312,817)	(514,036)	(2,766,295)	(805,658)	(1,124,886)
Impairment of property, plant and equipment and intangible assets	–	–	(7,409,186)	(22,333,457)	(1,246,788)
Effect of recognising of liabilities associated with acquisition in 2008	–	–	–	–	(5,017,821)
Impairment of goodwill	–	–	–	(2,370,792)	(1,306,548)
Operating profit	**16,422,187**	**26,600,628**	**28,918,723**	**25,264,872**	**38,030,654**
Net foreign exchange loss	(15,474)	(442,516)	(434,972)	(265,221)	(7,011,967)
Finance income	1,080,365	1,534,384	2,895,026	1,882,967	2,283,646
Finance costs	(98,094)	(119,989)	(308,356)	(863,112)	(1,995,645)
Share in income / (losses) of joint ventures	2,854,964	320,466	1,602,528	62,702	(2,912,125)

Profit before tax	**20,243,948**	**27,892,973**	**32,672,949**	**26,082,208**	**28,394,563**
Income tax expense	(3,344,189)	(4,788,247)	(6,727,552)	(6,463,907)	(12,856,131)
Profit for the period	**16,899,759**	**23,104,726**	**25,945,397**	**19,618,301**	**15,538,432**

Results of Operations for the Six Months Ended 30 June 2012 compared to the Six Months Ended 30 June 2011

Revenue

For the six months ended 30 June 2012, the total revenue of the Company decreased by KZT 5,144,668 thousand, or 7.2%, from KZT 71,502,222 thousand for the six months ended 30 June 2011 to KZT 66,357,554 thousand for the six months ended 30 June 2012. This decrease was due to a decline in the total volume of crude oil transported and increase of the volumes of crude oil transportation to the domestic market as a proportion of the total volume. The decreased volume of crude oil relates to a decrease of the volume of the crude oil delivered by crude oil processing plants to the network of trunk pipelines and a decrease of the deliveries of Russian crude oil through the Omsk-Pavlodar pipeline for transportation to crude oil processing plants in Kazakhstan. Further, certain volumes of Kazakhstan's crude oil designated for export were redistributed to such domestic crude oil processing plants as Pavlodar crude oil chemical plant and TOO "PetroKazakhstan Oil Products" to ensure their sufficient load, and the Company charged a domestic tariff for such transportation, which is 2.5 times lower than the export tariff.

The following table sets forth certain information regarding the Company's consolidated revenue for the periods indicated:

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

Crude oil transportation

For the six months ended 30 June 2012, revenue from crude oil transportation services decreased by KZT 6,205,570 thousand, or 10.9%, as compared to the six months ended 30 June 2011, principally due to a decrease in transportation volumes of crude oil for export, for which the Company charges a higher tariff than for domestic transportation.

Crude oil reloading and railway shipment

For the six months ended 30 June 2012, revenue from crude oil reloading and railway shipment services increased by KZT 556,313 thousand, or 8.7%, as compared to the six months ended 30 June 2011, principally due to an increase of the tariff for reloading and shipment of crude oil and crude oil products.

Water supply

For the six months ended 30 June 2012, revenue from water transportation services increased by KZT 280,027 thousand, or 9.6%, as compared to the six months ended 30 June 2011, principally due to an increase in the water consumption by crude oil and gas producing companies, in particular an increase of the water consumption by KarazhanbasMunai.

Pipeline operation services

For the six months ended 30 June 2012, revenue from pipeline operation services increased by KZT 412,062 thousand, or 16.2%, as compared to the six months ended 30 June 2011, principally due to an increase in KCP's demand for such services from the Company in connection with the commencement of operation of a new crude oil pumping station in December 2011.

Crude oil transportation expedition services

For the six months ended 30 June 2012, revenue from crude oil transportation expedition services decreased by KZT 36,920 thousand, or 2%, as compared to the six months ended 30 June 2011.

Crude oil storage services

For the six months ended 30 June 2012, revenue from crude oil storage services decreased by KZT 111,221 thousand, or 64.9%, as compared to the six months ended 30 June 2011.

Other revenues

For the six months ended 30 June 2012, other revenues, which included the revenues from the services of AO "KazTransOil-Service", the Company's services and the BIHL group's services not related to the core operations, decreased by KZT 39,359 thousand, or 4.5%, as compared to the six months ended 30 June 2011, principally due to a decrease of the volumes of railway shipments which affected the earned income for demurrage of railway cars as well as to a decrease of income from storage of cargo at Batumi Oil Terminal.

Cost of Sales

During the six months ended 30 June 2012, cost of sales increased by KZT 1,374,235 thousand, or 3.1%, from KZT 44,460,702 thousand for the six months ended 30 June 2011 to KZT 45,834,937 thousand for the six months ended 30 June 2012. Such increase was primarily due to an increase in personnel cost as well as environmental costs incurred to manage accidental contamination of land at the Pavlodar-Shymkent which took place as a result of illegal tapping.

	For the six months ended 30 June	
	2012	**2011**
	(in thousands of Tenge)	
Depreciation and amortisation	13,498,460	13,736,302
Personnel cost	12,231,988	12,156,070
Railway services	3,882,160	3,883,430
Electric energy	2,548,278	2,466,951
Materials and fuel	2,161,053	2,093,834
Taxes other than corporate income tax	2,122,075	2,116,244
Security services	1,757,833	1,699,190
Repair and maintenance costs	1,527,120	1,694,233
Gas expense	1,292,782	1,160,223
Air services	943,013	975,126
Environmental protection	387,680	89,131
Rent expenses	366,759	399,766
Business trip expenses	305,825	261,062
Insurance	236,955	236,057
Post-employment benefits	139,120	94,802
Communication services	109,648	103,567
Diagnostics of pipelines	7,012	172,032
Other	1,317,176	1,122,682
Total cost of sales	**45,834,937**	**44,460,702**

Personnel costs

During the six months ended 30 June 2012, personnel costs increased by KZT 1,075,918 thousand, or 8.9%, as compared to the six months ended 30 June 2011. Such increase was due to an indexation of wages for production personnel by the inflation rate and payment of the Unanimity Day bonuses in May 2012.

Electric energy costs

During the six months ended 30 June 2012, costs for electric energy increased by KZT 81,327 thousand, or 3.3%, as compared to the six months ended 30 June 2011. Such increase was due to an increase in the water supply volumes.

Costs for fuel and materials

During the six months ended 30 June 2012, costs for fuel and materials increased by KZT 67,219 thousand, or 3.2%, as compared to the six months ended 30 June 2011. Such increase was due to an increase of costs for fuel and lubricants.

Costs for diagnostics of pipelines

During the six months ended 30 June 2012, costs for diagnostics of pipelines decreased by KZT 165,020 thousand, or 96%, as compared to the six months ended 30 June 2011. Such decrease was due to the smaller scope of diagnostics planned compared to the scope required under the diagnostics regulations (under the law, the second diagnostics of the linear pipeline portion must be completed in three years upon putting into operation and further once in six years).

Gross Profit

During the six months ended 30 June 2012, the Company's gross profit decreased by KZT 6,518,903 thousand, or 24%, from KZT 27,041,520 thousand for the six months ended 30 June 2011 to KZT 20,522,617 thousand for the six months ended 30 June 2012. Such decrease principally reflects a decrease in revenue for the six months ended 30 June 2012 as compared to the six months ended 30 June 2011. The gross profit margin decreased by 38% for the six months ended 30 June 2011, by up to 31% for the six months ended 30 June 2012, principally due to an increase of the production personnel cost.

General and Administrative Expenses

During the six months ended 30 June 2012, the general and administrative expenses increased by KZT 3,989,686, or 911%, from KZT 437,849 thousand for the six months ended 30 June 2011 to KZT 4,427,535 thousand for the six months ended 30 June 2012. Not taking into account the result of reversal of the recognised provision for the first six months of 2011, general and administrative expenses increased by 6.5%. The increase was due to costs relating to a technical audit as well as to an increase of personnel cost by 7.1% in connection with indexation of salary payments for administrative staff of the Company's production branches.

The following table sets forth the Company's general and administrative expenses by items for the periods indicated:

	For the six months ended 30 June	
	2012	**2011**
	(in thousands of Tenge)	
Personnel costs	2,329,578	2,175,741
Consulting	468,416	111,203
Depreciation and amortisation	307,248	564,273
Taxes other than corporate income tax	204,069	142,763
Insurance and security	123,513	148,768
Repair and technical maintenance	120,282	187,113

Write-off of VAT recoverable	115,768	38,739
Social sphere expenses	109,093	121,194
Business trip expenses	89,265	83,328
Rent expense	74,256	102,366
Provision for allowance for doubtful debt	52,591	23,354
Communication services	49,468	47,371
Bank costs	46,783	47,286
Training	38,041	34,535
Charity expenses	37,798	49,649
Materials and fuel	32,630	38,799
Information expenses	29,012	36,534
Office maintenance	17,824	18,014
Transportation expenses	11,112	47,377
Advertising expense	8,908	21,036
Post-employment benefits	8,881	6,259
Reversal of provisions for taxes	–	(3,718,848)
Reversal of allowance for obsolete and slow-moving inventories	(1,861)	(267)
Other	154,860	111,262
Total general and administrative expenses	**4,427,535**	**437,849**

Reversal of provision for taxes

In 2008 the Tax Authority of Astana City issued a notification to the Company imposing additional taxes in the amount of KZT 4,488,881 thousand. The Company filed an appeal with the Tax Authority which was satisfied only in part. The Company appealed the notification of the Tax Authority in court and recorded a provision in the amount of KZT 3,718,848 thousand, which was Company's estimate of the amount which would be due if the Company lost the case. In 2011 the judgement of the court of highest instance on the case was in favour of KTO, which resulted in the reversal of the provision.

Personnel costs

During the six months ended 30 June 2012, costs for administrative personnel increased by KZT 153,837 thousand, or 7%, as compared to the six months ended 30 June 2011. Such increase was due to payment of compensations to redundant employees.

Other Operating Income

During the six months ended 30 June 2012, the Company's other operating income increased by KZT 128,929 thousand, or 25.2%, from KZT 510,993 thousand for six months ended 30 June 2011 to KZT 639,922 thousand for the six months ended 30 June 2012. Such increase reflected additional income in the six months ended 30 June 2012 in the amount of KZT 41,320 thousand from property received free of charge from the suppliers carrying out modernisation of equipment at Kenkiak linear and production dispatcher station and KZT 87,995 thousand from penalties charged to suppliers for non-compliance with the terms of contracts.

Other Operating Expenses

During the six months ended 30 June 2012, the Company's other operating expenses decreased by KZT 201,219 thousand, or 39%, from KZT 514,036 thousand for the six months ended 30 June 2011 to KZT 312,817 thousand for the six months ended 30 June 2012. Such decrease resulted primarily from the obligations under the financial guarantee issued by the Company to secure the obligations of MunaiTas under the EBRD loan. The Company recognised a financial guarantee in the amount of 49% of the loan amount in the consolidated income statement; however, it should have recorded it in the amount of 100%. The financial guarantee was recognised in the additional amount in the first six months of 2011.

Operating Profit

Operating profit for the six months ended 30 June 2012 decreased by KZT 10,178,441 thousand, or 38.3%, from KZT 26,600,628 thousand for the six months ended 30 June 2011 to KZT 16,422,187 thousand for the six months ended 30 June 2012. Such decrease was primarily attributable to the decrease in revenue and the increase in general and administrative expenses in the six months ended 30 June 2012 as described above.

Net Foreign Exchange Loss

During the six months ended 30 June 2012, the Company's net foreign exchange loss decreased by KZT 427,042 thousand, or 96.5%, from KZT 442,516 thousand for the six months ended 30 June 2011 to KZT 15,474 thousand for the six months ended 30 June 2012. Such change primarily resulted from a decrease of freight forwarding operations in foreign currency in connection with the redirection of transportation volumes of crude oil to the domestic market as well as in connection with the growth of the U.S. dollar exchange rate.

Finance Income

During the six months ended 30 June 2012, the Company's finance income decreased by KZT 454,019 thousand or 29.6%, from KZT 1,534,384 thousand for the six months ended 30 June 2011 to KZT 1,080,365 thousand for the six months ended 30 June 2012. Such decrease principally resulted from a decrease in interest income on bank deposits by KZT 435,510 thousand, or 29.4%, in the six months ended 30 June 2012, as compared to the six months ended 30 June 2011, and zero dividend income in the six months ended 30 June 2012, as compared to dividend income of KZT 17,608 thousand in the six months ended 30 June 2011.

Finance Costs

During the six months ended 30 June 2012, the Company's finance costs decreased by KZT 21,895 thousand, or 18.2%, from KZT 119,989 thousand for the six months ended 30 June 2011 to KZT 98,094 thousand for the six months ended 30 June 2012. Such decrease was primarily due to a decrease in interest cost on loans and borrowings by KZT 28,201 thousand, or 63%, for the six months ended 30 June 2012, as compared to the six months ended 30 June 2011, as a result of prepayment of a loan from TBC Bank in 2011.

Share in Income of Joint Ventures

During the six months ended 30 June 2012, the Company's share in income of joint ventures increased by KZT 2,534,498 thousand, or 791% from KZT 320,466 thousand for six months ended 30 June 2011 to KZT 2,854,964 thousand for six months ended 30 June 2012. The low amount in the first six months of 2011 relate to the Company's failure to recognise the share of KCP's net income, which as at 30 June 2011 did not exceed the share in recognised loss as at 31 December 2010.

Income Tax Expense

Income tax expenses for the six months ended 30 June 2012 and 30 June 2011 comprised:

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

For the six months ended 30 June 2012, the Company's income tax expense decreased by KZT 1,444,058 thousand or 30.2%, as compared to the six months ended 30 June 2011. Such decrease was primarily due to a decrease in current income tax expense by KZT 1,059,606 thousand, or 18.4%, for the six months ended 30 June 2012, as compared to the six months ended 30 June 2011, as a result of the decrease in revenues.

Profit for the Period

As a result of the foregoing factors, the Company's profit for the six months ended 30 June 2012 decreased by KZT 6,204,967 thousand, or 26.9%, from KZT 23,104,726 thousand for the six months ended 30 June 2011 to KZT 16,899,759 thousand for the six months ended 30 June 2012.

Results of Operations for the Year Ended 31 December 2011 compared to the Year Ended 31 December 2010 and the Year Ended 31 December 2009

Revenue

In the year ended 31 December 2011, the Company's revenue increased by KZT 2,237,152 thousand, or 1.6%, from KZT 138,240,940 thousand for the year ended 31 December 2010 compared to KZT 140,478,092 thousand for the year ended 31 December 2011. This increase was primarily due to an increase in revenues from pipeline operation services, water transportation and crude oil transportation expedition services, as described below.

In the year ended 31 December 2010, the revenue increased by KZT 12,059,807 thousand, or 9.6%, from KZT 126,181,133 thousand for the year ended 31 December 2009 to KZT 138,240,940 thousand for the year ended 31 December 2010. This increase was primarily due to an increase in revenue from crude oil transportation as a result of an increase of the export crude oil transportation tariff from KZT 3,015 per tonne per 1,000 km in 2009 to KZT 3,331 per tonne per 1,000 km in 2010.

The following table sets forth certain information regarding the Company's revenue for the periods indicated:

	For the years ended 31 December		
	2011	**2010**	**2009**
		(in thousands of Tenge)	
Crude oil transportation	109,585,457	109,395,974	97,682,797
Crude oil reloading and railway shipment	13,795,329	13,227,167	14,518,571
Water transportation	6,119,862	5,892,098	4,893,092
Pipeline operation services	5,227,305	4,530,016	3,319,662
Crude oil transportation expedition services	3,764,703	3,299,799	2,746,629
Crude oil storage services	282,259	356,998	77,058
Other	1,703,177	1,538,888	2,943,324
Total revenue	**140,478,092**	**138,240,940**	**126,181,133**

Crude oil transportation

For the year ended 31 December 2011, revenue from crude oil transportation services increased by KZT 189,483 thousand, or 0.2%, as compared to the year ended 31 December 2010 principally due to a slight increase in crude oil transportation volumes from 52,505 thousand tonnes in 2010 to 54,019 thousand tonnes in 2011.

For the year ended 31 December 2010, revenue from crude oil transportation services increased by KZT 11,713,177 thousand, or 12%, as compared to the year ended 31 December 2009. Such increase was due to an increase in the export crude oil transportation tariff from KZT 3,015 per tonne per 1,000 km in 2009 to KZT 3,331 per tonne per 1,000 km in 2010, as well as increase in the volume of crude oil transported in 2010 as compared to 2009.

Crude oil reloading and railway shipment

For the year ended 31 December 2011, revenue from crude oil reloading and railway shipment services increased by KZT 568,162 thousand, or 4.3%, as compared to the year ended 31 December 2010 principally due to an increase in tariffs for reloading of crude oil and crude oil products and railway shipment.

For the year ended 31 December 2010, revenue from crude oil reloading and railway shipment services decreased by KZT 1,291,404 thousand, or 9%, as compared to the year ended 31 December 2009. Such decrease was due to a decline in volumes of crude oil and crude oil products reloaded.

Water transportation

For the year ended 31 December 2011, revenue from water transportation services increased by KZT 227,764 thousand, or 3.9%, as compared to the year ended 31 December 2010 principally due to an increase in volumes of water supplied to crude oil and gas producing companies as a result of increased consumption for production needs.

For the year ended 31 December 2010, revenue from water transportation services increased by KZT 999,006 thousand, or 20.4%, as compared to the year ended 31 December 2009. Such increase was due to an increase in volumes of water supplied to crude oil and gas producing companies, industrial enterprises and for general population needs.

Pipeline operation services

For the year ended 31 December 2011, revenue from pipeline operation services increased by KZT 697,289 thousand, or 15.4%, as compared to the year ended 31 December 2010 principally due to an increase in the amount charged for the Company's pipeline operation services as a result of an increase of the Company's personnel costs. Commissioning of a crude oil pumping station of the Kazakhstan-China pipeline in 2011, which operation required additional services from the Company, also contributed to such increase.

For the year ended 31 December 2010, revenue from pipeline operation services increased by KZT 1,210,354 thousand, or 36.5%, as compared to the year ended 31 December 2009. Such increase was primarily due to commissioning of the Kenkiak-Kumkol pipeline in October 2009.

Crude oil transportation expedition services

For the year ended 31 December 2011, revenue from oil transportation expedition services increased by KZT 464,904 thousand, or 14.1%, as compared to the year ended 31 December 2010 principally due to an increase in volumes of dry cargo transhipped at the Batumi Sea Port and an increase in port charges.

For the year ended 31 December 2010, revenue from transportation expedition services increased by KZT 553,170 thousand, or 19.5%, as compared to the year ended 31 December 2009. Such increase was due to an increase in volumes of dry cargo transhipped at the Batumi Sea Port.

Crude oil storage services

For the year ended 31 December 2011, revenue from crude oil storage services decreased by KZT 74,739 thousand, or 20.9%, as compared to the year ended 31 December 2010.

For the year ended 31 December 2010, revenue from crude oil storage services increased by KZT 279,940 thousand, or 363.3%, as compared to the year ended 31 December 2009.

Other revenues

For the year ended 31 December 2011, other revenues, which includes services rendered by AO "KazTransOil-Service", as well as ancillary services by BIHL group and the Company, increased by

KZT 164,289 thousand, or 10.7%, as compared to the year ended 31 December 2010. Such increase was principally due to an increase in revenue from services by BIHL group as a result of return of empty tank-cars used by customers.

For the year ended 31 December 2010, other revenues decreased by KZT 1,404,436 thousand, or 47.7%, as compared to the year ended 31 December 2009. Such decrease was due to a decrease in revenue from services by AO "KazTransOil-Service" as a result of disposal in 2010 of a number of recreation and accommodation facilities owned by AO "KazTransOil-Service".

Cost of Sales

During the year ended 31 December 2011, cost of sales increased by 13,892,053 thousand, or 16.9%, from KZT 82,406,630 thousand for the year ended 31 December 2010 to KZT 96,298,683 thousand for the year ended 31 December 2011. Such increase was primarily due to an increase in depreciation and amortisation and personnel cost.

During the year ended 31 December 2010, cost of sales increased by 10,964,130 thousand, or 15.3%, from KZT 71,442,500 thousand for the year ended 31 December 2009 compared to KZT 82,406,630 thousand for the year ended 31 December 2010. Such increase was primarily due to an increase in depreciation and amortisation and personnel cost.

The following table sets forth cost of sales by category for the periods indicated:

	For the years ended 31 December		
	2011	2010	2009
	(in thousands of Tenge)		
Depreciation and amortisation	26,685,966	21,315,868	16,352,902
Personnel cost	26,621,785	22,803,744	20,043,438
Railway services	8,726,951	6,962,179	7,654,352
Materials and fuel	5,727,463	4,549,553	5,763,973
Electric energy	4,933,238	4,547,801	4,052,541
Repair and maintenance costs	4,737,422	4,651,005	3,973,515
Taxes other than corporate income tax	4,079,963	3,857,427	2,745,165
Security services	3,403,589	2,404,371	1,817,222
Gas expense	1,966,908	2,016,140	1,926,169
Air services	1,942,330	1,790,035	808,792
Post-employment benefits	1,820,207	189,603	177,075
Environmental protection	954,634	884,614	489,834
Rent expenses	750,735	910,240	817,691
Business trip expenses	567,982	533,296	683,894
Insurance	480,034	463,584	264,289
Diagnostics of pipelines	419,693	713,129	229,742
Communication services	213,967	196,002	156,099
Other	2,265,816	3,618,039	3,485,807
Total cost of sales	**96,298,683**	**82,406,630**	**71,442,500**

Depreciation and amortisation costs

For the year ended 31 December 2011, depreciation and amortisation increased by KZT 5,370,098 thousand, or 25.2%, as compared to the year ended 31 December 2010. Such increase is principally due to revaluation of property, plant and equipment in 2010 and increase of property, plant and equipment as a result of the acquisition by the Company of the Kazakhstan part of the pipeline TON-2 with the accompanying infrastructure and land plots as consideration for the shares issued by the Company.

For the year ended 31 December 2010, depreciation and amortisation increased by KZT 4,962,966 thousand, or 30.4%, as compared to the year ended 31 December 2009. Such increase was due to a revaluation of the property, plant and equipment in 2010.

Personnel costs

For the year ended 31 December 2011 personnel costs increased by KZT 3,818,041 thousand, or 16.7%, as compared to the year ended 31 December 2010. Such increase was due to an increase of salaries of production personnel due to indexation of their wages to the inflation rate, as well as an increase in reimbursable social benefit payments to employees as a result of the conclusion of collective labour agreements.

For the year ended 31 December 2010, personnel costs increased by KZT 2,760,306 thousand, or 13.8%, as compared to the year ended 31 December 2009. Such increase was due to an increase in the number of production personnel and an increase in salaries.

Costs for railway services

For the year ended 31 December 2011, costs for railway services increased by KZT 1,764,772 thousand, or 25.4%, as compared to the year ended 31 December 2010. Such increase was due to a growth in the value of the Swiss franc against the Tenge which increased the cost of railway services of the Georgian railway which are denominated in Swiss franc.

For the year ended 31 December 2010, costs for railway services decreased by KZT 692,173 thousand, or 9%, as compared to the year ended 31 December 2009. Such decrease was due primarily to a decrease in volumes of crude oil and crude oil products at the Batumi Oil Terminal. Upon achieving the ultimate production capacity by the crude oil terminal in Kulevi, there was a decrease in annual deliveries of crude oil, fuel oil and diesel oil at the Batumi Oil Terminal.

Costs for material and fuel

For the year ended 31 December 2011, costs for material and fuel increased by KZT 1,177,910 thousand, or 26%, as compared to the year ended 31 December 2010. Such increase was due to an increase in the volumes of fuel consumption for heating of transported crude oil and crude oil products as well as to a growth of costs for fuel and lubricants.

For the year ended 31 December 2010, costs for material and fuel decreased by KZT 1,214,420 thousand, or 21%, as compared to the year ended 31 December 2009. Such decrease was primarily due to a decrease in consumption of fuel in connection with favourable weather conditions in 2010. High costs in 2009 related to piping of crude oil mixture at the Batumi Oil Terminal which transportation requires its heating.

Costs for security services

For the year ended 31 December 2011, costs for security services increased by KZT 999,218 thousand, or 41.6%, as compared to the year ended 31 December 2010. Such increase was due to an increase in fees for security services and an increase in the amount of security posts and mobile security groups that the Company engaged for protection of its pipelines.

For the year ended 31 December 2010, costs for security services increased by KZT 587,149 thousand, or 32.3%, as compared to the year ended 31 December 2009. Such increase was due to an increase in fees for security services.

Costs for post-employment benefits

For the year ended 31 December 2011, costs for post-employment benefits increased by KZT 1,630,604 thousand, or 860%, as compared to the year ended 31 December 2010 principally due to increased social benefit payments as a result of the conclusion of collective labour agreements, as well as a large number of employees who retired in 2011.

For the year ended 31 December 2010, costs for post-employment benefits increased by KZT 12,528 thousand, or 7.1%, as compared to the year ended 31 December 2009. Such increase was due to an increase in the number of production personnel in connection with commissioning of Kenkiak-Kumkol pipeline in October 2009.

Gross Profit

In 2011, the Company's gross profit decreased by KZT 11,654,901 thousand, or 20.9%, from KZT 55,834,310 thousand for the year ended 31 December 2010 to KZT 44,179,409 thousand for the year ended 31 December 2011. Such decrease reflects a higher growth rate of production cost compared to the growth of revenue. The gross profit margin dropped from 40% in 2010 to 31% in 2011.

In 2010, the Company's gross profit increased by KZT 1,095,677 thousand, or 2%, from KZT 54,738,633 thousand for the year ended 31 December 2009 to KZT 55,834,310 thousand for the year ended 31 December 2010. Such increase principally reflects a growth of the export crude oil transportation tariff. The gross profit margin dropped from 43% in 2009 to 40% in 2010 in connection with a considerable growth of production cost in 2010 compared to 2009.

General and Administrative Expenses

During the year ended 31 December 2011, general and administrative expenses decreased by KZT 384,249 thousand, or 5.4%, from KZT 7,114,619 thousand for the year ended 31 December 2010 to KZT 6,730,370 thousand for the year ended 31 December 2011. Such decrease was primarily due to reversal of provision for tax liability in the amount of KZT 3,718,848 thousand in connection with the legal proceedings with the Tax Committee of the City of Astana, which were completed in favour of the Company in May 2011. Without regard to the provisions and their reversal, the general and administrative expenses increased in 2011 by 13% compared to 2010 which reflects increases in personnel costs and increase of amortisation and revaluation of property, plant and equipment completed in 2010.

During the year ended 31 December 2010, general and administrative expenses decreased by KZT 1,990,177 thousand, or 21.9%, from KZT 9,104,796 thousand for the year ended 31 December 2009 to KZT 7,114,619 thousand for the year ended 31 December 2010. This decrease was primarily attributable to reversal of provision for doubtful debt in the amount of KZT 2,175,840 in 2010. The provision was created as a result of dismissal by the court of the Company's claim for reimbursement of VAT. During 2010 the Company's incurred significant VAT liability which was partly offset against VAT for reimbursement, which allowed the Company to reverse the relevant provision. Without regard to the provisions and their reversal, the general and administrative expenses increased by 10% in 2010 compared to 2009 which shows a growth of personnel costs.

The following table sets forth the Company's general administrative expenses by category for the periods indicated:

	For the years ended 31 December		
	2011	**2010**	**2009**
		(in thousands of Tenge)	
Personnel costs	5,190,023	4,842,758	4,310,939
Depreciation and amortisation	1,029,996	742,490	852,041
Consulting	703,429	401,735	389,007
Taxes other than corporate income tax	446,316	226,592	303,553
Social sphere expenses	378,841	309,080	158,922
Charity expenses	329,503	334,548	99,066
Write-off of VAT recoverable	316,627	346,922	341,258
Insurance and security	256,020	277,533	188,455
Repair and technical maintenance	239,297	196,780	152,029
Rent expense	198,919	206,577	242,537
Business trip expenses	180,017	207,946	281,977
Materials and fuel	164,879	150,500	60,592
Training	157,450	126,272	73,211
Post-employment benefits	113,793	12,517	12,610
Communication services	98,699	113,491	153,319

Bank costs	98,192	109,420	147,902
Advertising expense	84,835	96,320	83,881
Transportation expenses	79,271	107,941	53,180
Information expenses	76,182	74,336	103,930
Provision / (Reversal of) for allowance for doubtful debt	41,582	(2,117,636)	567
Office maintenance	34,956	59,950	12,185
Provision / (Reversal of) allowance for obsolete and slow-moving inventories	2,892	(2,984)	(118,181)
(Reversal of) / Provisions	(3,718,848)	–	807,209
Other	227,499	291,531	394,607
Total	**6,730,370**	**7,114,619**	**9,104,796**

Personnel costs

For the year ended 31 December 2011, personnel costs increased by KZT 347,265 thousand, or 7.2%, as compared to the year ended 31 December 2010 principally due to an increase in salaries, as well as increase in social benefit payments as a result of the conclusion of collective labour agreements.

For the year ended 31 December 2010, personnel costs increased by KZT 531,819 thousand, or 12.3%, as compared to the year ended 31 December 2009. Such increase was also an increase of salaries.

Depreciation and amortisation

For the year ended 31 December 2011, depreciation and amortisation costs increased by KZT 287,506 thousand, or 38.7%, as compared to the year ended 31 December 2010 principally due to a revaluation of property, plant and equipment completed in 2010.

For the year ended 31 December 2010, depreciation and amortisation costs decreased by KZT 109,551 thousand, or 12.9%, as compared to the year ended 31 December 2009. Such decrease was due principally to reclassification of part of the fixed assets of BIHL group as cost of sales.

Costs for consulting

For the year ended 31 December 2011, costs for consulting increased by KZT 301,694 thousand, or 75.1%, as compared to the year ended 31 December 2010 principally due to engagement of experts for the technical audit of the Group’s operations in 2011.

For the year ended 31 December 2010, costs for consulting increased by KZT 12,728 thousand, or 3.3%, as compared to the year ended 31 December 2009. Such increase was primarily due to engagement of independent appraisers for the revaluation of fixed assets in 2010.

Costs on taxes other than corporate income tax

For the year ended 31 December 2011, costs on taxes other than corporate income tax increased by KZT 219,724 thousand, or 97%, as compared to the year ended 31 December 2010 principally due to an increase in property tax as a result of a revaluation of property, plant and equipment.

For the year ended 31 December 2010, costs on taxes other than corporate income tax decreased by KZT 76,961 thousand, or 25.4%, as compared to the year ended 31 December 2009. Such changes relate to notifications of the Tax Authority regarding the assessment of additional taxes in 2009 for previous periods.

Social sphere expenses

For the year ended 31 December 2011, social sphere expenses increased by KZT 69,761 thousand, or 22.6%, as compared to the year ended 31 December 2010 principally due to a growth of fees for medical services for the Group’s employees.

For the year ended 31 December 2010, social sphere expenses increased by KZT 150,158 thousand, or 94.5%, as compared to the year ended 31 December 2009. Such increase reflected a significant reduction of costs for social activities in 2009 as a result of cost optimisation during the global financial crisis.

Costs for training

For the year ended 31 December 2011, costs for training increased by KZT 31,178 thousand, or 24.7%, as compared to the year ended 31 December 2010 principally due to a growth of fees for educational services in 2011, as well as an increase of the number of employees who applied for certification under national and international qualification standards.

For the year ended 31 December 2010, costs for training increased by KZT 53,061 thousand, or 72.5%, as compared to the year ended 31 December 2009. Such increase reflected a significant reduction of costs for training in 2009 as a result of cost optimisation during the financial crisis.

Costs on post-employment benefits

For the year ended 31 December 2011, costs on post-employment benefits increased by KZT 101,276 thousand, or 809%, as compared to the year ended 31 December 2010 principally due to a growth of social benefit payments as a result of conclusion of collective labour agreements.

For the year ended 31 December 2010, costs on post-employment benefits decreased by KZT 93 thousand, or 0.7%, as compared to the year ended 31 December 2009.

Costs for communication services

For the year ended 31 December 2011, costs for communication services decreased by KZT 14,792 thousand, or 13%, as compared to the year ended 31 December 2010 principally due to a reduction of tariffs of communication providers and expansion of the IP telephony network.

For the year ended 31 December 2010, costs for communication services decreased by KZT 39,828 thousand, or 26%, as compared to the year ended 31 December 2009. Such decrease was due to a reduction of tariffs of domestic and international communication providers and expansion of the IP telephony network.

Bank costs

For the year ended 31 December 2011, bank costs decreased by KZT 11,228 thousand, or 10.3%, as compared to the year ended 31 December 2010 principally due to a reduction of commissions for certain bank operations by a number of Kazakhstan banks.

For the year ended 31 December 2010, bank costs decreased by KZT 38,482 thousand, or 26%, as compared to the year ended 31 December 2009. Such decrease was due to a reduction of commissions for certain bank operations by a number of Kazakhstan banks.

Other Operating Income

During the year ended 31 December 2011, the Company's other operating income decreased by KZT 409,923 thousand, or 19.9%, from KZT 2,055,088 thousand for the year ended 31 December 2010 to KZT 1,645,165 thousand for the year ended 31 December 2011. Such decrease primarily resulted from a decrease in income from fines and penalties charged by the Company in the event of default by customers under crude oil transportation contracts (principally for crude oil volume ordered and not supplied) in 2011 as compared to 2010.

During the year ended 31 December 2010, the Company's other operating income increased by KZT 962,228 thousand, or 88.1%, from KZT 1,092,860 thousand for the year ended 31 December 2009 to KZT 2,055,088 thousand for the year ended 31 December 2010. Such increase was primarily attributable to an increase in income from fines and penalties charged by the Company in the event of default by customers under crude oil transportation contracts in 2010 as compared to 2009.

Other Operating Expenses

During the year ended 31 December 2011, the Company's other operating expenses increased by KZT 1,960,637 thousand, or 243.4%, from KZT 805,658 thousand for the year ended 31 December 2010 to KZT 2,766,295 thousand for the year ended 31 December 2011. Such increase resulted primarily from an increase in actuarial losses by KZT 1,513,000 thousand, or 5,603.7%, in 2011 as compared to 2010 due to the recalculation of actuarial obligations of the Company in connection with the conclusion of the collective labour agreements in 2011, which provided for increased social benefit payments to employees upon retirement.

During the year ended 31 December 2010, the Company's other operating expenses decreased by KZT 319,228 thousand, or 28.4%, from KZT 1,124,886 thousand for the year ended 31 December 2009 to KZT 805,658 thousand for the year ended 31 December 2010. Such decrease resulted primarily from a decrease in actuarial losses by KZT 249,474 thousand or 90.2%, in 2010 as compared to 2009 due to the fact that the growth rates of retirement payments in 2010 decreased as compared to forecast data.

Impairment of Fixed Assets and Intangible Assets

For the years ended 31 December 2011, 2010 and 2009 the Company recognised loss from impairment of property, plant and equipment and intangible assets in the amount of KZT 7,409,186 thousand, KZT 22,333,457 thousand and KZT 1,246,788 thousand, accordingly. Scheduled revaluation which must be performed every three years was carried out in 2010. The impairment mostly related to plant and equipment, including water pipes as well as pipelines, including certain parts of crude oil pipelines, due to a low throughput level. In 2011 the impairment was associated only with the BIHL group's assets and was caused by termination of agreements on lease of tanks owned by third parties. As a result, the BIHL group wrote off capital expenditures connected with repairs of such tanks.

Operating Profit

Operating profit for the year ended 31 December 2011 increased by KZT 3,653,851 thousand, or 14.5%, from KZT 25,264,872 thousand for the year ended 31 December 2010 to KZT 28,918,723 thousand for the year ended 31 December 2011. Such increase, despite a decrease in the Company's gross profit, was primarily attributable to a decrease in impairment of property, plant and equipment and intangible assets by 66.8% in 2011 as compared to 2010. Such decrease in impairment of property, plant and equipment and intangible assets reflected the results of revaluation tests: in 2011 only BIHL group's assets were impaired, while in 2010 the assets of the whole Group showed impairment.

Operating profit for the year ended 31 December 2010 decreased by KZT 12,765,782 thousand, or 33.6%, from KZT 38,030,654 thousand for the year ended 31 December 2009 to KZT 25,264,872 thousand for the year ended 31 December 2010. Such decrease principally reflected an increase in impairment of property, plant and equipment and intangible assets in 2010 by 1,691.3% as compared to 2009 as a result of scheduled revaluation of fixed assets, which was partially offset by a loss of KZT 5,017,821 thousand recorded in 2009 as an effect of recognising of liabilities associated with BIHL group in 2008. In the course of preparation of financial statements of BIHL group for 2009 the Group has made adjustments relating to the period preceding acquisition of BIHL group (2005 through 2007). The adjustments related to reclassification of certain agreements entered into by BIHL group and assessment of deferred income tax associated with valuation of fixed assets. As a result, the Group adjusted the consolidated financial statements in 2009 for the amount of KZT 5,017,821 thousand and recognised additional obligations related to the acquisition of BIHL group in 2008.

Net Foreign Exchange Loss

During the year ended 31 December 2011, the Company's net foreign exchange loss increased by KZT 169,751 thousand, or 64%, from KZT 265,221 thousand for the year ended 31 December 2010 to KZT 434,972 thousand for the year ended 31 December 2011. Such increased loss primarily resulted from strengthening of the value of the U.S. dollar against the Tenge.

During the year ended 31 December 2010, the Company's net foreign exchange loss decreased by KZT 6,746,746 thousand, or 96.2%, from KZT 7,011,967 thousand for the year ended 31 December 2009 to KZT 265,221 thousand for the year ended 31 December 2010. Such decrease resulted from a devaluation of the Tenge against the U.S. dollar in 2009 which significantly affected the Company's banks loans denominated in U.S. dollars.

Finance Income

During the year ended 31 December 2011, the Company's finance income increased by KZT 1,012,059 thousand, or 53.7%, from KZT 1,882,967 thousand for the year ended 31 December 2010 to KZT 2,895,026 thousand for the year ended 31 December 2011. Such increase principally resulted from an increase in interest income on bank deposits by 57.6% in 2011 as compared to 2010 due to a growth of interest rate, which was partially offset by a decrease in dividends income by 61.8% in 2011 as compared to 2010.

During the year ended 31 December 2010, the finance income decreased by KZT 400,679 thousand, or 17.5%, from KZT 2,283,646 thousand for the year ended 31 December 2009 to KZT 1,882,967 thousand for the year ended 31 December 2010. Such decrease was primarily due to a decrease in interest income on bank deposits by 18.5% in 2009 as compared to 2010 as a result of a reduction of interest rate, which was partially offset by zero income from guarantees and zero dividends payment in 2009.

Finance Costs

For the year ended 31 December 2011, the Company's finance costs decreased by KZT 554,756 thousand, or 64.3%, as compared to the year ended 31 December 2010, primarily due to lower borrowings in 2011 as compared to 2010 and the resulting lower interest payments. The Company had total borrowings of KZT 303,181 thousand as at 31 December 2011 as compared to KZT 591,664 thousand as at 31 December 2010.

For the year ended 31 December 2010, the Company's finance costs decreased by KZT 1,132,533 thousand, or 56.8%, as compared to the year ended 31 December 2009, primarily due to lower borrowings in 2010 as compared to 2009 and the resulting lower interest payments. The Company had total borrowings of KZT 591,664 thousand as at 31 December 2010 as compared to KZT 20,692,429 thousand as at 31 December 2009.

Share in Income/(Losses) of Joint Ventures

During the year ended 31 December 2011 the Group's share in income of joint ventures increased by KZT 1,539,826 thousand, or 2,455.8% from KZT 62,702 for the year ended 31 December 2010 to KZT 1,602,528 thousand for the year ended 31 December 2011. Such increase reflected recognition of the share in income of KCP of KZT 1,181,463 thousand (the share in income of KCP in 2011 was KZT 9,241,644 thousand in 2011, which was partially offset by the share in unrecognised losses of KCP of KZT 8,060,181 thousand as at 31 December 2010 as well as by the recognition of the share in income of MunaiTas of KZT 421,065 thousand.

For the year ended 31 December 2010 the Group recognised a share in the income of joint ventures in the amount of KZT 62,702 thousand (in relation to MunaiTas); meanwhile for the year ended 31 December 2009 the Group recorded losses in the amount of KZT 2,912,125 thousand (the share in the income of MunaiTas is KZT 376,931 thousand, impairment of investment in KCP is KZT 3,289,056 thousand). Investment impairment (bringing investment value to zero) in KCP relates to KCP's loss in 2009 due to the devaluation of the Tenge in February 2009. The share in the losses of KCP for 2009 was KZT 18,563,447 thousand, the share in other consolidated income was KZT 42,421 thousand; and taking into account investment impairment, the share in unrecognised losses of KCP as at 31 December 2009 is KZT 15,231,970 thousand. The share in the income of KCP for the year ended 31 December 2010 is KZT 7,173,561 thousand, and its share in other consolidated loss is KZT 1,772 thousand, which reduced unrecognised loss of KCP of KZT 8,060,181 thousand as at 31 December 2010.

Income Tax Expense

Income tax expenses for the years ended 31 December 2011, 2010 and 2009 comprised:

	For the years ended 31 December		
	2011	2010	2009
	(in thousands of Tenge)		
Current income tax expense	9,473,951	10,683,626	7,681,285
Deferred income tax (benefit) / expense	(2,746,399)	(4,219,719)	5,174,846
Income tax expense	**6,727,552**	**6,463,907**	**12,856,131**

According to 2008 amendments to the Tax Code, the following income tax rate was to be introduced: in 2009 -20%, in 2010 -17.5%, and in 2011 and future periods – 15%. The reduction of rates led to reduction of deferred income tax in 2008. During 2009 additional amendments were made to the Tax Code, under which the income tax rate remained at 20% starting from 2010. The change in rates led to the recalculation and significant increase of deferred income tax liabilities in 2009. Significant savings on deferred income tax in 2010 were affected by the revaluation of fixed assets due to different amortisation rates in tax and business accounting. Current income tax expenses in 2010 increased due to an increase in revenue as a result of an increase of the export tariff. An increase in expenses resulted in the reduction of current tax costs in 2011.

Profit for the Year

As a result of the foregoing factors, the Company's profit for the year ended 31 December 2011 increased by KZT 6,327,096 thousand, or 32.3%, from KZT 19,618,301 thousand for the year ended 31 December 2010 to KZT 25,945,397 thousand as compared to the year ended 31 December 2011, and the Company's profit for the year ended 31 December 2010 increased by KZT 4,079,869 thousand, or 26.3%, from KZT 15,538,432 thousand for the year ended 31 December 2009 to KZT 19,618,301 thousand for the year ended 31 December 2010.

Liquidity and Capital Resources

The Company's principal sources of working capital and long-term funding have been cash flows from operating activities and debt financing. The Company's primary liquidity requirements are to finance its operating activities and fund capital expenditures.

Cash Flows

The following table sets forth certain information regarding the principal items of the statement of cash flows for the periods indicated:

	For the six months ended 30 June		For the years ended 31 December		
	2012	2011	2011	2010	2009
	(in thousands of Tenge)				
Net cash flows from operating activities	20,388,113	31,224,736	58,008,383	67,676,684	60,044,263
Net cash flows (used in)/from investing activities	1,498,608	(17,138,449)	(33,452,217)	(39,519,718)	(29,541,110)

Net cash flows (used in)/from financing activities	94,000	(37,233)	(19,618,173)	(27,644,075)	(31,925,857)
Net change in cash and cash equivalents	21,980,721	14,049,054	4,937,993	512,891	(1,422,704)
Cash and cash equivalents at the beginning of the period	21,852,387	16,914,394	16,914,394	16,401,503	17,824,207
Cash and cash equivalents at the end of the period	43,833,108	30,963,448	21,852,387	16,914,394	16,401,503

Net cash flows from operating activities

Net cash flows from operating activities primarily consist of receipts from customers and other proceeds from operating activities, adjusted for cash paid to suppliers and employees and taxes, other than income tax, and interest paid.

For the six months ended 30 June 2012, net cash flows from operating activities decreased by 34.7% as compared to the six months ended 30 June 2011 principally due to the decrease of revenues resulting from lower volumes of crude oil transported and the fact that domestic deliveries increased as a proportion of total volumes. The decrease of the delivery turnover also resulted in changes in trade and other accounts receivable (KZT 2,035, 705 thousand in the first half of 2012), accounts payable (KZT 5,093,243 thousand in the first half of 2012) and in advance payments received (KZT 2,075,984 thousand in the first half of 2012) due to a decrease in customer freight forwarding operations, loading and unloading operations as well as crude oil transportation services.

For the year ended 31 December 2011, net cash flows from operating activities decreased by 14.3% as compared to the year ended 31 December 2010. This decrease was primarily attributable to an increase in employment costs.

For the year ended 31 December 2010, net cash flows from operating activities increased by 12.7% as compared to the year ended 31 December 2009. This increase was attributable to an increase in crude oil export tariffs (changes in trade and other accounts receivable and payable, advance payments received and changes in taxes subject to refund).

Net cash flows from/(used in) investing activities

Net cash flows used in investing activities principally consist of cash disbursed in connection with the purchase of property, plant and equipment and intangible assets, receipt of dividends and placement of term deposits.

For the six months ended 30 June 2012, the Company recorded net cash from investing activities in the amount of KZT 1,498,608 thousand as compared to net cash used in investing activities of KZT (17,138,449) thousand in the six months ended 30 June 2011. Such change was due to placement of bank deposits as well as to acquisition of fixed assets and intangible assets.

For the year ended 31 December 2011, net cash flows used in investing activities decreased by 15.4% compared to the year ended 31 December 2010. Such decrease principally reflected an increase of KZT 8,137,391 thousand, or 31.7%, in cash used in the purchase of property, plant and equipment to maintain the operations, which was partially offset by a decrease by 23.1% in cash used for placement of term deposits.

For the year ended 31 December 2010, net cash flows used in investing activities increased by 33.8% compared to the year ended 31 December 2009. Such increase primarily reflected an increase by 30.7% in cash used for placement of term deposits which is partially offset by an increase of withdrawal of term deposits.

Net cash flows from / (used in) financing activities

Net cash flows used in financing activities principally reflect payments of dividends to KMG and repayment of loans and borrowings.

For the six months ended 30 June 2012, the Company recorded net cash from financing activities in the amount of KZT 94,000 thousand reflecting proceeds from Sberbank of Russia under a short-term loan agreement with the Company's subsidiary AO "KazTransOil-Service" as compared to the negative amount of KZT (37,233) thousand which reflected prepayment of the loan to TBC Bank in the six months ended 30 June 2011.

For the year ended 31 December 2011, net cash flows used in financing activities decreased by 29% compared to the year ended 31 December 2010. This decrease reflected repayment of loans in borrowings in the amount of KZT 20,348,000 in 2010 in connection with the repayment of a long-term loan from Natixis, which was partially offset by an increase by 163.4% in dividends paid by the Company in 2011.

For the year ended 31 December 2010, net cash flows used in financing activities decreased by 13.4% compared to the year ended 31 December 2009. Such decrease was primarily due to a decrease by 21.8% of cash used for repayment of loans and borrowings in 2010 as compared to 2009, which was partially offset by an increase in dividends paid in 2010 as compared to 2009.

Capital Expenditures

The Group's capital expenditure-related cash flows (purchase of property, plant and equipment) amounted to KZT 11.8 billion for the six months ended 30 June 2012, KZT 33.8 billion for the year ended 31 December 2011, KZT 25.6 billion for the year ended 31 December 2010 and KZT 29.3 billion for the year ended 31 December 2009.

The Group's most significant capital expenditures included costs related to improvement of reliability of the Western branch pipeline network, reconstruction of the Eastern branch pipeline network, modernization and maintenance of Batumi Oil Terminal and other infrastructure facilities of Batumi Sea Port. For the full year 2012, the Group has budgeted capital expenditures in the amount of KZT 28.1 billion for maintenance of the current production level.

For the last years ended 31 December 2011, 2010 and 2009 the Group's most significant payments for capital expenditures included:

- KZT 17 billion, KZT 17.3 billion and KZT 15.8 billion, respectively, for repairs and maintenance of the pipeline network;
- KZT 3.4 billion, KZT 2 billion and KZT 2.2 billion, respectively, for modernisation and maintenance of the Batumi Sea Port and Batumi Oil Terminal;
- KZT 670.8 million, KZT 659.6 million and KZT 1,878 million, respectively, for maintenance of the water pipeline Astrakhan-Mangyshlak.

The Company plans to implement over the next six years (2012 through 2017) the following projects:

- Expansion of capacity of Kalamkas-Karazhanbas-Aktau pipeline and Uzen-Zhetybay-Aktau pipeline (KZT 31.1 billion);
- Expansion of capacity of Kazakhstan – China pipeline network (KZT 44,2 billion);
- Expansion of capacity of Batumi Sea Port (KZT 2.7 billion);
- Other investment projects, including maintenance of the existing pipeline network including technical maintenance of pipelines (KZT 64.4 billion).

In addition the Company plans capital expenditures for the maintenance of the existing pipeline system in the amount of KZT 100.8 billion.

Borrowings and Guarantees

As of 30 June 2012, the Company had short-term borrowings of KZT 399,116 thousand and had no long-term borrowings.

Loan from Halyk Bank Georgia

In October 2011, Halyk Bank Georgia granted a one-year loan to Batumi Oil Terminal LLC in the total amount of U.S.$2,040,000 with an interest rate of 11% per annum for the purposes of refinancing a loan extended earlier by TBC Bank to Batumi Oil Terminal LLC, to support the company's operations in Georgia. The maturity date of the loan is 27 October 2012. As of 30 June 2012, the outstanding amount under this loan was KZT 305,116 thousand.

Under the loan agreement concluded between AO "Halyk Bank Georgia" and Batumi Oil Terminal LLC, the latter must comply with the following undertakings: 60% of cash of Batumi Oil Terminal LLC must be kept at accounts with Halyk Bank Georgia and 50% of the revenues must be routed through the accounts with Halyk Bank Georgia.

Guarantees

In July 2004 the EBRD opened a ten-year credit line for MunaiTas in the total amount of U.S.$ 81,600,000 with an interest rate payable on a quarterly basis equal to three months LIBOR plus 2.25%, increased by an additional 0.25% per each year from 29 July 2011. The credit line is secured by a guarantee issued by the Company to EBRD. The guarantee secures the obligations of MunaiTas under the credit line in full, including principal and interest, and continues in effect until the credit line is fully repaid by MunaiTas. In accordance with the provisions of the credit documentation, if the Company decides to withdraw the guarantee, the interest rate under the credit line will be increased to three months LIBOR plus 3.5% per annum. As of 30 June 2012, the outstanding amount due from MunaiTas under the credit line was U.S.$22,002,583.

Under the guarantee agreement between the Company and EBRD, the Company must: (i) current liquidity ratio of not less than 1:1, (ii) ratio of EBIT to interest payments of not less than 2:1, and (iii) ratio of debt to capital not exceeding 2:1. In addition, the Company may not (i) enter into any transactions other than transactions with independent parties on market terms until the transaction is approved by the regulating agency, (ii) sell, lease or dispose of assets whose value exceeds 30% of the total value of the Company's assets, (iii) carry out merger or reorganisation.

Contractual Commitments

As at 30 June 2012, the Group had contractual obligations to acquire property, plant and equipment and construction services in the amount of KZT 12,661,228 thousand. In addition, the Group has committed to purchase inventory (materials and spare parts) and other services in the amount of KZT 35,086,746 thousand. The Group's share in contractual obligations of joint ventures comprised KZT 3,769,477 for commitments to acquire property, plant and equipment and construction services and KZT 2,937,966 thousand for commitments to purchase inventory (materials and spare parts) and other services.

Potential and Contingent Liabilities

As of 30 June 2012 the Group had a provision in the amount of KZT 468,603 thousand, including a provision for ecology, tax and other provisions. In particular, during the six months ended 30 June 2012 the Group recorded a provision in the amount of KZT 179,969 thousand relating to environmental damage as a result of a crude oil spill due to illegal tapping on the Pavlodar-Shymkent pipeline in March 2011. A provision for taxes relates to BIHL group's obligations in connection with proceedings with the Tax Committee of Georgia in relation to corporate income tax in the amount of USD 3,864,862 and withholding tax in the amount of USD 1,534,000 which started in 2009. In 2010 the provision was decreased following the court's recognition of the BIHL group's obligation to pay the income tax arrears in the amount of USD 3,864,862. As of 30 June 2012, the tax provision is

USD 1,534,000 which is equivalent to KZT 229,210 thousand. For a full discussion of provisions recorded by the Company, see Notes 25 and 38 to the Audited Financial Statements and Note 22 to the Unaudited Interim Financial Statements.

Off-Balance Sheet Arrangements

The Company does not have off-balance sheet arrangements.

Quantitative and Qualitative Information about Market Risk

In the ordinary course of its business, the Company is exposed to a variety of market risks. Such risks include interest rate risk, credit risk, currency risk and liquidity risk. The management of the Company reviews and adopts polices for managing each of these risks. See Note 39 to the Audited Financial Statements.

Interest Rate Risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term borrowings with floating interest rates. The Company does not enter into any hedging instruments to mitigate any potential risks because management does not believe the interest rate risk associated with the loans is significant since the interest rates are reviewed periodically. The Company's policy is to manage its interest cost using a mix of fixed and variable rate debt obligations.

Credit Risk

The Company trades only with recognised, 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. There are no significant concentrations of credit risk within the Company.

The Company places deposits with Kazakhstan banks. The Company's management reviews the credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Company's management believes that the recent international credit crisis and subsequent changes in credit rating of local banks do not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits has been recorded.

Liquidity Risks

The Company monitors its risk to a shortage of funds using a current 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.

Currency Risk

The Group obtains a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. The Group does not have formal arrangements to mitigate foreign exchange risks of its operations. The Group also has transactional currency exposures. Such exposure arises primarily from revenues in U.S. dollars.

Critical Accounting Policies and Estimates

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards and interim half year financial statements in accordance with IAS 34. Significant accounting policies applied in the preparation of the IFRS financial statements are described in Notes 4 and 5 to the Audited Financial Statements. The application of certain of these policies requires management to make assumptions and judgements that can significantly affect the amounts reported in the Financial Statements. Management believes that the following are critical policies where assumptions and judgements may significantly affect the Financial Statements.

Revaluation of fixed assets

The Group usually performs revaluation of its fixed assets once every three years, save for process crude oil which is revalued annually as at 30 September as the fluctuation of the market value of crude oil is frequent and considerable. Revaluation is performed on the basis of an appraisal performed by independent professional appraisal companies operating on the basis of the respective licence. The methods used are based on the cost, comparative and income approaches.

The latest revaluation of fixed assets was completed as at 30 June 2010 by TOO PricewaterhouseCoopers Tax and Advisory (the preceding revaluation was performed at 30 June 2007), save for BIHL group's fixed assets which were revalued as at 31 December 2010 by TOO Deloitte TSF. The latest revaluation of process crude oil was completed as at 30 September 2011.

Impairment of fixed assets

The determination of impairment of fixed assets 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 judgements 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 fixed assets impairment.

Useful lives of fixed assets

The Group assesses the remaining useful lives of items of fixed assets 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 IFRS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Allowances of doubtful debts

The Group 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 consolidated financial statements.

Allowances of taxes

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

Employee remuneration

The cost of defined long-term employee remuneration 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.

New Accounting Principles

In the course of preparing interim financial reports for the six months ended 30 June 2012, the Group applied the amendments to IFRS standards specified below. These amendments did not affect accounting policies, financial standing or financial results of the Group.

Amendment to IFRS 12 Deferred Taxes – Recovery of Underlying Assets

This amendment introduces a rebuttable presumption that the carrying amount of investment property will be recovered as a result of sale. Accordingly, deferred tax must be determined based on the assumption that it will be sold, unless the investment property is depreciable and held under a business model aimed at consumption of substantially all economic benefits from the investment property over time rather than through sale. The amendment applies to annual reporting periods starting from 1 January 2012.

Amendment to IFRS 7 Disclosures – Transfer of Financial Assets

This amendment requires enhanced disclosure for transferred assets as defined in IAS 39. If the transferred assets are not derecognised entirely, the company must disclose information necessary to understand the relationship between such assets and their corresponding liabilities. If those assets are derecognised entirely but the entity retains a continuing involvement, the disclosed information must assist in the evaluation of the nature of and the risks associated with such continuing involvement. The amendment applies to annual reporting periods starting from 1 July 2011.

OIL INDUSTRY OVERVIEW

The information set forth in this section is based on publicly available information and industry sources and is intended to give an overview of the oil industry in Kazakhstan and the Caspian Sea region. There is not necessarily any uniformity of views among such sources as to the information provided therein. Unless indicated otherwise, the information presented herein has been extracted from the BP Statistical Review of World Energy published in June 2012 (the "BP Report"). In this section, when numerical values were converted from metric tonnes into barrels of oil equivalent the coefficient of 7.33 was used.

In the case of statistical information presented herein, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data may vary from source to source. The Company accepts responsibility only for accurately reproducing such information and as far as the Company is aware no facts have been omitted which would render such information misleading. The Company accepts no further responsibility in respect of such information. Such information and statistics may be approximations or use rounded numbers. See "Presentation of Financial and Other Information – Presentation of Industry Data."

Global Oil Industry Overview

The global oil industry includes exploring, extracting, refining, transporting (most commonly by oil tankers and pipelines) and marketing oil and its products. The largest products of the industry in terms of volume are fuel oil and gasoline (petrol). Oil and its products account for a large percentage of the world's energy consumption and are also used as the raw materials for many chemical industries, including pharmaceuticals, solvents, fertilizers, pesticides, and plastics.

Oil Reserves

According to current estimates of OPEC, as of 31 December 2011, more than 80% of the world's proven oil reserves are located in the OPEC Member Countries (including, Iran, Iraq, Kuwait, Qatar, Saudi Arabia, United Arab Emirates, Algeria, Libya, Angola, Nigeria, Ecuador and Venezuela), with the bulk of OPEC oil reserves in the Middle East, amounting to 65% of the OPEC total proven oil reserves and 52% of the world's proven oil reserves. Based on OPEC data, as of 31 December 2010, the total oil reserves of the OPEC Member Countries accounted for 81% of the world's proven oil reserves (including nontraditional oil reserves).

To date, there is no unified global classification of oilfields. Different countries have their own approved systems of classification. According to the majority of such systems, the world's oilfields can be generally divided into small (from 1 million tonnes (approximately 7.3 million barrels) to 3 million tonnes of oil (approximately 22 million barrels)), medium (from 3 million tonnes to 30 million tonnes of oil (approximately 220 million barrels)), major (from 30 to 300 million tonnes of oil (approximately 2.2 billion barrels)) and unique (more than 300 million tonnes of oil) oilfields. Among unique oilfields are the Kashagan field in Kazakhstan, the Prudhoe Bay oilfield in the United States (Alaska), the Aghajari field in Iran, the Shaybah field in Saudi Arabia and the Samotlor field in Russia. According to the BP Report, 94% of oil discovered globally is concentrated in fewer than 1,500 unique and major fields.

The following table sets forth estimates of total proven crude oil reserves in each of the 12 countries with the highest reserves as of 31 December 2011.

Country	Amount of proven crude oil reserves	Share of total
	(billion barrels)	*(%)*
Venezuela	296.5	17.9
Saudi Arabia	265.4	16.1
Canada	175.2	10.6
Iran	151.2	9.1
Iraq	143.1	8.7

Kuwait	101.5	6.1
United Arab Emirates	97.8	5.9
Russia	88.2	5.3
Libya	47.1	2.9
Nigeria	37.2	2.3
United States	30.9	1.9
Kazakhstan	30.0	1.8
Total World	**1,652.6**	**100.0**

Source: The BP Statistical Review of World Energy published in June 2012.

Oil Production

According to the BP Report, in 2009, global oil production dropped by 2.0% compared to 2008, down to 80.7 million barrels per day, which was the largest drop since 1982. Oil production grew in the United States, Russia, Brazil, Kazakhstan and Azerbaijan while it declined in China and certain countries of the Organisation for Economic Cooperation and Development ("**OECD**"). Global refining capacity during the same period grew by 2.5%, the largest increase since 1999. Global oil production in 2010 increased by 2.2% to 82.5 million barrels per day, led by China, which recorded its largest production increase ever of 5.2%, the United States and Russia. In the same year, oil production in Norway decreased by 9.4%, which was the world's largest decline, and in the United Kingdom decreased by 7.8%. In 2011, global oil production increased by 1.3% and reached 83.6 million barrels per day. Virtually all of the net growth was in OPEC Member Countries, with large increases in Saudi Arabia, the United Arab Emirates, Kuwait and Iraq more than offsetting a loss of Libyan supply.

The following table sets forth estimates of oil production (which includes crude oil, shale oil, oil sands and natural gas liquids) in each of the 16 countries with the highest production levels in 2009, 2010 and 2011.

	2009		**2010**		**2011**	
Country	**Oil production**	**Share of total**	**Oil production**	**Share of total**	**Oil production**	**Share of total**
	(thousand bopd)	*(%)*	*(thousand bopd)*	*(%)*	*(thousand bopd)*	*(%)*
Saudi Arabia	9,809	12.0	9,955	12.0	11,161	13.2
Russia	9,927	12.9	10,150	12.9	10,280	12.8
USA	7,270	8.5	7,555	8.7	7,841	8.8
Iran	4,249	5.3	4,338	5.2	4,321	5.2
China	3,805	4.9	4,077	5.2	4,090	5.1
Canada	3,222	4.1	3,367	4.2	3,522	4.3
UAE	2,750	3.2	2,867	3.3	3,322	3.8
Mexico	2,978	3.9	2,958	3.7	2,938	3.6
Kuwait	2,477	3.2	2,518	3.1	2,865	3.5
Venezuela	2,914	3.3	2,775	3.2	2,720	3.5
Iraq	2,447	3.2	2,480	3.1	2,798	3.4
Nigeria	2,120	2.6	2,453	2.9	2,457	2.9
Brazil	2,029	2.6	2,137	2.7	2,193	2.9
Norway	2,358	2.8	2,137	2.5	2,039	2.3
Kazakhstan	1,746	2.0	1,818	2.1	1,841	2.1
Angola	1,824	2.3	1,883	2.3	1,746	2.1
Total World	**80,732**	**100.0**	**82,480**	**100.0**	**83,576**	**100.0**

Source: The BP Statistical Review of World Energy published in June 2012.

Oil Demand and Consumption

Global oil demand is one of the most influential factors that determine oil market behavior.

According to the BP Report, world crude oil consumption grew an average of 1.8% per year from 1994 to 2006, with a high of 3.4% in 2003-2004. After reaching a peak of 86.3 million barrels per day in 2007, world consumption decreased in 2008 to 85.7 million barrels per day. In 2009, global oil consumption declined further and reached 84.6 million barrels per day, the minimum level of world consumption since 1982. In 2009, consumption by the OECD countries fell by 4.8%. Outside the OECD, consumption growth slowed by 2.1% in 2009, the weakest percentage growth since 2001. In 2010, after falling for two consecutive years, global oil consumption grew to 87.4 million barrels per day, the largest percentage increase since 2004. OECD consumption grew by 0.9%, the first increase since 2005. Growth remained robust in China and Middle Eastern countries, with Chinese consumption growing by 10.4%. According to the BP Report, in 2011, global oil consumption grew to 88.0 million barrels per day. OECD consumption declined by 1.2% to 45.9 million barrels per day, the fifth decrease in the past six years, reaching the lowest level since 1995. Outside the OECD, consumption grew by 2.8%. Despite strong oil prices, oil production growth was below average in producing regions of the Middle East and Africa due to regional unrest.

The following table shows estimates of oil consumption in each of the 13 countries with the highest consumption levels in 2009, 2010 and 2011.

	2009		**2010**		**2011**	
Country	**Oil consumption**	**Share of total**	**Oil consumption**	**Share of total**	**Oil consumption**	**Share of total**
	(thousand bopd)	*(%)*	*(thousand bopd)*	*(%)*	*(thousand bopd)*	*(%)*
United States	18,771	21.7	19,180	21.1	18,835	20.5
China	8,212	10.4	9,251	10.6	9,758	11.4
Japan	4,381	5.1	4,413	5.0	4,418	5.0
India	3,267	3.8	3,332	3.9	3,473	4.0
Russia	2,710	3.2	2,804	3.7	2,961	3.4
Saudi Arabia	2,555	3.1	2,748	3.1	2,856	3.1
Brazil	2,415	2.7	2,629	2.9	2,653	3.0
Germany	2,409	2.9	2,445	2.9	2,362	2.7
South Korea	2,339	2.7	2,392	2.6	2,397	2.6
Canada	2,179	2.5	2,298	2.5	2,293	2.5
Mexico	1,995	2.2	2,014	2.2	2,027	2.2
Iran	1,923	2.2	1,887	2.1	1,824	2.1
France	1,822	2.3	1,761	2.1	1,724	2.0
World Consumption	**84,641**	**100.0**	**87,439**	**100.0**	**88,034**	**100.0**

Source: The BP Statistical Review of World Energy published in June 2012.

Oil Prices

The prices for Brent crude oil, an international benchmark oil blend, rose dramatically from approximately U.S.$50 per barrel in the beginning of 2007 to approximately U.S.$140 per barrel in July 2008 and then fell sharply over the second half of 2008, hitting a low of U.S.$34 per barrel.

Crude oil prices began to stabilize in the first quarter of 2009. In particular, according to BP, in 2009, Brent crude oil averaged U.S.$61.67 per barrel. The stabilisation of prices in 2009 was supported by sustained OPEC production cuts and improving economic prospects during the year.

According to BP, in 2010, Brent crude oil averaged U.S.$79.50 per barrel, an increase of 29% from 2009, but still nearly U.S.$18 per barrel below the average price of Brent crude oil in 2008.

According to BP, in 2011, Brent crude oil averaged U.S.$111.26 per barrel, an increase of 40% from the average price of Brent crude oil in 2010. The termination of supplies from Libya in the beginning of 2011, combined with the destabilisation in a number of other countries in the region, pushed prices sharply higher despite a large increase in production among other OPEC members following the Libyan outages and a release of strategic stocks from International Energy Agency member countries.

According to RBC, a forecast for the 2012 Brent crude oil average is U.S.$113.1 per barrel, with estimates ranging from U.S.$90 to U.S.$127.4 per barrel.

Kazakhstan Oil Industry Overview

The Caspian region commands ample resources of hydrocarbon materials. To date, the two significant crude oil producing countries in the Caspian region have been Kazakhstan and Azerbaijan. Kazakhstan has rich oil, natural gas and mineral reserves. It is expected that Kazakhstan and Azerbaijan will continue to lead the region in crude oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields. Russia plays an important role in the Caspian region by providing a transportation corridor between the Caspian Sea and the Black Sea, as well as the Baltic Sea and Europe.

Since the early 2000s, Kazakhstan has experienced significant economic growth. Two of the main catalysts for this growth have been economic reform and foreign direct investment, much of which has been concentrated in the energy sector. Exports of crude oil have grown significantly and most oil from Kazakhstan currently is delivered to international markets via pipelines through Russia to shipping points on the Black and Baltic Seas and on oil refineries of eastern and central Europe. The opening of the CPC pipeline in 2001 substantially raised the crude oil export capacity of Kazakhstan.

The oil and gas sector is of strategic significance for Kazakhstan, since it is the principal source of Kazakhstan's export earnings and reserves, fiscal revenues and future foreign direct investment inflows. According to the Finance Ministry of Kazakhstan, as at 31 December 2011, the oil and gas industry accounted for KZT 3.8 trillion or 69% of the Government's total revenues.

According to the MOG, in 2011, Kazakhstan's oil production amounted to approximately 80 million tonnes (586.4 million barrels), 88% of the total production being exported. According to the MOG, during the first six months of 2012, 39.7 million tonnes of oil (291 million barrels) were produced. The level of oil exports is estimated to have reached 33.9 million tonnes (approximately 248 million barrels). The plan for 2012 is 71 million tonnes (520.4 million barrels).

Oil Reserves

According to the BP Report, as at 31 December 2011, Kazakhstan is the second largest oil producer, after Russia, among the former Soviet republics and is ranked sixteenth in the world in terms of proven oil reserves, with proven reserves of approximately 30 billion barrels (approximately 2% of the world's reserves of hydrocarbons). According to the MOG, Kazakhstan's total forecasted recoverable hydrocarbon resources amount to 17 billion tonnes (approximately 124.6 billion barrels), including 8 billion tonnes (approximately 58.6 billion barrels) located in the Kazakhstani sector of the Caspian Sea.

The petroleum bearing regions of Kazakhstan accommodate 172 oilfields and 42 condensate fields, occupying approximately 62% of the country's territory. Kazakhstan's main oil reserves are concentrated in 15 major fields, including Tengiz, Kashagan, Karachaganak, Uzen, Zhetybai, Zhanazhol, Kalamkas, Kenkiyak, Karazhanbas, Kumkol, Northern Buzachi, Alibekmola, Central and Eastern Prorva, Kenbai and Korolevskoe.

The Tengiz oil and gas field was discovered in 1979 and, to date, is the largest producing field in the Republic of Kazakhstan located onshore in the north-western part of the country. Oil production at Tengiz began in 1991. According to Tengizchevroil, in 2011 the production reached 206 million barrels. The forecasted geological reserves of the field amount to approximately 22.7 billion barrels of oil. Tengiz field has estimated recoverable reserves from 750 million tonnes (approximately 5.5 billion barrels) to 1.1 billion tonnes (approximately 8 billion barrels) of oil. Tengiz is the deepest producing field in the world. From 1993 it was developed by Tengizchevroil (a joint venture of Chevron Overseas, Exxon Mobil, KMG and LUKARCO B.V.). The field is being developed on the basis of a concession agreement expiring in 2032. According to Tengizchevroil, production at Tengiz is expected to increase from 520 thousand barrels per day in 2010 to approximately 800 thousand barrels per day by 2018.

The Karachaganak field, opened in 1979, is one of the largest gas-oil-condensate fields in the world. It is located in the north-western part of the Republic of Kazakhstan and has an area of more than 280 square kilometres. Its estimated initial balance reserves of hydrocarbons are equal to 9 billion barrels of condensate and 48 trillions of cubic feet of gas, and general estimated reserves exceed 2.4 billion barrels of condensate and 16 trillions of cubic feet of gas. Oil production began at Karachaganak in 2004. In 2011, Karachaganak's production was 240 thousand barrels of oil and gas-condensate liquid per day. BG Group together with Eni are the joint operators of the Karachaganak field with equal interests – of 29.25% each, and Chevron and Lukoil own 18% and 13.5%, respectively. Starting from 1 July 2012 KMG began participating in the joint venture with an interest of 10%.

The Kashagan field is a sea oil field located in the northern part of the Caspian Sea close to the city of Atyrau. The field was discovered in 2000 and is estimated to have commercial reserves ranging from 9 billion barrels to 16 billion barrels of oil. The Kashagan field presents considerable challenges for development, which has resulted in several delays in the expected start of commercial production. According to the Ministry of Oil and Gas of Kazakhstan, the initial phase of production currently is expected to start in 2013. According to Wood Mackenzie, Kashagan's production is expected to reach 60,000 barrels per day in 2013 and to increase to 315 thousand barrels per day by 2016. This means that this deposit would become the main source of oil production growth in Kazakhstan in the next five years. The territory of the contracting area of Production Sharing Agreement on Northern Caspian includes the fields Kashagan, Kalamkas, South-East Kashagan, Aktoty and Kayran.

In October 2008 the Republic of Kazakhstan agreed to the establishment of North Caspian Operating Company B.V. ("NCOC"), which became an official operator of the Kashagan project in January 2009. The shareholders of NCOC are Agip Caspian Sea B.V. (16.81%), KMG Kashagan B.V. (16.81%), Conocophillips North Caspian Ltd. (8.4%), ExxonMobil Kazakhstan Inc. (16.81%), Inpex North Caspian Sea Ltd. (7.56%), Shell Kazakhstan Development B.V. (16.81%) and Total EP Kazakhstan (16.81%).

According to the MOG, large-scale research and assessments made in the Caspian Sea and the Aral Sea will make it possible to increase the resource potential of Kazakhstan. In turn, the launch of new large projects involving production of hydrocarbons would foster demand for related transportation services.

Oil Production

About 80 subsoil users, which operate on the basis of state-issued licenses, produce oil in Kazakhstan. The oil industry of Kazakhstan is rather consolidated, with 12 leading producers accounting for over 90% of the total oil production in the country (or 1.6 million barrels per day) in 2011, including three producers who accounted for over 62% of the total oil production. Almost one third of the market is held by Tengizchevroil (according to Tengizchevroil, the volumes of oil production for 2011 amounted to 206.2 million barrels), followed by Karachaganak Petroleum Operating B.V. (according to Tengizchevroil, the volumes of oil production for 2011 amounted to 138,5 million barrels) and KazMunaiGas Exploration and Production.

According to AO Information and Analytical Center of Oil and Gas, for the first six months of 2012, Kazakhstan's oil producing companies produced approximately 299 million barrels, including gas condensate. Tengizchevroil continued to account for almost one-third of the market, followed by Karachaganak Petroleum Operating B.V., AO Karazhanbasmunai, TOO Kazakhoil Aktobe, AO Mangistaumunaigaz, TOO JV KazGerMunai and AO PetroKazakhstan Kumkol Resources.

The main share among the oil producers of Kazakhstan is represented by foreign investors from Russia (Lukoil, Rosneft), United States (Chevron, ExxonMobil, ConocoPhillips), Europe (ENI, Total, Royal Dutch Shell, British Gas and Repsol YPF), China (CNPC, China International Trust and Investment Corporation) and other countries. Asian oil companies, including Mittal Investments from India, ONGC Videsh Ltd, joint venture of KMG and a Turkish company TRAO - Kazakhturkmunai and other companies.

According to the forecasts of the MOG, the growth in oil production (including gas condensate) is expected to reach 3.6% in 2015, from 79.7 million tonnes (584.2 million barrels) in 2010 to 95 million tonnes (696.4 million barrels) in 2015. According to the current information of the MOG, the forecasts indicate that there is a possibility of maintaining the current level of production of recoverable hydrocarbon resources for the following 60-70 years. The MOG believes that Kazakhstan's potential to increase production of mineral resources remains high. Further development of the oil and gas sector will be attained primarily through the discovery of new prospective deposits and the upgrade of oil production methods at existing fields.

Oil Demand and Consumption

According to the forecasts of the MOG, oil consumption in Kazakhstan is expected to grow from 2011 to 2015 by 7.8% per year from 13.7 million tonnes (100.4 million barrels) of oil in 2011 to 18.5 million tonnes (135.6 million barrels) of oil in 2015. To satisfy the growing internal demand, the Government of Kazakhstan also plans to implement a mid-term project involving the upgrade of three major oil refineries operating in Kazakhstan to increase their total oil refining capacity to 17.5 million tonnes (128.3 million barrels) of oil by 2015.

Despite the growing demand in the Caspian region, the total oil production in Kazakhstan significantly exceeds the internal demand. This allows Kazakhstan to export considerable amounts of hydrocarbons, in particular, to China, the main consumer of hydrocarbons in this region.

The main export markets for the countries in the Caspian region are Europe and Russia. According to the Energy Information Administration of the United States Department of Energy, oil consumption in the OECD countries in Europe is expected to grow by 1.4% from 2011 to 2016.

China is an important and growing market for many countries located in the Caspian region due to its convenient geographical position, well-developed transport infrastructure and growing demand for hydrocarbons. According to the Energy Information Administration of the United States Department of Energy, oil consumption in China is expected to grow from 2011 to 2016 by 5.4% per year from 470 million tonnes (3,445 million barrels) of oil in 2011 to 495 million tonnes (3,628 million barrels) of oil in 2012.

Refining Facilities

According to the MOG, as at the date of this Investment Memorandum, the largest oil refineries operating in the Republic of Kazakhstan are the Atyrau oil refinery, the Pavlodar Petrochemical Refinery (Pavlodar oil refinery) and the PetroKazakhstan Oil Products refinery (PKOP).

The Atyrau oil refinery was commissioned in 1945 and processes heavy crude oils from the western region of Kazakhstan. A major technical upgrade of all technological oil processing units was performed from the mid-1960s to the mid-1980s. This made it possible to increase the plant capacity to almost 4.3 million tonnes (31.5 million barrels) of oil per year. AO KazMunaiGaz Refinery and Marketing is the owner of the refinery (99.5%). By 2015, it is planned to increase the total oil processing to 5.5 million tonnes of oil per year.

The Pavlodar Petrochemical Refinery was commissioned in 1978. TOO Refinery Company RT (a subsidiary of AO KazMunaiGaz Refinery and Marketing) (58%) and Samruk-Kazyna (42%) are the two shareholders of the refinery. The plant processes a blend of West-Siberian crude oil delivered by the Omsk-Pavlodar pipeline. To date, the installed capacity of the plant is 4.8 million tonnes (35.2 million barrels) of oil per year. According to Pavlodar Petrochemical Refinery, after the completion of the reconstruction and upgrade project, the design output of oil processing is expected to reach 7,5 million tonnes (approximately 55 million barrels) of oil per year after 2016.

The PetroKazakhstan Oil Products refinery (PKOP) was launched in 1985. The shareholders of the refinery include AO KazMunaiGaz Refinery and Marketing (49.7%) and CNPC (50.3%). The plant accounts for 35% of the total oil products output in Kazakhstan. To date, the installed capacity of the plant is 4.6 million tonnes (33.7 million barrels) of oil per year. The plant is expected to be upgraded to reach a total volume of processing of 6 million tonnes per year.

Once the upgrade projects of the above oil refineries are completed, their aggregate design capacity is expected to reach 17.5 million tonnes (128.3 million barrels) per year by 2015. At the same time, this will make it possible to increase the oil refining depth to 84-90% and attain Euro-5 quality standards for the oil products offered.

In 2010 implementation of investment project "Construction of a plant for production of road oil on Aktau plant of plastic» was started, with the capacity of 1 million tonnes per year, which will provide for the deep processing of heavy Karazhanbass oil with the production of road oil in the volume not less than 420 tonnes per year.

For implementation of the project between the Chinese corporation "CITIC Group" and Kazakhstan company AO Kazakhstan Petrochemical Industries, a subsidiary of KMG in 2009 on the principle of parity, TOO Joint Venture CASPI BITUM was established. Completion of works for construction of road oil production complex is planned by the end of 2013.

Kazakhstan Oil Transportation Infrastructure

Kazakhstan is a major supplier of crude oil in Central Asia and Europe. Kazakhstan's crude oil for export is transported primarily through pipelines, and also by rail and by ship through the Caspian Sea. The majority of Kazakhstani oil is produced in the Caspian and Mangyshlak Basins adjacent to the Caspian Sea. The lack of access to sea ports makes the country dependent on pipelines in order to ship hydrocarbons to international markets. Its close neighbors, Russia and China, are the main export partners for deliveries of Kazakhstani oil. See "*–International Treaties*". Since Soviet times, all Kazakhstani pipelines have been integrated with the Russian oil infrastructure.

According to the MOG, the current estimated flow capacity of all export routes in Kazakhstan amounts to over 65 million tonnes per year. Taking into consideration the current volume of export transportation, the estimated load of the facilities is 90%. To date, the major oil pipelines in Kazakhstan are (i) the UAS pipeline system, (ii) the Kazakhstan-China pipeline system and (iii) the CPC pipeline. The UAS pipeline and the Kumkol-Atasu pipeline, included in the Kazakhstan-China pipeline system, are directly owned by the Company, while the remaining pipelines included in the Kazakhstan-China pipeline system are owned by KCP and MunaiTas, joint ventures in which the Company has an interest.

UAS Pipeline System

The UAS pipeline system is the most important crude oil pipeline in western Kazakhstan. On the Atyrau-Samara part of the UAS pipeline system, Kazakh oil is transported from the oil refinery NPS Atyrau to the receiving centre PSP Samara, which is owned by the Russian company Transneft JSC, through a trunk oil pipelines system providing for the access of Kazakh oil on international markets through the Black and Baltic Seas, as well as oil refineries of East and Central Europe. The pipeline was put into operation in 1984 and is currently owned by the Company and operated by its Western branch.

The Kazakhstan part of the UAS pipeline system runs for 1,237.4 kilometers, from Uzen in southwest Kazakhstan to the border with Russia linking with Transneft JSC pipeline system in Samara. A total of 15.4 million tonnes (112.9 million barrels) of oil was transported through the Atyrau-Samara part of the UAS pipeline in 2011 compared to 15.3 million tonnes (112.1 million barrels) in 2010.

Kazakhstan-China Pipeline System

The Kazakhstan-China pipeline system is the main route for crude oil from Kazakhstan to Alashankou in Xinjiang Province in north-western China. It consists of (i) the Atasu-Alashankou pipeline and the Kenkiyak-Kumkol pipeline, each owned by KCP and operational since 2006 and 2009, respectively, (ii) the Kenkiyak-Atyrau pipeline, owned by MunaiTas and operational since 2003, and (iii) the

Kumkol-Atasu pipeline, owned by the Company, whose segments became operational since 1983 and 1990.

The length of the Atasu-Alashankou pipeline and the Kenkiyak-Kumkol pipeline is 965.1 kilometers and 794.15 kilometers, respectively. Currently, work is being done to increase the flow capacity of these segments of the Kazakhstan-China pipeline to 20 million tonnes (approximately 146.6 million barrels) of oil per year. The total length of the Kenkiyak-Atyrau pipeline is 448.9 kilometers with a current total capacity of 6 million tonnes (approximately 44 million barrels) of oil per year. The total length of the Kumkol-Atasu pipeline is 626.3 kilometers. The total length of the Kazakhstan-China pipeline system is 2,833.84 kilometers.

According to the Company, the capacity of the Kazakhstan-China pipeline system is limited by the capacity of the Atasu-Alashankou segment, being 240 thousand barrels per day. Oil through the Kazakhstan-China pipeline system is supplied from the Aktobe region's fields and from the Kumkol oil field. The Kazakhstan-China pipeline system is also used for the transportation of oil from Western Siberia through the connection with the Omsk-Pavlodar and Pavlodar-Shymkent pipelines in Atasu.

CPC Pipeline

The CPC pipeline, which has been operational since 2001, is the first privately owned commercial pipeline operated by an independent operator in the Republic of Kazakhstan. Caspian Pipeline Consortium JSC, which owns the CPC pipeline, was founded in 1992 as a joint venture by the Russian, Kazakhstani and Omani Governments to build a dedicated pipeline from the Republic of Kazakhstan to export routes on the Black Sea. The first oil from the pipeline was loaded onto a tanker at the Novorossiysk Marine Terminal in October 2001.

The CPC pipeline is intended primarily for transporting Caspian oil from the Tengiz and Karachaganak oil fields to the Novorossiysk Marine Terminal on Russia's Black Sea coast. The CPC pipeline has a total length of 1,511 kilometers, including 452 kilometers through the territory of Kazakhstan, originating in the Tengiz oil field, running through Russia and terminating at the Novorossiysk Marine Terminal. According to Caspian Pipeline Consortium, in 2011, the total throughput amount of oil transported through the CPC system reached 34.2 million tonnes (250.7 million barrels), including about 30 million tonnes (219.9 million barrels) of Kazakhstani oil. According to Caspian Pipeline Consortium, the current throughput capacity of the CPC pipeline is 33-35 million tonnes (approximately 241.9-256.5 million barrels) of oil per year (including antifriction agents).

According to Caspian Pipeline Consortium, as of the date of this Investment Memorandum, the major shareholders of Caspian Pipeline Consortium are the Russian Federation (represented by Transneft JSC holding a 24% stake and CPC Company holding a 7% stake), the Republic of Kazakhstan (represented by KMG holding a 19% stake and Kazakhstan Pipeline Ventures LLC holding a 1.75% stake), Chevron Caspian Pipeline Consortium Company (15%), Lukarco B.V. (12.5%), Mobil Caspian Pipeline Company (7.5%), Rosneft-Shell Caspian Ventures Limited (7.5%), ENI International (NA) NV S.ar. l. (2%), BG Overseas Holding Limited (2%) and Oryx Caspian Pipeline Ltd. (1.75%).

In 2011, the shareholders of Caspian Pipeline Consortium began implementing a five-year project to increase the pipeline capacity to 76 million tonnes (approximately 557 million barrels) of oil (including antifriction agents) by 2015. The project includes building 10 new oil pumping stations and additional capacities in Yuzhnaya Ozereevka.

Proposed Oil Transportation Projects

Historically, the lack of pipeline capacity providing access to international markets has impeded Kazakhstan's ability to exploit its oil reserves. In order to develop and diversify its oil export routes, Kazakhstan has been considering implementing a number of projects, including the Kazakhstan Caspian Transportation System.

The Kazakhstan Caspian Transportation System is a project for the transport of oil from oilfields in Kazakhstan (primarily from the Kashagan field) through the Caspian Sea to Baku (Azerbaijan) to be further transported to the Mediterranean or Black Sea coast. The project contemplates the construction of an approximately 760 km oil pipeline running from Eskene field to the oil terminal in the Kuryk Port in Kazakhstan, and also the Transcaspian System, which includes two marine oil terminals in Kuryk Port and in Baku, which envisages the usage of oil tankers to transport oil to Baku where oil will be transferred to the Baku-Tbilisi-Dzheikhan pipeline and will be transported by rail to the terminal in Batumi.

The design flow capacity of the Kazakhstan Caspian Transportation System is approximately 1.6 million barrels per day. The investment decision regarding the Kazakhstan Caspian Transportation System has been postponed repeatedly and currently is expected to be taken after 2017-2018, depending on the progress in developing the Kashagan field.

International Treaties

The export of crude oil from Kazakhstan depends on intergovernmental agreements between Kazakhstan and other states regarding the supply and transit of crude oil through pipelines and on the maintenance of stable relations with neighboring countries.

Customs Union

In 2010, Russia, Kazakhstan and Belarus founded a Customs Union, which is a trade and economic integration providing for a single customs territory, within which customs duties and restrictions of an economic nature do not apply to the mutual trade in goods, with the exception of special protective, antidumping and countervailing measures. Within the Customs Union, a unified customs tariff and other common measures regulating trade in goods with external countries apply.

Kazakhstan – China and Kazakhstan – Russia International Treaties

In September 1997, within the framework of developing mutually beneficial cooperation between China and Kazakhstan, the Governments of China and Kazakhstan signed an agreement on cooperation in the oil and gas sector. In view of this, the Governments of Kazakhstan and China supported a project involving construction of a pipeline to unite western Kazakhstan and western China. According to the framework agreement between the Governments of Kazakhstan and China involving the development of comprehensive cooperation in the oil and gas sector dated 17 May 2004, a decision was taken to facilitate participation by enterprises of both states in joint ventures to explore, produce, process and transport oil and gas. Within this goal, the authorized representatives of KMG and CNPC signed an agreement on the fundamental principles of construction of the Atasu-Alashankou Pipeline (the first phase of the Kazakhstan-China pipeline system).

On 20 December 2006, CNPC and KMG signed an agreement on the fundamental principles of construction of the second phase of the Kazakhstan-China pipeline system in order to increase its oil transfer capacity to 20 million tonnes (146.6 million barrels) per year. Within this agreement, a decision was taken to construct the second phase of the Kazakhstan-China pipeline system, which implementation taking place in two stages. The first stage of the second phase involved construction of the Kenkiyak-Kumkol oil pipeline. The second stage of the second phase is aimed at increasing its flow capacity to 20 million tonnes per year by building additional oil pumping stations in the Atasu-Alashankou, Kenkiyak-Kumkol and Kenkiyak-Atyrau segments.

In June 2002, the Governments of Russia and Kazakhstan signed an intergovernmental agreement for oil transit for fifteen years with the possibility of automatic renewal for subsequent five-year periods. According to this document, Kazakhstan commits to provide oil transit through the UAS pipeline system of at least 15 million tonnes (approximately 110 million barrels) per year, and through the

Aktau-Makhachkala-Tikhoretsk-Novorossiysk system of at least 2.5 million tonnes (18.3 million barrels) per year.

In 2009 the Russian Federation and the Republic of Kazakhstan signed a protocol setting out the terms of oil transit across the territories of the two countries. According to the protocol, by 2015, Kazakhstan will export at least 64 million tonnes (469 million barrels) of oil through Russia. In particular, in 2011-2015, 15 million tonnes (approximately 110 million barrels) of oil per year will be supplied to the Atyrau-Samara route. In 2010-2020, Russia will supply 2 million tonnes (14.6 million barrels) of Russian oil per year to the Omsk-Atasu-Alashankou route. According to the protocol, the tariff for oil transport across the territories of the two countries "shall be competitive and non-discriminatory". Until 31 December 2014, oil transportation services will be paid for according to a tariff effective from 1 November 2009, subject to annual adjustments.

BUSINESS

Overview

The Company is the largest oil transportation company of the Republic Kazakhstan, providing oil transportation services for both domestic and export destinations. In 2011 the Company transported via its network of trunk oil pipelines 54,019 thousand tonnes of oil. According to the Company's estimates based on information on oil and gas condensate production provided by JSC Information-Analytical Center of Oil and Gas, in 2011 the Company transported via its network of trunk oil pipelines approximately 59% of all oil extracted in the Republic of Kazakhstan.

KTO owns the largest trunk oil and water pipeline network in the Republic of Kazakhstan by length and throughput capacity, according to the estimates of the Agency of the Republic of Kazakhstan of Statistics. As at 30 June 2012, the Company owned 5,495 km of oil pipelines. The Company's business also includes the provision of water supply services through the Astrakhan-Mangyshlak trunk water pipeline, one of the largest water pipelines in the Republic of Kazakhstan. As at 30 June 2012, the length of the Company's water pipeline network was 2,148 km with installed throughput capacity of 33.6 million cubic metres of water per year. In 2011 and the first six months of 2012 the total volume of water supplied by the Company amounted to 21,192 thousand cubic metres and 11,058 thousand cubic metres, respectively. The Company also provides services relating to the operating and maintenance of trunk oil pipelines owned by third parties, including those owned by KCP and MunaiTas, the Company's joint ventures with its foreign partners. KCP and MunaiTas own pipelines with an aggregate length of 2,205 km as at 30 June 2012.

BIHL, a subsidiary of the Company, provides hydrocarbons transshipment and storage services, dry cargo transshipment services and also other services relating to transshipment of cargo through the Batumi Oil Terminal and the Batumi Sea Port in Georgia.

Through Samruk-Kazyna, the Government of the Republic of Kazakhstan wholly owns KMG, which is the Company's sole shareholder as at the date of this Investment Memorandum. As a result, the Government of the Republic of Kazakhstan indirectly influences all of the business and activity of the Company, including its budget, capital expenditure programme and borrowings programme. After the Offering (assuming all Shares are taken up), KMG will continue to control approximately 90% of the voting shares of the Company. See "*Risk Factors – Risks Related to the Group's Business – The Company has been and will continue to be controlled by KMG, whose interests may conflict with those of other shareholders*".

In 2011 the Company's consolidated revenue amounted to KZT 140,478,092 thousand and its EBITDA amounted to KTZ 61,490,627. For the six months ended 30 June 2012, the Company's consolidated revenue amounted to KZT 66,357,554 thousand and its EBITDA amounted to KZT 29,951,520 thousand. See "*Presentation of Financial and Other Information – Presentation of Non-IFRS Measures*".

Competitive Strengths

The Company believes that it benefits from the following competitive strengths:

The largest oil transportation company in the Republic of Kazakhstan

The Company is the operator of the major trunk oil pipeline network in the Republic of Kazakhstan, used for the transport of oil produced in the Republic of Kazakhstan and for the import and transit of oil produced in other countries. In particular, the Company currently owns an extensive network of trunk oil pipelines and has stakes in two joint ventures, KCP and MunaiTas, which provide oil transportation services.

According to information provided by JSC Information-Analytical Center of Oil and Gas, trunk oil pipelines operated by the Company transported around 58% of the total amount of oil produced in the Republic of Kazakhstan in the last three years, being 59% in 2011, 57% in 2010 and 58% in 2009.

The customers of the Company's oil transportation services include the largest oil producers in the Republic of Kazakhstan, such as KazMunaiGas Exploration & Production JSC, Mangistaumunaigas JSC, Karachaganak Petroleum Operating B.V., Tengizchevroil LLP, CNPC-Aktobeimunaigas JSC, Turgai-Petroleum JSC, PetroKazakhstan Kumkol Resources JSC, Kazgermunai JV LLP and others.

As at 30 June 2012, the length of oil pipelines owned by the Company was 5,495 km. The Company also provides operation and maintenance services for trunk oil pipelines owned by third parties; as at 30 June2012 the total length of such third party-owned trunk oil pipelines (including those owned by KCP and MunaiTas) was 2,855 km.

The Company currently owns seven preheating stations and 39 oil pumping stations, which constitute a component part of the Company's trunk oil pipelines and include, *inter alia*, 64 preheaters, tank farm for oil storage with a total capacity of 1,259 thousand cubic metres and loading / unloading racks. The Company also operates the relevant equipment for the loading of oil into oil tankers on five moorings of the oil terminal of the Aktau Sea Port, where the Company provides oil loading services.

In 2009, 2010, 2011 and the first six months of 2012, the Company transported through its trunk oil pipeline network 50,885 thousand tonnes, 52,505 thousand tonnes, 54,019 thousand tonnes and 26,395 thousand tonnes of oil, respectively. In 2009, 2010, 2011 and as at 30 June 2012, the turnover of oil via the Company's trunk oil pipeline network amounted to 33,513 million tonnes/km, 34,223 million tonnes/km, 34,493 million tonnes/km and 16,694 million tonnes/km, respectively.

The Company plays an important role for the economy of the Republic of Kazakhstan

As one of the major businesses in the oil and gas sector, the Company plays a key role for the economy of the Republic of Kazakhstan.

The oil and gas sector is of strategic importance in the Republic of Kazakhstan because it is the principal source of the Republic of Kazakhstan's export earnings and reserves, fiscal revenue and future foreign direct investment inflows. According to the Ministry of Finance of the Republic of Kazakhstan, as at 31 December 2011 the hydrocarbon industry accounted for 69%, or KZT 3.8 trillion, of the total revenues of the budget of the Republic of Kazakhstan.

The Company is the major infrastructure company in the oil and gas sector of the economy of the Republic of Kazakhstan, providing steady and secure deliveries of oil to the domestic and export markets. The Kazakhstan part of the Atyrau-Samara UAS pipeline, owned by the Company, is one of the largest export pipeline networks in the Republic of Kazakhstan, together with the Kazakhstan-China pipeline system, certain sections of which are owned by the Company and also by KCP and MunaiTas.

In 2009, 2010 and 2011 and in the first six months of 2012, the Company's oil export transportation volumes amounted to 78%, 76%, 75% and 73% of the Company's total oil transportation volumes for the periods, respectively.

The Company also supplies water through the Astrakhan-Mangyshlak trunk water pipeline. Such services are provided to oil and gas, industrial and other commercial companies, agricultural companies and the general public, as well as to state and non-commercial organisations of the Atyrau and Mangistau regions through which the Astrakhan-Mangyshlak trunkwater pipeline runs. In 2009, 2010, 2011 and in the first six months of 2012 water deliveries amounted to 18,926 thousand cubic metres, 21,361 thousand cubic metres, 21,192 thousand cubic metres, and 11,058 thousand cubic metres, respectively.

The Company is a major employer and taxpayer in Kazakhstan. As of 30 June 2012, the Group employed 9,343 employees. In 2009, 2010 and 2011 the Company contributed more than KZT 16.3 billion, KZT 17.4 billion and KZT 15.8 billion in taxes to the state budget, respectively.

The Company has a stable operational and financial history

The Company believes that its tariffs for oil transportation and water deliveries through its trunk oil and water pipelines are less volatile than oil prices, and this provides the Company with stable cash flows, supports its profitability and contributes its overall operational efficiency.

The Company demonstrates a stable dynamics in terms of key business performance indicators. The volumes of oil transported by the Company have been growing in the last three years and amounted to 54,019 thousand tonnes in 2011, as compared to 50,885 thousand tonnes in 2009. The total oil turnover of the Company grew from 33,513 million tonnes/km in 2009 to 34,493 million of tonnes/km in 2011.

In the first six months of 2012 the volumes of oil transported by the Company and the total oil turnover of the Company declined and amounted to 26,396 thousand tonnes and 16,694 million tonnes/km, as compared to 27,255 thousand tonnes and 18,239 million tonnes/km in the first half of 2011. Such decline in the transportation volume was primarily due to a decrease in the volume of oil delivered by oil processing plants into the network of trunk pipelines and a decrease in the deliveries of Russian oil through the Omsk-Pavlodar oil pipeline for transportation to oil processing plants in the Republic of Kazakhstan. Further, the volumes of Kazakhstan's oil designated for export were redistributed to such oil processing plants as "Pavlodar Petrochemical Refinery" JSC and "PetroKazakhstan Oil Products" LLP to ensure their sufficient load.

The Company is a natural monopoly under the legislation of Kazakhstan and provides regulated services, including transportation of oil via trunk oil pipelines, in exchange for a tariff which is set by AREM based primarily on the costs for maintaining and operating the trunk oil pipelines. The Company's revenues from oil transportation services have been growing and for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012 amounted to KZT 97,682,797 thousand, KZT 109,395,974 thousand, KZT 109,585,457 thousand and KZT 50,571,346 thousand, respectively.

The Company also has demonstrated a stable history of dynamics in terms of business performance indicators in regulated water supply services. For the years ended 31 December 2009, 2010, 2011, and for the six months ended 30 June 2012, the Company's revenues from such operations amounted to KZT 4,893,092 thousand, KZT 5,892,098 thousand, KZT 6,119,892 thousand and KZT 3,195,766 thousand, respectively.

The stable and predictable cash flows of the Company have allowed it to distribute dividends on a regular basis. The Company distributed dividends amounting to KZT 6,024 million (KZT 183 per common share) in 2009, KZT 7,340 million (KZT 223 per common share) in 2010, KZT 19,331 million (or KZT 558 per common share) in 2011. In August 2012 the sole shareholder of the Company adopted a decision on the payment of dividends in the amount of KZT 60,002 million (KZT 173 per common share, reflecting the share split in June 2012). These dividends are expected to the paid in full by the Company to KMG before the end of 2012. The payment of this level of dividends is an exceptional event and is not expected to occur again in the future. As a part of its investment strategy and dividend policy, the Company intends to continue to distribute regular dividends of no less than 40% of its net income, subject to any semi-annual or quarterly dividends paid in the same year. See "*Risk Factors – Risks Related to the Shares and the Offering – The Company may not pay dividends in the future*" and "*Dividends and Dividend Policy*".

The Company has an experienced management team

The Company's senior management team has solid experience and knowledge both in the oil industry and in the oil transportation industry, as well as a comprehensive understanding of the conditions in the markets in which the Company operates.

The majority of the senior management, including members of the Management Board and the Board of Directors, has been in the oil transportation industry for more than 10 years. In particular, Mr.

Kabyldin, the general director, chairman of the Management Board and member of the Board of Directors of the Company, has over 30 years of experience working in the oil and gas industry. He began his professional career in 1977 and later held various positions in the MOG as well as in the leading oil and gas companies in Kazakhstan, including KMG. Mr. Utegaliev, the first deputy general director of the Company for production, has been working in the oil and gas industry of the Republic of Kazakhstan for more than 40 years and has held various responsible positions in the MOG and in KMG. The Company's Board of Directors also includes top experts in the area of oil extraction and transportation. Mr. Shmanov, the chairman of the Company's Board of Directors, worked in the pipeline transportation industry of the Republic of Kazakhstan for over 28 years. Mr. Mihalik and Mr. Habib, the Company's independent directors, have in total more than 30 years of work experience in the oil, gas and chemicals industry, and have worked in the United States, Central Asia, Europe and the Middle East in leading oil and gas companies, including Shell and Chevron.

The Company believes that its senior management team has the financial and commercial skills, operational knowledge and experience required to continue to develop and expand its business.

Strategy

The Company's goal is the increase of its market value. The Company intends to achieve that goal by, amongst other things:

Increasing oil transportation and water supply volumes

The Company intends to maintain and strengthen its position as the largest oil transportation company of Kazakhstan by increasing its oil transportation volumes, diversifying its oil transportation routes and maintaining the high quality of its services.

In order to achieve this, the Company intends to enter into agreements with new shippers and implement a programme for innovative and technological development, including modernisation of its equipment, aimed at increasing its pipelines' capacity, reliability and safety and reducing its operational costs.

The Company seeks to ensure reliable, uninterrupted and efficient oil transportation to increase the level of satisfaction of its shippers. The Company intends to achieve a oil turnover in excess of 50 billion tonnes/km per year by 2022. This goal was set based on the planned increase in oil production in Kazakhstan, including the expected increases in oil production from the Tengiz and Karachaganak oil deposits and the launch of production in the Kashagan oil deposit.

The Company also will explore the growth potential of water consumption by industrial and agricultural enterprises in the Western region of the Kazakhstan, by domestic household sector, and intends to participate in economically viable water supply system modernisation and development projects with a view to creating a new profit centre. In particular, the Company intends to enhance its water transportation operations by upgrading its existing water supply system in order to capture potential water consumption growth in the Republic of Kazakhstan.

Financial strategy aimed at improving profitability

The Company intends to adhere to a financial strategy aimed at maintaining stable cash flows, increasing the efficiency of its operations and decreasing its operating costs. The Company also intends to implement a programme for cost management, a programme for innovative and technological development and a programme for asset restructuring for 2012-2016.

The long-term financial strategy of the Company is to increase revenues and optimise costs with the aim of achieving an EBITDA margin above 40%. See "*Presentation of Financial and Other Information – Presentation of Non-IFRS Measures*". The Company's cost management programme provides for optimisation of costs primarily through implementation of energy and resource-saving technologies, decreasing the rates of consumption of raw materials, materials and fuel, decreasing general and administrative expenses and other costs, and improvement of labour efficiency. To reduce the cost of its borrowings, the Company will also seek to maintain its credit ratings at the levels not lower than "BBB-" by Fitch, "Baa3" by Moody's, "BBB-"by Standard&Poor's.

The Company will seek to satisfy the technological standards of the global leading oil transportation companies in order to improve its competitiveness. The Company plans to conduct modernisation and technical upgrades of its existing pipelines to improve their operational efficiency and reliability, reduce their energy consumption levels, and improve environmental and industrial safety.

The Company's programme for asset restructuring envisages the creation of a transparent asset structure which will help the Company to enhance efficiency of its operations through the disposal or liquidation of its non-core assets.

Efficient investment policy and participation in large oil transportation projects

The Company intends to implement an efficient investment policy in order to expand the scope of its oil transportation activity. The Company's efficient investment policy will be implemented through investment of its own funds as well as the proceeds from the Offering into a capital expenditure programme aimed at modernising and maintaining its oil transportation infrastructure, acquiring existing oil pipelines from third parties and constructing new oil pipelines, with due consideration to be given to the profitability ratio analysis of such investments.

In particular, in the course of implementation of its investment policy the Company, taking into account a detailed appraisal of risks and strategic and economic rationale and if there is an agreed position with KMG, will consider the following opportunities:

- In light of the forecasted increase of oil production levels at the oil deposit of the Buzachi group as well as the redirecting of oil supplies from the Aktau Sea Port to the Atyrau oil pumping station, the Company is considering increasing the installed throughput capacity of the trunk oil pipelines Kalamkas-Karazhanbas-Aktau and Uzen-Zhetybai-Aktau within the next three years. See "*– Operations – Investment Projects – Expansion of throughput capacity of the trunk oil pipelines*".

- Increase in the installed throughput capacity of the Kazakhstan-China pipeline system up to 20 million tonnes of oil per year. This project would allow increased volumes of oil to be transported into the rapidly growing Chinese market and would increase the overall export capacity of the Republic of Kazakhstan. See "*– Operations – Investment Projects – Expansion of throughput capacity of the trunk oil pipelines*".

- Participation in the Kazakhstan Caspian Transportation System project, which contemplates the construction of the Eskene – Kuryk oil pipeline and the Trans-Caspian Oil Transportation System to enable the export of the Kazakhstani oil through the Caspian Sea to Baku (Azerbaijan) for its further transportation to the Mediterranean and Black Sea. See "*– Operations – Investment Projects – Participation in the Kazakhstan Caspian Transportation System project*" and "*Risk Factors – Risks Relating to the Group's Business – A decrease in the volumes of oil transported along the trunk pipeline system operated by the Company and the revenue therefrom may have a material adverse impact on the Company".*

- After detailed legal and financial analysis, the Company will consider the possibility of acquisition of participation interests/stakes in companies owning oil pipelines in operation, or management thereof, including the transfer to the management of the Company of 19 % stake of KMG in Caspian Pipeline Consortium and acquisition of shares in Kazakhstan Pipeline Ventures LLC, which owns a 1.75% interest in Caspian Pipeline Consortium. See "*– Operations – Investment Projects – Acquisition of participation interests/stakes in companies owning the operating oil pipelines and management thereof*".

The Company believes that its efficient investment policy will allow it to maintain and strengthen its position as the largest oil transportation company of the Republic of Kazakhstan, maintain the high quality of its services and diversify its oil transportation routes.

Maintaining high corporate governance, risk management and operational standards

The Company plans to maintain high standards of corporate governance, risk management, human resources management, occupational health and safety, fire safety and environmental protection.

In particular, the Company has been taking steps to improve its corporate governance systems to a level that exceeds, in many respects, the requirements applicable to companies listed on the KASE. It is intended that independent auditors will assess the level of corporate governance on an annual basis and that any deviations identified during such exercise will be remedied.

The Company also is improving its internal control systems and corporate risk management systems. In particular, in June 2012 the Company engaged KPMG Tax & Advisory LLP to assess the efficacy of the Company's internal control and risk management systems and to suggest improvements to raise the Company's practices in these areas.

The Company intends to implement an incentive programme using financial and non-financial incentives in order to increase the employees' performance and strengthen their loyalty. The incentive programme will include, amongst other things, introduction of a performance-based bonus programme, career development and advanced training opportunities and other incentives.

The Company seeks to conduct its operations in full compliance with international requirements and standards relating to occupational health and safety, fire safety and environmental protection. The Company intends to apply ISO 14001:2004, a standard related to environmental management systems, and OHSAS 18001:2007, a standard related to occupational health and safety control system in the future.

History

The following represents the highlights of the Company's history from its inception up to present:

1997-2001

- The Company was established in the Republic of Kazakhstan in April 1997 pursuant to the resolution of the Government of the Republic of Kazakhstan under the name Closed joint stock company "National Oil Transportation Company "KazTransOil" with 100% state participation in its charter capital. As at the date of its establishment, the Company owned and operated more than 6,400 km of trunk oil pipelines and more than 2,000 km of trunk water pipelines.

- On 4 December 1998 the Company was included into the Republican section of the State register of natural monopoly entities in respect of a number of regulated services including oil transportation via trunk oil pipeline systems and water deliveries via trunk water pipeline systems.

- In 2000 the Company completed the construction of the oil-loading rack at the oil pumping station Atasu with total capacity of 1.5 million tonnes of oil per year.

- In 2001 the Company issued its debut Eurobond on the international capital markets, which was also the first corporate Eurobond issue by a Kazakhstan corporate entity, in the total amount of US$150 million with an 8.5 %. coupon. The bond was fully redeemed by the Company in 2006.

- In 2001 the Company completed the construction of the facilities for oil transshipment to the CPC pipeline at the Atyrau oil pumping station.

2002-2006

- In 2003 the Company launched the SAP/R3 system, the automatic management control system, into operation.
- The Company procured the certification of its international integrated management system according to the international certification standards. As of that time the Company operated certified quality management and environmental management systems meeting the international requirements of ISO 9001:2000 and ISO 14001:2004 standards.
- The Company put into operation the first and second lines of the oil pumping station Alibekmola with a tank farm for acceptance of delivery operations, which station was later integrated in the Company's SCADA system.
- In May 2003 the Kenkiyak-Atyrau trunk oil pipeline was put into operation.
- On 31 May 2004 the Company was renamed as JSC "KazTransOil".
- In July 2004 KMG transferred to the Company its 51% stake in the joint venture MunaiTas, which was founded in 2005 by KMG and "CNPC International in Kazakhstan" LLP, whose share was later transferred to CNPC Exploration and Development Company Ltd., a subsidiary entity of the CNPC group.
- In July 2004 MunaiTas received a US$ 81.6 million loan from the European Bank for Reconstruction and Development ("**EBRD**") for a term up to June 2014 for the purpose of refinancing of a loan from National Savings Bank of Kazakhstan JSC. The Company issued a guarantee to EBRD under this loan covering the full amount of the loan.
- The joint venture KCP was established in 2004 by the Company and CNODC, with each participant holding a 50% interest.
- In September 2005 KCP issued its debut Eurobond on the international capital markets through its affiliated company, KCP Finance B.V., in the total amount of US$300 million with a repayment date in September 2020. The bond was issued in order to finance the construction of the Atasu-Alashankou trunk oil pipeline.
- In July 2006 the Atasu-Alashankou trunk oil pipeline was put into operation by KCP.
- In July 2006 the Company launched into operation the North Buzachi – Karanzhabas oil pipeline with a total length of 25 km and with a design throughput capacity of 3.5 million tonnes of oil per year. The pipeline was constructed by the Company and Buzachi Operating Ltd., a joint venture of the Chinese company CNPC International and the Russian company Lukoil Overseas Holding Ltd.
- In December 2006 the Company completed the reconstruction of the automation systems of 23 major facilities and launched the SCADA system at all levels of the Company's management.

2007-2012

- In 2007 the Company conducted certification of its information security systems in accordance with international ISO/IEC 27001 standards and obtained a certificate from the international certification authority BSI (British Standards Institution) and also a certificate from DET NORSKE VERITAS (Norway) confirming that the Company's operations in the area of occupational health and safety conform to OHSAS 18001:1999.
- In 2007 the Company acquired 50% of shares in Batumi Capital Partners Limited from Naftrans Limited for US$64 million.

- In February 2008 the Company completed the acquisition of a 100% shares in Batumi Industrial Holdings Limited from Terminal Partners Limited for US$325 million. Thus, the total consideration paid for the acquisition of the Batumi Industrial Holdings Limited group comprised US$389 million.

- In August 2008 KCP received a ten year loan in the amount of US$1,033,098 thousand from ING Bank N.V. and ICBC. The loan was used to finance the construction of the Kenkiyak-Kumkol trunk oil pipeline.

- In October 2009 the Kenkiyak-Kumkol trunk oil pipeline was put into operation by KCP.

- In 2011 the Company introduced in Pavlodar the first central modernised control station. The main purpose of the implementation of the central control station was gradual reorganisation of the hierarchical structure of the management of oil pipelines of the Company including control stations.

- In 2011 the Company's integrated management system was audited to verify its compliance with the requirements of ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 standards, as a results of which the certification authority DET NORSKE VERITAS issued to the Company the relevant certificated valid for three years.

- In June 2011 the Company received from KMG the Kazakhstan part of the Tuimasy-Omsk-Novosibirsk 2 oil pipeline ("**TON-2 pipeline**"), as consideration for an additional issue of shares in the Company in the total amount of KZT 1,700 million.

- In June 2012 the Company completed the process of splitting up and increasing the Company's authorised share capital which as at 30 June 2012 comprised in aggregate 384,635,600 shares.

Recent Developments

The following are the major developments in the Company from 30 June 2012 to the date of this Investment Memorandum:

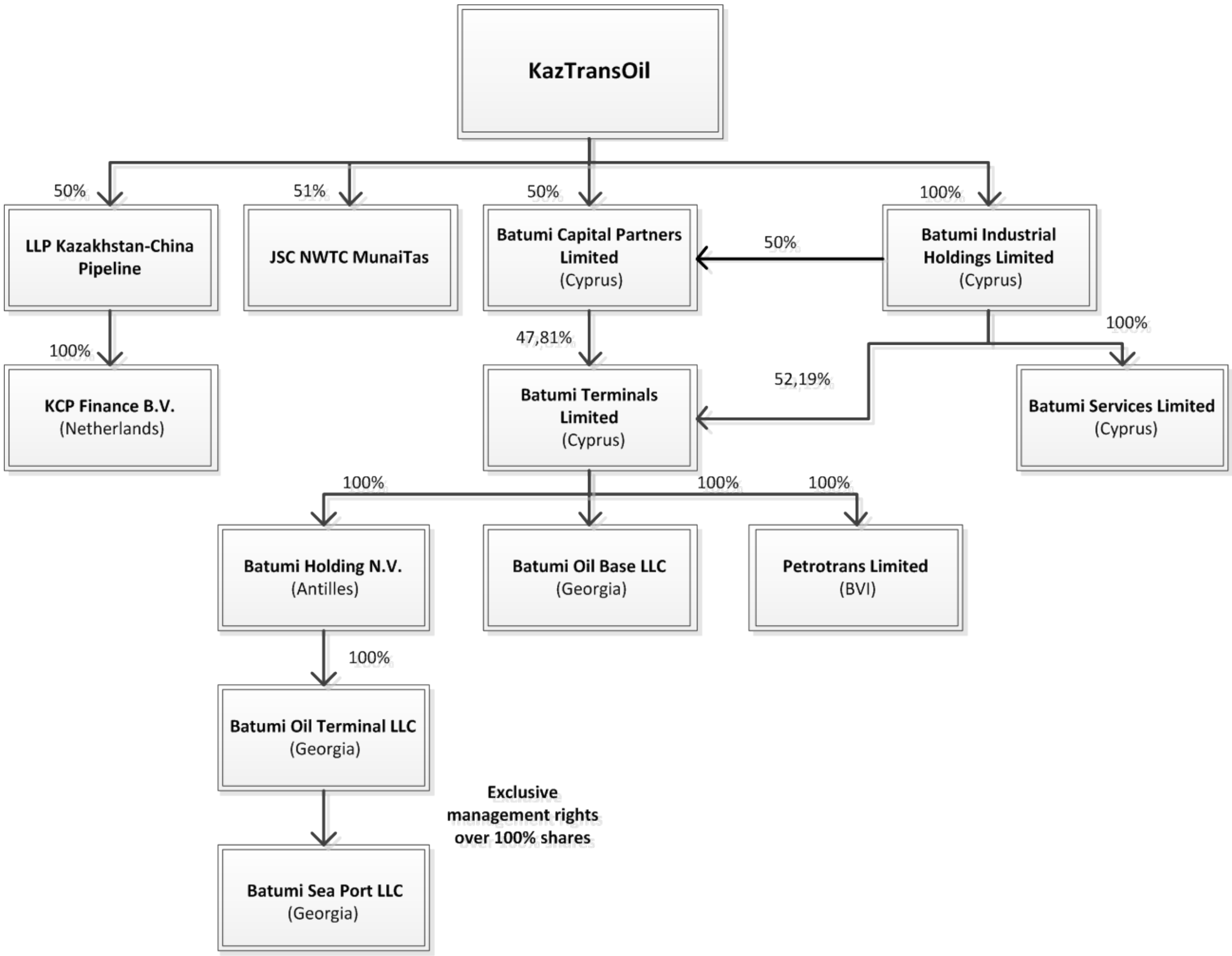
- In August 2012 the Company adopted a decision to increase the share capital of its subsidiary, KazTransOil–Service JSC, which renders medicine, health treatment, sports and tourism related services, by way of an additional share issuance. The total amount paid by the Company for these shares comprised KZT 6,496,889 thousand.

- On 21 September 2012 the Company completed the sale of 100% of shares in KazTransOil–Service JSC to KazMunaiGas-Service LLP for KZT 11,647,889 thousand in accordance with the valuation of the market value of the stake conducted by an independent appraiser, Privatisation and Investment Bureau LLP. The sale of this stake was approved by AREM. The Company believes that the sale of KazTransOil–Service JSC will benefit the Company by reducing its consolidated expenses without affecting its core businesses.

- According to Resolution of the Government of the Republic of Kazakhstan dated 8 October 2012 "On the National Operator of Trunk Pipeline", the Company is defined as a national operator of trunk pipeline. As of the date of this Information Memorandum, this Resolution has not yet become effective. See "*Regulation of Transportation of Oil and Oil Products in the Republic of Kazakhstan – Regulation of Trunk Pipelines – National Operator*".

Corporate Structure

The following chart represents the Company's corporate structure as of the date of this Investment Memorandum, which includes the Company's main subsidiaries and joint ventures:



KCP is a 50/50% joint venture between the Company with CNODC. KCP is the owner of two sections of the Kazakhstan-China pipeline system: (i) the Atasu-Alashankou trunk pipeline, from Atasu in the Karaganda region in Central Kazakhstan to Alashankou in Western China; and (ii) the Kenkiyak-Kumkol trunk pipeline, from Kenkiyak in Aktyubinsk region in Western Kazakhstan to Kumkol in the Kyzylorda region of South Kazakhstan.

The total length of the pipelines owned by KCP is 1,756.3 km. In 2011 KCP transported 10,889 thousand tonnes of oil and the volume of KCP's oil turnover for 2011 amounted to 13,859 million tonnes/km. In the first six months of 2012 KCP transported 4,642 thousand tonnes of oil and the volume of KCP oil turnover amounted to 6 251 million tonnes/km. As of 30 June 2012 the share capital of KCP amounted to KZT 13,000 million.

MunaiTas is a joint venture of the Company with CNPC Exploration and Development Company Ltd., in which the Company holds a 51% stake. MunaiTas is the owner of the Kenkiyak-Atyrau trunk oil pipeline, a section of the Kazakhstan-China pipeline system running from the Kenkiyak oil pumping station in the Aktyubinsk region in Western Kazakhstan to the Atyrau oil pumping station, with the total length of 448.9 km with the total installed capacity of 6 million tonnes of oil per year.

In 2011, MunaiTas transported 4,029 thousand tonnes of oil and the volume of MunaiTas' oil turnover for 2011 amounted to 1,612 million tonnes/km. In the first six months of 2012 MunaiTas transported 1 926 thousand tonnes of oil and the volume of KCP oil turnover amounted to 754 million tonnes/km. As of 30 June 2012 the share capital of MunaiTas amounted to KZT 48,600 thousand.

BIHL Group includes Batumi Industrial Holdings Limited and Batumi Capital Partners Limited which indirectly own Batumi Oil Terminal LLC (Georgia), which operates a marine oil terminal facility in

Batumi Sea Port, Georgia and holds exclusive management rights over 100% of shares of Batumi Sea Port LLC (Georgia). BIHL Group also includes; (i) holding companies Batumi Terminals Limited (Cyprus) and Batumi Holding N.V. (the Antilles); (ii) Batumi Services Limited (Cyprus) which provides administrative, accounting and consultancy services to the Group; (iii) Batumi Oil Base LLC (Georgia), the principal activity of which is the storage and transshipment of light oil products; and (iv) Petrotrans Limited (British Virgin Islands), the principal activity of which is shipping and logistics services in connection with the railway forwarding services from the Georgian-Azeri border to Batumi and transshipment services through a port terminal facility in Batumi.

The Company has representative offices in Russia in the cities of Moscow, Samara and Omsk and in Ukraine in the city of Kiev. The Company also has four branches: (i) the Western Branch; (ii) the Eastern Branch; (iii) a "Computer Centre of Collective Use" (the "**Computer Centre**") (which provides certain services relating to automation of technological and managerial processes and upgrade of telecommunication networks and development of IT); and (iv) a "Research and Technology Centre" (the "**RTC**") (which provides to the Company and third parties certain services relating to scientific research, experimental, engineering and design and estimate works, aimed at development of new technologies and technical solutions to be implemented in the network of trunk oil pipelines of the Republic of Kazakhstan).

The Company is planning to effect a corporate reorganisation in 2015 in order to dispose of the off-shore holding companies and the non-core assets of the Group. In particular, on 21 September 2012 the Company sold 100% of the shares of "KazTransOil-Service" JSC. Also, the Company plans to liquidate Batumi Industrial Holdings Limited, Batumi Capital Partners Limited, Batumi Terminals Limited and Batumi Holding N.V., the companies within the BIHL Group.

Operations

The Company's main businesses are:

- the provision of services relating to transportation (acceptance, supply, delivery, transshipment, unloading, loading, storage, compounding) of oil through the trunk oil pipelines in the Republic of Kazakhstan owned by the Company, ;

- the provision of services for the organisation of transportation of oil produced in Kazakhstan through the pipeline systems of other countries on behalf, at the expense and in accordance with instructions of shippers (services of a joint routing operator), ;

- the provision of operation and maintenance services relating to trunk oil pipelines owned by third parties;

- the provision of water supply services via trunk water pipelines owned by the Company as well as water supply services via distribution networks and sewage disposal services, heating energy production, transfer and distribution services and electric power transfer and transportation services; and

- Batumi Industrial Holdings Limited, a subsidiary of the Company, also provides hydrocarbon transshipment and storage services at the Batumi Oil Terminal at the Batumi Sea Port in Georgia and as well as other services, including dry cargo transshipment services.

Oil Transportation

Overview

The Company transports oil via a trunk oil pipeline network both to the domestic market in the Republic of Kazakhstan and for export from the Republic of Kazakhstan. In 2011, approximately 75%

of all oil transported by the Company was for export deliveries, with the remaining 25% delivered to the domestic market of the Republic of Kazakhstan.

In 2009, 2010 and 2011, and for the first six months of 2012, oil transportation generated KZT 97,682,797 thousand, or 77.4%, KZT 109,395,974 thousand, or 79.1%, KZT 109,585,457 thousand, or 78%, and KZT 50,571,346 thousand, or 76.2%, respectively, of the Company's consolidated revenue for the respective periods.

Trunk Oil Pipeline Network System Owned by the Company

The length of the Company's own trunk oil pipelines is 5,495 km. In 2009, 2010, 2011 and in the first six months of 2012, the Company transported via its trunk oil pipeline network 50,885 thousand tonnes, 52,505 thousand tonnes, 54,019 thousand tonnes and 26,395 thousand tonnes of oil, respectively. In 2009, 2010, 2011 and the first six months of 2012, the oil turnover via the trunk oil pipeline network of the Company amounted to 33,513 million tonnes/km, 34,223 million tonnes/km, 34,493 million tonnes/km and 16,694 million tonnes/km, respectively.

The trunk oil pipeline network owned and operated by the Company includes:

<u>Western Branch</u>

The Western Branch was established as a structural division of the Company in October 1997 on the basis of the Production Unit "Yuzhnefteprovod". The headquarters of the Western Branch are located in the city of Atyrau. As at 30 June 2012, the Western Branch operated the majority of the trunk oil pipelines and water pipelines owned by the Company with a total length of 2,661 km and 2,148 km, respectively. The Western Branch also has 24 oil pumping stations, seven preheating stations, 57 furnaces, tank farms with a total storage capacity of 909.3 thousand cubic metres, three water pumping stations and two water purifying facilities.

The main trunk oil pipelines operated by the Western Branch include:

- the UAS pipeline up to the Russian border;
- the Kalamkas-Karazhanbas-Aktau pipeline;
- the Uzen-Zhetybai-Aktau pipeline; and
- the Zhanazhol-Kenkiyak pipeline.

<u>Eastern Branch</u>

The Eastern Branch of the Company was founded on the basis of the Production Unit "Trunk oil pipelines of Kazakhstan and Central Asia" which had been established by the Ministry of Petroleum Industry of USSR to ensure the operation and maintenance of oil pipelines located on the territory of the Kazakh SSR and the Uzbek SSR. In 1997, due to the establishment of the Company, the department was reorganised into the Eastern Branch which currently constitutes a structural division of the Company.

The headquarters of the Eastern Branch are located in the city of Pavlodar. As at 30 June 2012, the Eastern Branch operated trunk oil pipelines owned by the Company with a total length of 2,762 km. The Eastern Branch also has 15 oil pumping stations, three accepting delivering stations, seven oil heaters and tank farms of total storage capacity of 506 thousand cubic metres.

The trunk oil pipeline system of the Eastern Branch includes:

- the Omsk-Pavlodar pipeline;
- the Pavlodar-Shymkent pipeline;

- the Kumkol-Karakoin pipeline; and
- the Kazakhstan segment of TON-2 pipeline.

The following map shows the main trunk oil pipeline network owned by the Company as at 30 June 2012:


RUSSIA
Kostanay
Petropavlovsk
OPS Priyirtyshsk
Pavlodar
MOPS Pavlodar
OPS Ekibastuz
Astana
OPS Stepnoye
OPS Trudovoye
Ust-Kamenogorsk
Karaganda
MOPS Stasu
OPS №9
Samara
OPS Bolshoy Chagan
Uralsk
OPS Inder
Aktobe
Bestamak
OPS named After N.N. Shmanova
MOPS Kenkiyak
Atyrau
OPS Martyshy
Eskene
MOPS Atyrau
OPS Kulsary
OPS Koschagyl
OPS Makat
MOPS Alibekmola
KAZAKHSTAN
MOPS Kumkol
OPS Barsengir
CHINA
MOPS Kalamkas
OPS Karazhanbas
OPS Prorva
OPS Karaton
OPS Beyney
MOPS Aktau
OPS Tauchik
MOPS Uzen
OPS Zhetybay
Aral sea
MOPS named after B. Dzhumagalieva
OPS №11
Alashankou
Kyzylorda
OPS Zhuan-Tiube
OPS Suzak
Almaty
MOPS Chulak-Kurgan
MOPS Shymkent
Taraz
Caspian sea
UZBEKISTAN
Oil Delivery and Acceptance point Shymkent
Shagyr
TURKMENISTAN
KYRGYZSTAN
Administrative centers
Railroad terminals
Oil pumping stations («OPS»)
Main oil pumping stations («MOPS»)
Trunk oil pipelines
Directions of oil transportation

The following table sets forth information on the trunk oil pipelines owned by the Company as at 30 June 2012:

Pipeline	As at 30 June 2012 Length (km.)	Diametre (mm)	Operational since (year)
Uzen-Atyrau-Samara			
Uzen-Atyrau	702.4	0.7 – 1.0	1974-1984
Atyrau-Samara	535		
Kalamkas-Karazhanbas-Aktau			
Kalamkas-Karazhanbas	62.1	0.5– 0.7	1979/1986
Karazhanbas-Aktau	202.4		
Uzen-Zhetybai-Aktau			
First line	141.6	0.7	1970/1976/1995/19
Second line	126.6	0.5 – 0.7	96
Zhanazhol – Kenkiyak	51.1	0.5	1984
Omsk – Pavlodar	222.6	1.0	1977
Pavlodar – Shymkent	1637	0.8	1983
Kumkol - Karakoin			
First line	198.9	0.7	1990
Second line	198.9	0.5	
TON-2 pipeline	185.6	0.7	1959

The Company also currently owns seven preheating stations and 39 oil pumping stations which constitute a component part of the trunk oil pipelines of the Company which include 64 preheaters, tank farms for oil storage with a total capacity of 1,259 thousand cubic metres and loading / unloading racks.

The pumping stations owned by the Company are equipped with main pumping units and other equipment including oil heaters and furnaces and oil storage terminals, and are used to pump oil through the trunk oil pipelines. The oil storage tank farm is used by the Company primarily to accumulate optimum volumes of oil for further transportation.

Trunk Oil Pipelines Owned by Joint Ventures

KCP is the owner of two sections of the Kazakhstan-China pipeline system, namely the Atasu-Alashankou trunk pipeline and the Kenkiyak-Kumkol trunk pipeline. The total length of the pipelines owned by KCP is 1,756.3 km. MunaiTas is the owner of the Kenkiyak-Atyrau trunk oil pipeline, a section of the Kazakhstan-China pipeline system, with the total length of 448.9 km.

In 2009, 2010, 2011 and in the first six months of 2012, KCP transported via its trunk pipeline network 7,699 thousand tonnes of oil, 10,092 thousand tonnes of oil, 10,889 thousand tonnes of oil and 4,642 thousand tonnes of oil, respectively. In 2009, 2010, 2011 and in the first six months of 2012, the oil turnover via the trunk pipeline network owned by KCP amounted to 7,791 million tonnes/km, 12,495 million tonnes/km, 13,859 million tonnes/km and 6,251 million tonnes/km, respectively.

In 2009, 2010, 2011 and in the first six months of 2012, MunaiTas transported via the Kenkiyak-Atyrau trunk pipeline 5,958 thousand tonnes of oil, 4,232 thousand tonnes of oil, 4,029 thousand tonnes of oil and 1,926 thousand tonnes of oil, respectively. In 2009, 2010, 2011 and in the first six months of 2012, the oil turnover via the Kenkiyak-Atyrau trunk pipeline amounted to 2,549 million tonnes/km, 1,726 million tonnes/km, 1,612 million tonnes/km and 754 million tonnes/km, respectively. The reduction of the transportation and oil turnover volumes via the Kenkiyak-Atyrau trunk pipeline owned by MunaiTas in 2010 and 2011 was due to the redirection of transportation of a portion of the volumes of oil to the Kenkiyak-Kumkol trunk pipeline owned.

The following table sets forth information on the trunk oil pipelines owned by KCP and MunaiTas as at 30 June 2012:

Pipeline	As at 30 June 2012		
	Length (km.)	Diametre (mm)	Operational since (year)
KCP			
Atasu – Alashankou	962.2	0.8	2006
Kenkiyak – Kumkol	794.1	0.8	2009
MunaiTas			
Kenkiyak – Atyrau	448.9	0.6	2003

Transportation Volumes And Capacity Utilisation

The following table sets forth information with respect to volumes of oil transported by the Company via the trunk oil pipeline network owned by the Company, KCP and MunaiTas, and also with respect to utilisation of relevant oil pipelines for the periods indicated:

Pipeline	For the six months ended 30 June		For the year ended 31 December					
	2012		2011		2010		2009	
	Trans-portation volume (mln. tonnes)	*Uti-lisation (%)*[(1)]	*Trans-portation volume (mln. tonnes)*	*Uti-lisation (%)*[(1)]	*Trans-portation volume (mln. tonnes)*	*Uti-lisation (%)*[(1)]	*Tran-sportatio n volume (mln. tonnes)*	*Uti-lisation (%)*[(1)]
Company								
Uzen-Atyrau-Samara								
Uzen-Atyrau	8,4	67.8	16,9	68.2	17,1	68.8	16,7	79.6
Atyrau-Samara	7,6	87.1	15,4	87.9	15,3	87.2	17,5	99.7
Kalamkas-Karazhanbas-Aktau								
Kalamkas-Karazhanbas	2,2	51.6	4,4	51.3	4,4	51.3	4,3	51.0
Karazhanbas-Aktau	4,3	88.3	8,6	88.1	8,6	87.8	8,3	85.1
Uzen-Zhetybai-Aktau								
First line	0,4	25.9	2,0	64.2	2,4	76.8	1,1	35.7
Zetybai-112 km-Aktau	2,4	59.9	3,6	44.4	2,9	35.8	4,0	55.4
Uzen-Zhetybai	3,7	110.2	7,4	108.8	7,0	103.1	6,6	96.6
Zhanazhol - Kenkiyak	3,4	118.2	6,8	117.9	6,6	113.9	6,5	112.1
Omsk – Pavlodar	2,6	22.2	6,6	27.4	6,9	28.8	6,8	28.1
Pavlodar - Shymkent								
Pavlodar-Atasu	0,7	8.4	3,0	18.9	2,1	13.0	2,7	17.1
Dzhumangalieva-Atasu	4,7	69.2	9,8	71.7	9,4	68.6	6,0	55.8
Dzhumangalieva - Shymkent	2,6	44.0	5,1	42.6	5,4	44.6	5,2	42.9
Kumkol - Karakoin								
First line	4,7	102.6	9,5	103.0	9,7	105.7	10,1	108.7
Second line	2,6	86.5	4,8	79.7	3,7	62.0		77.1
KCP								
Atasu – Alashankou	4,6	92.8	10,9	108.9	10.1	100.9	7.7	77
Kenkiyak – Kumko	2,6	51.6	4,8	47.8	3.7	37.2	0.4	4.3
MunaiTas								
Kenkiyak - Atyrau	1,9	63	4,0	66	4,2	71	5,9	99.8

Notes:

(1) The Company measures trunk oil pipeline utilisation in percentage terms, based on the volume of oil actually pumped through the section of the oil pipeline during the relevant period compared with the maximum volume of oil which could be pumped according to the design specification of such section.

Operation and Maintenance Services in respect of Trunk Oil Pipelines

The Company also provides operation and maintenance services in respect of the following trunk oil pipelines owned by third parties, including the Company's joint ventures, KCP and MunaiTas:

- the Kenkiyak-Atyrau trunk pipeline owned by MunaiTas and operated by the Western Branch of the Company;
- the Atasu-Alashankou trunk pipeline owned by KCP and operated by the Eastern Branch of the Company;
- the Kenkiyak-Kumkol trunk pipeline owned by KCP and operated jointly by the Western and Eastern Branches of the Company;
- the Aksai - Bolshoy Chagan - Atyrau trunk oil pipeline owned by Karachaganak Petroleum Operating B.V. and operated by the Western Branch of the Company; and
- the Turgai-Petroleum – Kumkol trunk oil pipeline owned by Turgai Petroleum JSC and operated by the Eastern Branch of the Company.

The total length of the pipeline network owned by third parties for which the Company provides operation and maintenance services is 2,855 km.

In 2009, 2010, 2011 and in the first six months of 2012, the Company's revenue from pipeline operation and maintenance services amounted to KZT 3,319,662 thousand, or 2.6%, KZT 4,530,016 thousand, or 3.3%, KZT 5,227,305 thousand, or 3.7%, and KZT 2,952,097, or 4.4%, respectively, of the Company's consolidated revenue for the respective periods.

Aktau Sea Port

The Aktau international commercial sea port is situated on the eastern coast of the Caspian Sea and is the only sea port of the Republic of Kazakhstan intended for international shipping of oil, oil products and different dry cargos. As at the date of this Investment Memorandum, the main oil delivery destinations from the Aktau Sea Port are the Makhachkala sea port (and then to the Novorossiysk sea port via the Makhachkala-Tikhoretsk- Novorossiysk pipeline) and the Baku port (and then to the Batumi and Kulevi ports at Black Sea by railway and to the Ceyhan port via the Baku-Tbilisi-Ceyhan pipeline).

As of the date of this Investment Memorandum, the Company transports oil to the Aktau oil pumping station, which is situated close to the Aktau Sea Port, via the Kalamkas-Karazhanbas-Aktau trunk pipeline. The Company also provides tank loading services at five moorings of the oil terminal of the Aktau Sea Port and services relating to unloading of oil from railway tanks at the unloading racks of the oil pumping station Atyrau for its further loading to oil tankers in the Aktau Sea Port.

Domestic and Export Oil Transportation

The table below shows information on the volumes of oil transported through the trunk oil pipeline network owned and operated by the Company, to the domestic and export markets ended 31 December 2009, 2010 and 2011 and in the first six months of 2012:

	For the six months ended 30 June	For the year ended 31 December		
	2012	**2011**	**2010**	**2009**
		(thousand tonnes)		
Domestic transportation destinations	**7,148**	**13,502**	**12,702**	**11,205**
Atyrau oil refinery	2,214	4,252	3,775	3,513
Pavlodar PCR	2,525	4,584	4,764	4,086
PKOP	2,351	4,355	4,163	3,538
Other oil refineries	0,058	0,312	–	0,068

Export transportation destinations	**19,247**	**40,517**	**39,803**	**39,680**
Samara	7,602	15,427	15,301	17,504
Aktau Sea Port	3,455	7,474	8,279	9,274
Transshipment to the Atasu-Alashankou pipeline	4,647	10,894	10,092	7,699
Transshipment to the CPC pipeline	1,994	3,885	4,109	3,923
Railway deliveries	1,581	2,825	2,031	0,900

In 2009, 2010, 2011 and in the first six months of 2012, the Company's oil export oil transportation volumes represented 78%, 76%, 75% and 73%, respectively, of the total oil transportation volumes of the Company.

For the six months ended 30 June 2012 the volumes of oil transported by the Company to the domestic and export markets amounted to 7,148 thousand tonnes and 19,247 thousand tonnes, respectively, as compared to 6,280 thousand tonnes and 20,975 thousand tonnes, respectively, for the six months ended 30 June 2011. The decrease of the Company's transportation volumes to export markets and the increase in volumes to the domestic market is primarily due to the increased requirements imposed by the Government of the Republic of Kazakhstan in the first half of 2012 on oil producers to sell oil to domestic refineries of the Republic of Kazakhstan.

Domestic transportation destinations

As at the date of this Investment Memorandum, the largest oil refineries operating in the Republic of Kazakhstan are: the Atyrau oil refinery with a design processing capacity of 4.3 million tonnes of oil per year, the Pavlodar Petrochemical Refinery ("**Pavlodar PCR**") with the design processing capacity of 6 million tonnes of oil per year, and PetroKazakhstan Oil Products ("**PKOP**") with a design processing capacity of 5.25 million tonnes of oil per year.

The domestic destinations for the oil deliveries via the trunk oil pipeline network owned and operated by the Company currently include:

- oil deliveries from oil fields in the Atyrau, Aktobe and Mangistau regions of the Republic of Kazakhstan to the Atyrau oil refinery.
- Supply of Russian oil and oil from the Kumkol fields (Kyzylorda and Karaganda regions) and oil fields in the Aktobe region of the Republic of Kazakhstan to the Pavlodar PCR.
- Supply of Russian oil and oil from the Kumkol region fields (Kyzylorda and Karaganda regions) and oil fields in the Aktobe region of the Republic of Kazakhstan to PKOP.

Domestic oil supplies also include the delivery of insignificant oil volumes to the other oil refineries of the Republic of Kazakhstan.

Export transportation destinations

Currently the major routes for oil export transportation through the trunk oil pipelines owned and operated by the Company are (i) to the Russian border through the oil delivery and acceptance point in Samara with further delivery to the Black Sea and the Baltic Sea ports and to the European markets, (ii) through the Aktau Sea Port in the Baku–Batumi and Makhachkala-Tikhoretsk- Novorossiysk directions, (iii) transshipment to the Atasu–Alashankou pipeline for further export to China, and (iv) transshipment to the CPC pipeline for further export in the Black Sea direction.

The destinations of the oil export transportation through the trunk oil pipelines owned and operated by the Company currently include:

- Supply of the Kazakhstani oil from the fields in the Aktobe, Atyrau and Mangistau regions of the Republic of Kazakhstan and from the fields in the Western Kazakhstan region through the Atyrau-Samara part of the UAS pipeline to the Russian border for its further transshipment to the trunk oil pipeline network of the Russian company Transneft JSC and its further delivery to the Black Sea and the Baltic Sea ports and to the European markets.

- Supply of the Kazakhstani oil from the fields in the Aktobe and Mangistau regions of the Republic of Kazakhstan and the Kumkol fields (the Kyzylorda and Karaganda regions) via the oil terminal in the Aktau Sea Port through the Kalamkas – Karazhanbas – Aktau pipeline and by railway.

- Supply of Russian oil and Kazakhstani oil from the oil fields in the Aktobe region and from the Kumkol fields (the Kyzylorda and Karaganda regions) to the Atasu-Alashankou pipeline for its further delivery to China.

- Supply of Kazakhstani oil from the fields in the Aktobe, Atyrau and Mangistau regions of the Republic of Kazakhstan to the pumping station Atyrau, where it is further transshipped into the CPC pipeline.

Export oil transportation services also include transportation of oil to railway stations for subsequent loading of oil to rail carriages using loading-unloading racks owned by the Company.

Customers for Oil Transportation Services

The Company's oil transportation services for domestic and export markets are provided on the basis of contracts between the Company and its customers. The contracts are prepared in accordance with a standard form approved by the Government of the Republic of Kazakhstan and may be entered into on an annual, or on a long-term, basis. All of the Company's contracts with its customers include standard provisions with respect to the parties' rights and obligations, including with respect to liability, settlement, fees and reimbursement of expenses.

As of the date of this Investment Memorandum, the Company has entered into contracts for the provision of oil transportation services with more than 80 customers, including KazMunaiGas Exploration & Production JSC, Mangistaumunaigas JSC, Karachaganak Petroleum Operating B.V., Tengizchevroil LLP, CNPC-Aktobeimunaigas JSC, Turgai-Petroleum JSC, PetroKazakhstan Kumkol Resources JSC and Kazgermunai JV LLP.

In 2011 the Company's top three and top nine customers accounted in aggregate for 36% and 71%, respectively, of total oil volume transported through the Company's trunk pipeline network.

During the effective term of contracts for the provision of oil transportation services, the Company agrees to provide, in the manner and on the terms specified in the contract, services relating to the transportation of such volumes of the customer's oil as specified in monthly oil delivery schedules relating to domestic and export deliveries approved by the MOG. Transportation of oil by the Company is only possible once the MOG has approved the relevant delivery schedule and the shippers have supplied to the Company the required shipping documents in relation to the relevant oil delivery in accordance with the contract.

Water Supply

In accordance with the legislation of the Republic of Kazakhstan, the Company is included in the Republican section of the State Register of Natural Monopolies in relation to the regulated water supply services via the trunk water pipeline owned by the Company and via distribution networks and sewage disposal services. As of 30 June 2012, the Company supplies industrial and drinking water to more than 140 enterprises, including 74 agricultural, 22 oil and gas and 30 industrial enterprises, in the Atyrau and Mangistau regions of the Republic of Kazakhstan.

The Company owns one of the largest trunk water pipelines in the Republic of Kazakhstan – the Astrakhan-Mangyshlak trunk water pipeline, which was designed by the Soyuzvodokanal institution under the resolution of the Council of Ministers of the USSR in 1981. The pipeline runs more than 1,041 km with an installed throughput capacity of 33.6 million cubic metres of water per year. For more than 20 years, water from the Kigach channel in the delta of the Volga River has been supplied via the Astrakhan–Mangyshlak trunk water pipeline to the Atyrau and Mangistau regions, cities and villages located along the waterline, to the oil fields located in Western Kazakhstan, to industrial enterprises, agricultural producers and households. Other water pipelines of the Company include the Sai-Utes-Buzachi, Kulsary-Prorva, Uzen-Kenderli and Zhetybai SPN-112km-Umirzak water pipelines, which are effectively branch lines of the Astrakhan-Mangyshlak water pipeline.

As at 30 June 2012, the Company owned 47 water storage tanks with total capacity of 156.3 thousand cubic metres, three water pumping stations and two sewage treatment facilities.

In 2009, 2010, 2011 and as at 30 June 2012, water deliveries of the Company amounted to 18,926 thousand cubic metres, 21,361 thousand cubic metres, 21,192 thousand cubic metres and 11,058 thousand cubic metres, respectively.

The Company provides its services relating to the transportation of water via the Astrakhan-Mangyshlak water pipeline on the basis of contracts for the provision of water transportation services between the Company and its customers which are prepared in accordance with a standard form approved by the Government of the Republic of Kazakhstan. The contracts may be entered into on an annual, or on a long-term, basis.

For the year 2011, the major consumers of the Company's water supply services were oil producers and utility companies, with a share of more than 60% and 35% of the total water supply volume, respectively.

For the years ended 31 December 2009, 2010, 2011 and for the six months ended 30 June 2012, the Company's revenue from water supply services was KZT 4,893,092 thousand, KZT 5,892,098 thousand, KZT 6,119,862 thousand and KZT 3,195,766 thousand, respectively, or 3.9%, 4.3%, 4.4% and 4.8% of the Company's consolidated revenue, respectively, for such periods.

Hydrocarbons Transshipment

Batumi Industrial Holdings Limited, a BIHL Group company and a subsidiary of the Company, provides such services as oil and oil products transshipment and storage, dry cargo transshipment through the Batumi Oil Terminal at the Batumi Sea Port in Georgia, as well as forwarding services in connection with oil and oil products transshipment by railway from the Azerbaijan-Georgia border to the Batumi Oil Terminal.

Batumi Sea Port

Batumi Sea Port LLC is a company from the Batumi Industrial Holdings Limited group which is operated by Batumi Oil Terminal LLC. Batumi Sea Port is located on the seaside of the Black Sea in the Western part of Georgia and consists of four terminals: (i) an oil terminal comprising three moorings and mobile mooring facilities with an installed capacity of 15 million tonnes per year; (ii) a passenger terminal comprising two moorings with an installed capacity of 180 thousand persons per year; (iii) a container terminal comprising two moorings with an installed capacity of 300 thousand twenty-foot equivalent unit per year and a ferry mooring with the installed capacity of 700 thousand tonnes per year; and (iv) and a freight terminal comprising four moorings with an installed capacity of 1.5 million tonnes per year. The Sea Port covers a territory of 22 hectares and also includes 15,656 square metres of open warehouses. The equipment in the Batumi Sea Port includes 13 bridge cranes, one mobile crane, more than 90 freeloaders, 6 tow boats and 6 other servo boats. The container terminal, mooring No. 6 and the ferry servicing moorings are leased by Batumi Oil Terminal LLC to Batumi International Container Terminal until 2055.

Approximately 80-90% of the total volume of the cargo turnover of the port represents oil transshipment. Other services of the port include the storage and transshipment of cargo, servicing water crafts and other vehicles, management services and expedition services.

Batumi Sea Port LLC is owned by the Georgian governmental authorities. In July 2006, in accordance with the privatisation programme of the Government of Georgia, the Ministry of Economic Development of Georgia entered into an agreement with Batumi Port Holdings Limited, the winner of the tender organised by the state authorities of Georgia, granting to Batumi Port Holdings Limited full exclusive management rights over 100% of the shares in Batumi Sea Port LLC owned by Georgia for a period of 49 years for consideration of US$92 million. Such rights include the exclusive management of the shares of Batumi Sea Port LLC, the right to receive all annual net profits and to have all respective shareholders' rights and privileges with regard to the income on shares in accordance with the Georgian legislation. In December 2010, Batumi Port Holdings Limited entered into an agreement with Batumi Oil Terminal LLC under which it assigned the above mentioned exclusive management rights to Batumi Oil Terminal LLC at the price of US$84,386 thousand for a term up to July 2055.

Batumi Oil Terminal

The Batumi Oil Terminal is located in the Batumi Sea Port and renders its client services for the transshipment of oil and oil products from the Republic of Kazakhstan, Azerbaijan, Georgia and other countries.

The terminal covers a territory of 90 hectares. It comprises three moorings with an installed capacity of 15 million tonnes per year, five oil tank farms consisting of 132 tanks with a total capacity of 563 thousand cubic metres, including 50 tanks with a total capacity of 277 thousand cubic metres for the storage of oil, 47 tanks with a total capacity of 135 thousand cubic metres for the storage of light oil products and 10 tanks with a total capacity of 54 thousand cubic metres for the storage of dark oil products, six railway overpasses used for oil and light and dark oil products discharge, one loading rack for oil discharge to the domestic market and transit to Armenia and the only terminal in Georgia for liquefied petroleum gas, comprising 25 tanks with a total capacity of 5,000 cubic metres.

For the years ended 31 December 2009, 2010, 2011 and for the six months ended 30 June 2012, the transportation and transshipment of oil through the Batumi Oil Terminal amounted to 5,263 thousand tonnes, 5,080 thousand tonnes, 4,207 thousand tonnes and 1,833 thousand tonnes, respectively. The transshipment of oil from the Republic of Kazakhstan represented 76% and 72% of the total oil transshipment volume via the terminal 2011 and 2010, respectively.

For the years ended 31 December 2009, 2010, 2011 and for the six months ended 30 June 2012, the oil transshipment segment generated KZT 14,518,571 thousand, KZT 13,227,167 thousand, KZT 13,795,329 thousand and KZT 6,963,816 thousand, respectively, of the Company's consolidated revenue. The oil transshipment segment represents 11.5%, 9.6%, 9.8% and 10.5% of the total revenue of the Company for the indicated periods, respectively.

From 2009 to 2011 the volumes of oil and oil products transshipment through Batumi Oil Terminal in Batumi Sea Port decreased by 19%. This decrease was, amongst other things, due to reorientation of oil and oil products volumes to Kulevi oil terminal which was built in 2008 and partially controlled by Azeri state company SOCAR. There was a decrease in goods transportation (including of Kazakhstan oil) through the railway of Georgia with the political support of Azerbaijan and due to aggravated relations between Russia and Georgia. In addition, the volumes were influenced by political conflicts, instability in the global and regional financial markets, emergence of alternative routes for cargo transshipment and other factors. Please see "*Risk Factors – Risks Related to the Group's Business – Reduction in the volumes of transshipment in the Batumi Sea Port may lead to the loss of this asset by the Group*".

The Company considers the Batumi Oil Terminal to be a strategically important channel for oil transportation and a key element of the Aktau – Baku – Batumi route by which the Kazakhstani oil and oil products obtain direct access to the Black Sea region markets. In February 2008 Batumi Oil Terminal LLC entered into an agreement for the lease of bulk oil terminals with Batumi Sea Port LLC until 2019.

Investment Projects

As of the date of this Investment Memorandum, the Company, taking into account a detailed appraisal of risks and strategic and economic rationale and if there is an agreed position with KMG, is considering the following opportunities:

Expansion of throughput capacity of the trunk oil pipelines

In light of the forecasted increase of oil production levels at the oil deposit of the Buzachi group as well as the redirecting of oil supplies from the Aktau Sea Port to the Atyrau oil pumping station, the Company is considering increasing the installed throughput capacity of the Kalamkas – Karazhanbas – Aktau trunk oil pipeline and the Uzen – Zhetybai – Aktau trunk oil pipeline owned by the Company to 16 million tonnes of crude oil within three years, and connecting the Kalamkas and Karazhanbas fields in the Buzhachi peninsula with the Aktau Sea Port and the UAS pipeline. Additionally, the Company plans to reconstruct oil pumping facilities in Karazhanbas, Tauchik and Zhetybai which constitute a component of the Kalamkas–Karazhanbas–Aktau and Uzen–Zhetybai–Aktau trunk oil pipelines.

The Company expects its total capital investment in this project to be approximately KZT 669 million in 2012, KZT 11.8 billion in 2013 and KZT 18.6 billion in 2014.

The Company, together with KCP and MunaiTas, also is considering the implementation of an investment project for the increase of the installed throughput capacity of the Kazakhstan–China pipeline system up to 20 million tonnes of oil per year by 2017. This project would allow increased volumes of oil to be transported into the rapidly growing Chinese market and would increase the overall export capacity of the Republic of Kazakhstan. The financing of this investment project would be conducted by the Company, KCP and MunaiTas separately on the parts of oil pipelines owned by each of these companies. The terms of implementation would depend on reaching the agreement with the Chinese partners, and on reaching agreements on the inter-governmental level.

According to the Company's preliminary estimates, the capital expenditures may amount to KZT 44.2 billion for the Company, KZT 56.3 billion for KCP and KZT 23.2 billion for MunaiTas.

In connection with this project the Company and MunaiTas are considering the possibility of reversal of the Kenkiyak-Atyrau trunk pipeline for the transportation of oil from the oil deposits in Western Kazakhstan to the Pavlodar Petrochemical Refinery and the PetroKazakhstan oil products refinery for the purposes of increasing the volumes of oil transported through the Kenkiyak-Atyrau trunk pipeline and ensuring the deliveries of oil to the domestic market of the Republic of Kazakhstan.

Participation in the Kazakhstan Caspian Transportation System project

The Company is considering the possibility of participating in the Kazakhstan Caspian Transportation System project. In particular, the Company is interested in taking part in the construction of the Eskene – Kuryk trunk pipeline, with a length of 760 km from Eskene to oil terminal in Kuryk port in the Republic of Kazakhstan, and with an installed capacity of up to 56 million tonnes of oil per year in order to implement the plan for oil production in the Kashagan oil deposit of the Republic of Kazakhstan. The Eskene – Kuryk pipeline construction project, if implemented, would allow the Company to increase its oil transportation volumes and diversify the existing export oil transportation routes.

The Company estimates that capital investments in the construction of the Eskene – Kuryk trunk pipeline would amount to approximately US$2.6 billion. The final parameters and cost of the project for the construction of the Eskene – Kuryk trunk pipeline will be defined after the approval of the final parameters of the development of the Kashagan oil field. See "*Risk Factors – Risks Related to the Group's Business – A decrease in the volumes of crude oil transported along the trunk pipeline system operated by the Company and the revenue therefrom may have a material adverse impact on the Company*".

According to the information as of the date of this Investment Memorandum the decision of the Government of the Republic of Kazakhstan regarding implementation of this project is expected after 2017-2018.

Acquisition of participation interests/stakes in companies owning the operating oil pipelines and management thereof

The Company will aim to maximise its participation in operating and new oil pipeline assets on the territory of the Republic of Kazakhstan, taking into account investment, political and other risks, and the priority right of the Republic of Kazakhstan to participate in projects of new trunk pipelines in the amount of not less than 51%.

The Company will aim to participate in large international oil transportation projects if such participation is agreed with KMG and subject to the adoption of the relevant decision by the respective body of the Company after considering the risks, strategic and economic rationale.

After detailed legal and financial analysis, the Company will consider the possibility of acquisition of participation interests/stakes in companies owning oil pipelines in operation, or management thereof, including the transfer to the Company of a 19 % stake of KMG in Caspian Pipeline Consortium and acquisition of shares in Kazakhstan Pipeline Ventures LLC, which owns a 1.75% interest in Caspian Pipeline Consortium.

However, there is no assurance that the Company will be able to acquire and/or receive in management these stakes or receive the required approvals from the shareholders of Caspian Pipeline Consortium. The final decision regarding participation in this project will be made after the holding of detailed legal and financial analysis and respective consultations with the Government of the Republic of Kazakhstan and KMG.

Tariffs and Other Revenues

Overview

In accordance with legislation of the Republic of Kazakhstan, the Company, KCP and MunaiTas are considered natural monopolies which provide regulated services, including oil transportation through oil pipelines; therefore, their transportation tariffs are subject to governmental regulation. Tariffs are set by AREM. Tariffs charged to shippers for oil transportation via the Company's trunk oil pipeline network represented more than 77.4%, 79.1%, 78.0% and 76.2% of the Group's total revenues in 2009, 2010, 2011 and the first six months of 2012, respectively.

The tariffs are meant to cover the costs of financing, operating and maintaining the pipeline network and to provide for some profit margin calculated on the basis of fixed assets and working capital required to carry out oil transportation operations. Each of the Company, KCP and MunaiTas is entitled to file an application with AREM for the review of tariffs on regulated services not more often than once every 12 months. After considering such an application, AREM is entitled to change the tariff or reject the application. The Company regularly interacts with AREM concerning the tariffs system relating to the Company's services and its potential improvement in order to create a more flexible and efficient tariff policy.

AREM sets for the Company different tariffs for oil transportation to the domestic and export markets. In order to encourage the load of Kazakh oil refineries, the tariff for domestic transportation has historically been lower than export tariffs. The current tariffs for oil transportation for domestic destinations have remained unchanged for more than ten years and for export destinations have remained unchanged since 2009.

In August 2012 the Company sent to AREM an application for revision of the level of tariffs on services for oil transportation both for export and for domestic deliveries in the Republic of Kazakhstan. In its application the Company, among other things, advocated for an increase of the level of tariffs based on the level of operating and other expenses incurred in connection with its operations and its investment needs. As of the date of this Investment Memorandum, the Company's application is under consideration by AREM.

See "*Risk Factors – Risks Related to the Group's Business – The government may impose tariffs on regulated services provided by the Company, including oil transportation services, at levels which are unfavourable for the Company*".

Tariff Calculation

According to the legislation of the Republic of Kazakhstan, regulated tariffs for natural monopolies are based on the "cost-plus" principle, meaning that tariffs must be no less than the entity's costs related to the regulated services and should allow such entity to generate some profit to maintain its business. Costs are defined for this purpose to include operating expenses, asset depreciation and interest expenses on loans and borrowings.

According to the methodology approved by AREM, the tariff formula is as follows:

Tariff = Accepted profit / Oil transportation turnover

where *Accepted profit = Costs + Profit margin + Corporate income tax,*

and *Profit margin = (Long-term assets + Net working capital)* x *Accepted rate of return,*

where *Accepted rate of return* is the weighted average cost of capital calculated under a specific methodology taking into account the Company's own and borrowed capital.

Long-term assets include only those assets that are involved in the provision of the services for which the tariff is to be charged.

Types of Tariffs

Oil transportation tariffs

The table below shows the tariffs, in each case excluding VAT, set by AREM for the regulated oil transportation services provided by the Company, KCP and MunaiTas and applicable as at the dates indicated:

	As of 30 June	As of 31 December		
Service	**2012**	**2011**	**2010**	**2009**
	(***KZT per 1 tonne/1,000 km***)			
Company				
Export transportation	3,331	3,331	3,331	3,015
Domestic transportation	1,303	1,303	1,303	1,303
KCP				
Atasu-Alashankou pipeline	3,818	3,818	3,818	2,519
Kenkiyak-Kumkol pipeline	4,366	4,366	4,366	4,366
MunaiTas				
Kenkiyak-Atyrau pipeline	5,912	3,108	3,108	3,108

As at the date of this Investment Memorandum the oil transportation tariffs existing as at 30 June 2012 remain in effect.

Apart from the aforementioned domestic and export oil transportation tariffs, AREM sets additional tariffs for the Company's services which are related to its oil transportation services. These services include, amongst other things, oil storage in tanks, oil transshipment at the oil pumping station Makat to the Kenkiyak-Atyrau trunk pipeline, oil transshipment at the oil pumping station Atyrau to the Caspian Pipeline Consortium system without oil heating and with oil heating, oil loading into tankers at the oil pumping station Aktau, oil unloading from railway tanks at the oil pumping station Atyrau and oil loading into railway tanks at the oil pumping station Atyrau.

Water supply tariffs

In addition to oil transportation services, the Company also provides regulated services relating to water supplies via water pipelines owned by the Company. The table below shows the tariffs, in each case excluding VAT, set by AREM for the regulated water supply services as of 1 January 2007 and in force as at the date of this Investment Memorandum.

	Industrial water		Potable water	
Consumers	**0-449 km**	**449 km – end consumers**	**Kulsary - Sargamys**	**Kigach**
	(*KZT per 1,000 cubic meters*)			
Local communities, state, non-commercial organisations and enterprises providing utility services	17	19	35.5	35.5
Agricultural producers	61.2	137.6	86.8	–
Industrial enterprises and other commercial entities	224.46	351.06	321.44	–
Oil and gas production companies	307.5	474.91	449.75	–

In addition, starting from 1 July 2011 the Company also charges a tariff for supply of water through distribution networks in the amount of KZT 30.77 per cubic metre and for sewage drainage services at the approved level of KZT 44.03 per cubic metre (excluding VAT).

Other Revenues

Other revenues of the Group include revenues from oil and oil products transshipment and storage, dry cargo transshipment and other services provided by the Company's subsidiary, Batumi Industrial Holdings Limited, through the Batumi Oil Terminal at the Batumi Sea Port in Georgia, which are not regulated and are not subject to tariffs set by the relevant Georgian governmental authorities.

Batumi Industrial Holdings Limited sets individual tariffs for shippers on a contractual basis depending on the volumes of oil transshipment, duration of their business relations and market conditions as at the date of the relevant agreement. The Batumi Sea Port tariffs are determined taking into account the type of the relevant services, their specifics and complexity and the requirements of applicable Georgian regulations.

Diagnostics of Existing Pipeline Networks

The transportation facilities of the Company are largely operated on the basis of an infrastructure developed in Soviet times. According to the Company's data, as of 31 December 2011 the trunk oil pipeline network operated by the Company was originally constructed mainly during the 1970s and 1980s, with approximately 79.3% of all pipelines being in operation for more than 20 years, 7.2% in operation from 10 to 20 years and only 13.4% in operation for less than 10 years. Further, around 11% of the Company's tanks have been in operation for more than 30 years, 30% in operation for more than 20 years, 23% in operation from 10 to 20 years and 35% in operation for up to 10 years. See "*Risk Factors – Risks Related to the Group's Business – A significant part of the Company's transportation facilities are relatively old and require substantial maintenance and modernisation*".

In accordance with the requirements of the legislation of the Republic of Kazakhstan, the Company conducts on a regular basis the running maintenance of equipment, start-up and commissioning works, engineering works, diagnostic works and aerial surveillance of the linear part of the trunk oil pipeline system.

The Company has put in place an extensive maintenance, diagnostics and upgrade programme, which is annually updated, as a result of which it has been able to extend the physical life of many of its pipelines from their initial lifetime (for those pipelines constructed during the Soviet era). In particular, the Company conducts diagnostics of the main equipment including interpipe diagnostics, inspection of the system of electrochemical protection, inspection of tanks, inspection of industrial pipelines, inspection of oil pre-heaters, vibration-based diagnostics and flaw detection of the pumping units' rollers, inspection of instream and aerial crossings.

The Company decided to conduct an examination and implementation of new opportunities to improve the methods of diagnostic studies including determination of inner and outer wall thickness losses, assessment of the allocation of corrosion around the pipe, examination of the intersections of pipelines with roads, and examination of hard-to-reach areas. The Company has a comprehensive control system designed to monitor whether maintenance, diagnostic work and upgrading is completed on time and within budget, and to prevent possible fraud.

The Company also implements innovative solutions to detect a tank's integrity based on inspection of the tank using magnetic flow leakage technology and eddy current technology, robotic (semi-manned) diagnostics of tanks and magnetostrictive sensor technology used for the inspection of pipelines.

Maintenance and Upgrade of Existing Pipeline Networks

The operations of the Company require significant capital investments for the purpose of maintenance of the current condition of pipeline networks, modernisation of infrastructure and compliance with the requirements of environmental legislation. The payments for capital investments by the Group in 2009, 2010 and 2011 amounted to KZT 29.3 billion, KZT 25 billion and KZT 34.9 billion, respectively.

Of these amounts, an aggregate of KZT 20.0 billion in the past three years has been used to modernise the Company's pipeline system in order to ensure the reliability of oil transportation and increase the safety of pipeline systems of the West and East.

The following table shows the Company's maintenance and upgrade record for the three years ended 31 December 2009, 2010 and 2011:

	For the year ended 31 December		
	2011	2010	2009
Sections of pipelines renewed (km)	38	30	132
Pipeline wrapping replaced (km)	22,07	21,94	30,16
Diagnostics (km)	1,338	1,126	957
Fault repair (items)	1888	1765	944

The Company generally purchases raw materials for maintenance work from a variety of suppliers in accordance with the procurement rules of Samruk-Kazyna. The main contractors of the Company include such companies as Magistral-Story-Invest LLC (with respect to realization of projects for c capital repair and reconstruction of the Company's facilities), Kentausky transformator plant JSC (with respect to providing high-voltage equipment and electro-chemical protection equipment), Zeinet LLP and Astana-Telemet LLP (with respect to performance of works for implementation of automated systems and dispatcher control and Company's oil trunk pipelines management systems), Engineering Company MunaiGas LLP (with respect to technical service of commercial oil metering units of the Company) and Almaty Puskonaladochnoe Upravlenie LLP of Trest Sredazenergomontazh (with respect to providing services for production of performance and commissioning works at the oil preheaters for the Company's oil pipelines). See "*Risk Factors – Risks Related to the Group's Business – The Company relies on the services of third parties*".

Accidents and Other Losses of Oil

According to internal rules adopted by the Company, accidents are recorded in the Company if there is a destruction of a pipeline facility and shutdown of oil transportation for more than 72 hours. According to the Company's data, in the last three years there was only one accident. In particular, in September 2011, an accident occurred on the 1,058 km of the TON-2 pipeline as a result of rupture of a pipe due to its damage by an excavating machine. The Emergency Control Department of the

Northern Kazakhstan Region of the Emergency Control Ministry of the Republic of Kazakhstan has formed a committee to investigate the reasons for the accident.

The Company believes that its maintenance and upgrade programme is the principal reason for the low rate of accidents. The Company also believes that the criteria it applies to define a "reportable accident" are amongst the strictest in the oil and gas industry of the Republic of Kazakhstan.

Measures against Illegal Tapping of Pipelines

In recent years the Company often encountered unauthorised "tapping" of pipelines and the theft of oil from pipelines. While such unauthorised tapping has not caused the Company to lose a material volume of oil or to shut down the pipeline, it has the potential to cause explosions, accidents, injury and environmental damage through oil spills occurring during such tapping. See "*Risk Factors – Risks Related to the Group's Business – The Company may be subject to claims and liabilities for breaches of environmental laws and regulations, which could be significant*".

To improve the safety of the pipeline network, which is of strategic importance for the economy of the Republic of Kazakhstan, in October 2010 the Law of the Republic of Kazakhstan "On the introduction of amendments to certain legislative acts concerning amplification of liability in the sphere of turnover of oil and certain types of oil products" was adopted. The law provides for criminal and administrative liability for wilful or negligent damage to or destruction of pipelines or theft of oil, unlawful oil transportation, purchase, sale and storage. The Company believes that the adoption of this law resulted in a reduction in the frequency of illegal tapping of the Company's pipelines.

In particular, in 2011 the Company, KCP and MunaiTas reported 18, 18 and 10 illegal tie-ins into trunk oil pipelines of the Company, KCP and MunaiTas, respectively, as compared to 85, 55 and 21 illegal tie-ins in 2010. The total costs of emergency recovery works in 2009, 2010 and 2011 amounted to KZT 70,000 million, KZT 55,100 million and KZT 13,415 million, respectively. In the first six months of 2012, the Company reported 16 illegal tie-ins into its trunk oil pipelines. During the first six months of 2012, two cases of oil spills occurred, as a result of unlawful tapping to the Pavlodar-Shymkent trunk pipeline. The Company incurred expenses of KZT 270 million in addressing the consequences of these accidents.

To prevent tapping of pipelines and theft of oil, each year the Company allocates funds to increase the number of security stations and mobile teams of the security company LLP Semser Security on the most vulnerable sections of its trunk oil pipelines. The Company also has introduced various additional security measures and leakage-detection measures. The respective law enforcement authorities of the Republic of Kazakhstan also support the Company in its efforts to combat illegal tapping and theft of the Company's oil.

In order to increase the security of its trunk oil pipelines, the Company is introducing engineering systems for the prevention and detection of tapping and is modernising the trunk pipeline systems with security technologies, video surveillance and security alarms. In particular, a special "QinetiQ Optasense" security system was put in place in 2009-2010, which is based on the method of acoustic monitoring of unauthorised invasion into the safeguard zone of the oil pipeline with the use of fiber-optic network cable, which allows conducting day-and-night monitoring in real-time mode. Furthermore, for the purposes of the timely detection of accidental spills, the trunk oil pipelines are equipped with a system of automatic leak detection using parametric and hydroacoustic methods. As of the date of this Investment Memorandum, 2,091.1 km of the Company's trunk oil pipelines are equipped with the leak detection system and 258.1 km of the Company's trunk oil pipelines are equipped with the protection system.

The cost of the Company's expenditures on the trunk oil pipelines' equipment with technical systems for detection of accidental spill and prevention and detection of tapping in 2009, 2010 and 2011 amounted to KZT 590,544 thousand, KZT 362,500 thousand and KZT 85,323 thousand, respectively.

Research and Development

One of the primary goals of the Company is to use the results of advanced scientific research and high-end technologies in the area of pipeline transportation of oil, with the aim of reducing operational costs and increasing the reliability of equipment. The Company conducts research and development and design and experimental works both within its branch, RTC, and also by engaging third party contractors, Kazakhstani entities and research and development organisations.

The Company has developed and approved an innovation and technology programme which determines the main priorities of scientific and engineering and innovative development of the Company for 2012-2020. The main goals of the programme are cost reduction, increase of labour efficiency and achievement of economic efficiency in the transportation of oil and supply of water.

The STC branch conducts research and development of new technologies and provides engineering services. The central laboratory of the STC branch is equipped to analyse physico-chemical and rheological properties of oil and oil products, to conduct scientific research in the area of development and application of new technologies in the course of oil and water transportation, and also in the area of corrosion processes. In accordance with the research and development plan for 2011 and 2012, following the technical assignments approved by the Company, the STC branch conducted over 25 research and development works.

The research and development projects developed by third party contractors for the Company include, *inter alia*, execution of engineering solutions, protection of intellectual property and detection of potentially dangerous sections of the trunk oil pipelines based on the characteristics of the stressed-deformed state of the pipelines' walls.

Competition

Overview

As a natural monopoly providing services for transporting oil and supplying water as well as operating trunk oil pipelines in the Republic of Kazakhstan, the Company is not subject to commercial competition. However, because there are currently a number of alternative ways to transport oil in the Republic of Kazakhstan and to transship hydrocarbons in Georgia, as of the date of this Investment Memorandum the Company considers the following companies to be its main competitors in the aforementioned businesses.

Oil Transportation

As at the date of this Investment Memorandum, the Company considers its main competitors in the oil transportation business to be Caspian Pipeline Consortium and JSC "NC" Kazakhstan Temir Zholy".

Caspian Pipeline Consortium

The Caspian Pipeline Consortium is a consortium which owns the CPC pipeline designed for transportation of Caspian oil from the Tengiz and Karachaganak and potentially from the Kashagan oil deposits to the Novorossiysk Marine Terminal on the Russia's Black Sea coast. According to the data of KMG, which manages the stake of the Government of the Republic of Kazakhstan in the Caspian Pipeline Consortium, 265.8 million tonnes of oil, including 223.6 million tonnes of Kazakhstani oil, were transferred through the CPC pipeline from the beginning of its operation in 2001. A total of 36 million tonnes and 34.2 million tonnes were transported through the CPC pipeline in 2010 and 2011, respectively.

Until 10 October 2007, the tariff for oil transportation to the marine terminal of the Caspian Pipeline Consortium on the Black Sea was US$32.50 per tonne. In October 2007, this tariff was increased to US$38 per tonne.

The Company's competitive strength, as compared to Caspian Pipeline Consortium, is that its trunk oil pipeline network is accessible to a wide range of shippers, while access to the CPC pipeline is only available to the immediate shareholders of Caspian Pipeline Consortium and their affiliates. See "*Risk Factors – Risks Related to the Group's Business – A decrease in the volumes of crude oil transported along the trunk pipeline system operated by the Company and the revenue therefrom may have a material adverse impact on the Company*" and "*Oil Industry Overview – Kazakhstan Oil Transportation – CPC Pipeline*".

JSC "NC" Kazakhstan Temir Zholy"

The railway transport is the most important part of the production infrastructure of the Republic of Kazakhstan. The geographical setting of the Republic of Kazakhstan, the absence of direct access to open seas, the extensive territory, the commodity-based production structure and allocation of production forces and the underdevelopment of the automotive infrastructure make the railway transport crucially important for the economy.

JSC "NC" Kazakhstan Temir Zholy", established by the Resolution of the Government of the Republic of Kazakhstan on 31 January 1997, carries out such activities as operation of main railway network, passenger carriage and cargo transportation by rail transport. JSC "NC" Kazakhstan Temir Zholy" also carries out transportation of oil through Kazakhstan railroads to the domestic and export markets.

Oil transportation by railway has a number of advantages compared to its transportation by pipeline transport, including a greater flexibility in selecting transportation routes and preservation of oil qualities. However, oil transportation via pipelines remains a more cost-effective means of transportation as compared to transportation by railway. Therefore, the main competitive advantage of the Company as compared to JSC "NC" Kazakhstan Temir Zholy" in respect of oil transportation is the lower cost of transportation and significantly lower losses of oil during transportation.

Water Supply

The Company believes that, as at the date of this Investment Memorandum, it did not have any competitors in the Republic of Kazakhstan in respect of the services of water supply via trunk water pipelines.

However in respect of supply of fresh water to local communities, to industrial, oil and gas and agricultural companies at the local level, the Company deals with minor competition with entities and enterprises which provide services relating to desalting and extraction of water from artesian wells (underground sources of water). This is not a wide practice because the underground sources are not renewable and a number of them are highly mineralised. In addition, the production of fresh water is quite an energy-consuming process which requires a reliable source of electrical power, for example, for the purposes of reverse osmosis and operation of mechanical steam compression units or electricity and heat for thermal distillation.

Hydrocarbons Transshipment

In relation to oil and oil products transshipment and storage services and transshipment of dry cargo via the Batumi Oil Terminal in the Batumi Sea Port in Georgia, the Company's subsidiary Batumi Industrial Holdings Limited faces competition from other operators of sea ports and oil terminals in Georgia which provide similar services, in particular the ports of Kulevi, Poti and Supsa.

The Kulevi oil terminal was built on the Black Sea coast (to the north of the Batumi port) and became operational in May 2008. The Kulevi oil terminal has a throughput capacity of 10 million tonnes per year and handles operations with oil, fuel oil and diesel fuel. The Kulevi oil terminal is also capable of handling large tankers. The Poti sea port is an interlink for cargo transportation from Turkey, the Middle East and Europe to Central Asia and Afghanistan. It is situated to the north of the Batumi port, on the Black Sea coast. The Poti sea port is well located and has access to well-developed infrastructure. The port provides services relating to transshipment of light products. Its throughput capacity is 1.8 million tonnes per year. The Supsa oil terminal is situated on the Black Sea coast (to the south of the Poti port) and is operated by British Petroleum. The terminal includes four oil storage tanks with a storage capacity of 50 thousand tonnes each. At present, the Supsa oil terminal only handles the Azeri light oil. The terminal's throughput capacity is 7.5 million tonnes per year.

The main competitive advantage of the Batumi Sea Port is its flexibility in providing transshipment services. In particular, only the Batumi Sea Port currently has the installed throughput capacity required for the transshipment of more than 22 types of hydrocarbons, whereas the Poti port, the Kulevi oil terminal and the Supsa oil terminal are capable of transshipping only light products, oil, fuel oil and diesel fuel. See "*Risk Factors – Risks Related to the Group's Business – Reduction in the volumes of transshipment in the Batumi Sea Port may lead to the loss of this asset by the Group*".

Health and Safety

The Company's activities are subject to the laws and normative legal acts of the Republic of Kazakhstan relating to safety and health matters and are regulated by various governmental agencies based upon provisions of the legislation of the Republic of Kazakhstan. Applicable laws, in particular, require an employer to provide its employees with, *inter alia*, properly functioning and safe equipment, to train its employees on health and safety requirements, to adopt internal health and safety regulations and to comply with fire safety, sanitary and hygienic regulations.

The Company also implements measures for the improvement and enhancement of working conditions and the prevention of industrial injuries. The Company employed 17 additional full time health and safety engineers. In 2011 the Company developed and adopted an Occupational Health and Safety Management System, creating a web-portal with a special section on control over work and fire safety services. In 2011 the Company introduced environmental management and occupational health and safety control systems on the basis of ISO 14001:2004 and OHSAS 18001:2007 standards.

Industrial Accidents

The following table sets forth the number of industrial accidents involving employees of the Company for the six months ended June 2012 and for the years ended 31 December 2011, 2010 and 2009:

	For the six months ended 30 June	For the years ended 31 December		
	2012	2011	2010	2009
Number of accidents..	1	0	4	3
– of which lethal accidents	1	0	1	0

The main factors in the accidents which involved the Company's employees in the period from 2009 to 30 June 2012 were human error, namely gross negligence of the injured employee, breach of traffic regulations and violation of labour discipline.

On 6 January 2010 during loading and unloading works on the storage base in Kulsary city, a Company's gas and arc welder fell from the truck of Ural autocar. In the result of falling he received a damage of head and subsequently died in the Zhylyoisk hospital of Kulsary city. In connection with this accident the Company has in due terms concluded annuity agreements for the benefit of three under-aged children of the dead person, with the monthly payment of pension for the loss of earner (survivor benefit) in the amount of KZT 42 856 to each child.

On 11 October 2011 at the oil pumping station Aktau of the Western Branch of the Company, an accident occurred involving employees of third party contractors of the Company, LLP Zhayyik Stroy Lyuks and LLP Kut Kurylys Bastau, who were performing tank cleaning activities. As a result of a flap on VSTP No. 14, eight people died, including five employees of LLP Zhayyik Stroy Lyuks and three employees of LLP Kut Kurylys Bastau. A special Governmental commission was formed to investigate the circumstances and reasons for this accident. In accordance with the results of investigation of the accident, the Governmental commission held that the accident had occurred due to the fault of the third party contractors.

On 30 May 2012, the Company registered a fatal accident resulting from the destruction of a pipe on the 1.5 km of the Astrakhan-Mangyshlak trunk pipeline and resulting water kick. In accordance with the resolution of the Social Protection and Control Department of the Atyrau region of the Republic of Kazakhstan, a special committee was formed to investigate the circumstances and reasons for the accident. In the result of the special investigation by the committee the accident was classified as an industrial accident, it was declared that the Company was guilty for the accident and a relevant act was prepared. It was revealed that the destruction of the pipe had occurred due to fatigue of the pipe as a result of periodic changes of pressure during the operation of the pipe. For the purpose of prevention of accidents the Company has implemented measures aimed at elimination of causes of accident, recommended by the investigation committee.

On 25 September 2012, an accident resulting in the death of an employee of the Company occurred in connection with the installation of crimping welded couplings in the area 8.6 km of oil pipeline Kumkol-Karakoin. A special committee appointed by the Social Protection and Control Department of the Karaganda region was formed to investigate the circumstances and reasons for this accident. The committee classified the accident as an industrial accident. The Company and the employee were determined to be proportionally (50/50) responsible for this accident. The cause of the accident was determined to be gross negligence of the affected employee, who was not using personal protective equipment while working. The Company was found to not have properly monitored employees of Kumkol to ensure their use of personal protective equipment.

Fire Safety

In accordance with the regulations of the Republic of Kazakhstan, all facilities of the Company are provided with the required fire detection and extinguishing equipment. Furthermore, the Company conducts on a regular basis a number of preventive fire safety activities, including fire-tactical trainings and exercises, performance checks of foam and water deluge facilities, inspections of technical condition of fire alarms and fire prevention equipment, and trainings on fire-safety techniques.

Between 2009 and 30 June 2012, there were two fires at the Company’s facilities, which were promptly extinguished without causing any material damage to the Company. In January 2009, there was a fire accident in a reservoir of the VSTP No. 3 which is located within the territory of the Shymkent oil pumping station. In July 2010 there was a gas-air mixture flash within a pipeline resulting in the combustion of the remaining within the pipeline and propagation of fire to the cable rack in the Barsengir oil pumping station.

Environmental Matters

The operations of the Company are subject to environmental legislation, normative legal acts and other requirements of the Republic of Kazakhstan law applicable to oil and gas companies. The Company is subject to limitations as to air emissions, water use and disposal, waste management, impact on wildlife as well as regulations regarding land use and reclamation. State authorities conduct inspections on a regular basis. With respect to any findings resulting from such inspections, the Company is required to remedy violations of environmental laws of the Republic of Kazakhstan.

The Company’s environmental protection policy aims to minimise impact on the environment using the best available technology, to develop technologies to deal with waste products, to remediate or reclaim areas impacted by petroleum hydrocarbons and to monitor the impact of the Company’s operations on the environment. The Company’s total expenses for environmental protection, including capital expenditures, in 2009, 2010 and 2011 were KZT 489.8 million, KZT 884.6 million and KZT 954.6 million, respectively.

In connection with the implementation of its comprehensive environmental programme for the period 2009-2015, the Company is conducting on a regular basis a number of activities aimed at preventing negative effects on the environment, stabilisation and improvement of its condition, including monitoring of air, subsoil, ground, and surface water and soil, utilisation of wastes of equipment and technique (tires, accumulators, waste oils) and portioning of emissions. The Company also uses systems based upon the best practices of environmental protection and certified under the requirements of environmental international standards and the occupational health and safety management systems.

There have been no material violations by the Company of environmental regulations during 2009 - 2012. See "*Risk Factors – Risks Related to the Group's Business – The Company may be subject to claims and liabilities for breaches of environmental laws and regulations, which could be significant*".

Management of Joint Ventures

KCP

KCP was established on a parity basis by the Company and CNODC based on the Foundation Agreement between the Company and CNODC concluded on 30 June 2004. The Foundation Agreement, as well as the charter of KCP ("**KCP Foundation Documents**"), among other things, set out the rights and responsibilities of the Company and CNODC with respect to the governance and operations of KCP, the rules for the transfer of participatory interests in KCP, confidentiality, the charter capital of KCP and the distribution of the net profit of KCP.

KCP is a legal entity established in accordance with the laws of Kazakhstan in the form of limited liability partnership for an unlimited term. Its charter provides that its activities include the design, construction, operation of oil pipelines and oil transportation, as well as any other type of activity related to the above provided that such activity is conducted in accordance with the decisions of the general meeting of participants and does not contradict its KCP's Charter or the legislation of the Republic of Kazakhstan.

The governing bodies of KCP are the general meeting of participants, the management board and the audit committee. The exclusive competence of the general meeting of participants, which is the highest governing body of KCP, includes amongst other things, approval of changes to the charter, changes in the size of charter capital, election of the members of the management board and the audit committee, approval of the annual financial statements, as well as distribution of net profit, approval of KCP's budget, approval of the criteria for selection of the independent professional auditor of KCP for the mandatory annual audit, making decisions on the necessity to set or change the amount of tariff on oil transportation, as well as making decisions on transactions and any amendments thereto involving amounts exceeding KZT 1,096 million. According to the charter of KCP, the Company and CNODC have the right to appoint one representative each to participate in the general meeting of participants, which makes all decisions unanimously. See "*Risk Factors – Risks Related to the Group's Business – The Company is a participant in two joint ventures, over which it has a limited control*".

The management board of KCP consists of six members elected for five-year terms by the general meeting of participants of KCP, and includes the general director, the first deputy general director, the chief accountant and three deputies of the general director. The powers of the management board include, amongst other things, approval of the annual plan of governmental purchases of KCP and of transactions involving amounts between KZT 27,400 thousand to KZT 1,096 million. The Company and CNODC alternately propose the candidacies of the general director, two deputy general directors, candidates of the first deputy general director, chief accountant, and two deputy general directors. Thus, a participant who proposed a candidate for the position of the general director cannot nominate candidates for the positions of the first deputy general director and chief accountant of KCP. The general director represents KCP in relations with third parties, appoints and dismisses employees and makes decisions on all matters related to KCP's current activities. In case any of the participants wishes to exit the joint venture by way of sale of its stake therein, the KCP Foundation Documents provide for pre-emptive rights of the existing participants over such stake.

MunaiTas

MunaiTas was established in December 2001 by "National Company "Transport of Oil and Gas" CJSC and "CNPC International in Kazakhstan" LLP. Later, based on the Presidential Decree of the Republic of Kazakhstan dated 20 February 2002 "On measures of further ensuring of state interests in oil and gas sector of economy", AO "National Company "Transport of Oil and Gas" merged into KMG. In July 2004 KMG transferred to the Company its 51% stake in the joint venture. From November 2005 CNPC Exploration and Development Company Ltd., a subsidiary entity of the CNPC group, became the shareholder of MunaiTas from the Chinese side with the stake of 49%. The Foundation Agreement dated 7 December 2001 and the charter of MunaiTas (the "**MunaiTas Foundation Documents**") provide for, amongst other things, the rights and responsibilities of the Company and CNPC Exploration and Development Company Ltd., the authority of the governing bodies of MunaiTas and rules for the transfer of its shares, confidentiality provisions, charter capital, distribution of the net income and dividend payment.

MunaiTas is a legal entity established in accordance with the laws of the Republic of Kazakhstan in the form of joint stock company, which conducts its activities in accordance with applicable legislation. In accordance with the MunaiTas charter, the joint venture was established for an unlimited term for the purposes of design, construction and operation of oil pipelines and transportation of oil, as well as for the conduct of other kinds of activity, relating to the transportation of oil through trunk oil pipelines, including scientific activity and implementation of new technologies.

The corporate bodies of MunaiTas are the general shareholders meeting (the highest body), the board of directors (management body) and the general director (executive body). The competence of the general shareholders meeting of MunaiTas includes, amongst other things, approving any changes to the charter of MunaiTas and changes to its charter capital, the election of the members of the board of directors and the audit committee, approval of the annual financial reports, annual budget and distribution of net profit. In accordance with the MunaiTas charter all decisions save for the election and dismissal of the members of the board of directors are taken by a majority of 75%, which currently means that all decisions of the meeting are taken unanimously by the Company and CNPC Exploration and Development Company Ltd. The MunaiTas Foundation Documents do not contain specific dead-lock provisions, which means that if the Company and CNPC Exploration and Development Company Ltd. cannot agree on a certain matter, MunaiTas' operations and prospects may be adversely affected. See "*Risk Factors – Risks Related to the Group's Business – The Company is a participant in two joint ventures, over which it has a limited control*".

The board of directors and the general director of MunaiTas are responsible for the day-to-day management of the joint venture. In accordance with the MunaiTas Foundation Documents, the board of directors of the company must consist of no fewer than three members, one of which has to be an independent director. Members of the board of directors are elected by the shareholders through cumulative voting for the term, stipulated by the general meeting of shareholders, and amongst other things approve annual operational plans, procurement plans, and transactions exceeding certain thresholds, as well as making other decisions in the course of MunaiTas's day-to-day business activities. The general director is elected by the board of directors for a term of three years and represents MunaiTas in relations with third parties, hires and dismisses the joint venture's employees and makes decisions on matters related to MunaiTas's regular business activities.

The net profit of MunaiTas at the end of the year is distributed to the shareholders in accordance with the decision of the general shareholders meeting. In case any of the shareholders wishes to exit the joint venture by way of sale / transfer of its shares, the MunaiTas Foundation Documents provide for pre-emptive rights of the existing shareholders over such shares.

Insurance

As at 30 June 2012, the Company participates in various mandatory and voluntary insurance programmes. In particular, in accordance with the requirements of the laws of the Republic of Kazakhstan, the Company maintains the following types of mandatory insurance: insurance for employee accidents, insurance of civil liability of the Company as a vehicle owner, insurance of civil liability of the Company as an owner of objects which are associated with the danger of causing harm to third parties and environmental insurance. See "*Regulation of Transportation of Oil and Oil Products in the Republic of Kazakhstan – Insurance*". The voluntary insurance of the Company includes property damage insurance, vehicles insurance and employees' health insurance. As at the date of this Investment Memorandum, the Company has no coverage for business interruption (which the Company intends to acquire in 2013) and does not currently maintain any key-person life insurance.

The Company generally enters into insurance contracts with its insurers on an annual basis. As at the date of this Investment Memorandum, the Company's mandatory and voluntary insurance providers included Kazakhinstrakh JSC, an insurance company providing mandatory civil liability insurance and voluntary insurance coverage to the Company, Halyk-Life JSC, an insurance company providing mandatory employees' casualty insurance coverage, and Eurasia Insurance Company JSC, an insurance company providing mandatory environmental insurance coverage. The Company's current maximum insurance coverage under its mandatory environmental insurance is KZT 229,756 thousand.

The Company believes that its relations with the insurers are generally positive and its insurance coverage satisfies its current operational needs. In the last three years the Company was not involved in any major disputes or proceedings with its insurers. See "*Risk Factors – Risks Related to the Group's Business – The Company's insurance may be inadequate*".

Information Technology

One of the Company's priorities is the automation and management of technological processes, as well as the modernisation and development of information technologies and business and technological communications. The Company seeks to ensure the reliability, safety, high quality and operational effectiveness of its information technologies and business and technological communications. The main goal of the Company's strategy in the sphere of information technology and telecommunications is unification, centralisation and modernisation of technology, increase of its effectiveness and reduction of operational costs.

As part of the ISO 27001 standard adopted by the Company, the Company has a stable IT security system and a plan for post-default recovery. System redundancy and IT system security are analysed on a regular basis and corrective and preventive actions are performed.

The Company's modern telecommunications network was built using advanced technologies and the Company's own fiber-optic communication lines alongside all trunk oil pipelines, primarily to provide for the safe operation and management of pipeline facilities, an infrastructure for the introduction of different applications (SCADA, SAP, electronic document management, videoconferencing) and for the security of business and technological communications by means of centralised and continuous monitoring of the network.

Currently the Company's main information systems are SAP, SCADA, a corporate geographic information system, a system of automatic control and management of technical condition and repairs, an automated system of control and accounting of electric energy, an electronic document management system, an electronic archival system and other office software.

The SAP system for the management of resources was implemented by the Company in 2000. The SAP system ensures receipt of live data on the production and financial activity of the Company, continuous control of the main business processes, optimisation of inventory reserves by means of unified classification of materials and transparency of warehouse balance and reduction of human error by means of automation of maintenance operations.

The SCADA system enhances reliability and minimises the risk of breakdowns in the operation of the overall oil pipeline network, ensures the continual control over the condition and management of pipeline technological equipment, reduces the cost of oil deliveries and improves the efficiency of the Company's operations generally. SCADA's information security is ensured by the customer and network resources management systems, automatic updating of operating systems, anti-virus software, and complete separation of operational and office information space networks. The SCADA system also integrates the linear telecontrol system and the tank farm level measurement system, receives data from the Company's oil metering stations and from the oil metering stations of oil suppliers and also integrates VSD, pressure regulators and other existing local systems.

Amongst other things, the Company has also in place the corporate geological information system ("**CGIS**") and an automated system of control and management of technical condition and repair ("**ACS**"). The CGIS permits the receipt of joint data on the technological processes of oil, water, pumping, and the visualisation of these axis-tied data on a digital map. ACS provides for analysis and complicated data calculations, connected with evaluation of technical condition and repair works planning on the linear part of the pipeline. In 2002, the Company implemented a system of electronic document flow ("**SEDF**"), which reduces the amount of time spent on approval and search for working documents, orders and instructions, and on registration of in-and-out mail.

In December 2011, in accordance with the Industrial Development Programme of the Republic of Kazakhstan for the period 2010-2014, the Company introduced a central modernised dispatcher operating system in its Eastern Branch which currently enables it to remotely monitor and manage five pipelines of the Company's Eastern Branch with a total length of 4,299 km from the central dispatcher operating system based in the city of Pavlodar.

Employees

As at 30 June 2012, the Group employed 9,343 people (excluding the employees of KCP and MunaiTas). The following table sets forth the number of the Group's employees (excluding employees of KCP and MunaiTas) as at 31 December 2009, 2010 and 2011 and as at 30 June 2012, respectively:

	As at 30 June	**As at 31 December**		
	2012	**2011**	**2010**	**2009**
Number of operating personnel of KTO	7,305	7,277	7,269	7,082
Number of office and management personnel of KTO	449	471	477	473
Personnel of the BIHL group	1,589	1,798	1,839	1,845
Total	**9,343**	**9,546**	**9,585**	**9,400**

KCP and MunaiTas in aggregate employed 294, 315, 329 and 345 people as at 31 December 2009, 2010 and 2011 and as at 30 June 2012, respectively.

In determining its salary policy, the Company continuously monitors market salaries. As of 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012, the Group's payroll expenses (excluding KCP and MunaiTas) amounted to KZT 24,354,377 thousand, KZT 27,646,502 thousand, KZT 31,811,808 thousand and KZT 15,561,566 thousand, respectively.

On 10 March 2010 the Board of Directors of the Company approved the personnel policy of the Company for the period 2010-2014. The purpose of the personnel policy is to effectively manage the Company's human resources, consolidate and develop its human capital, and increase the Company's value by securing a competitive advantage in terms of human capital. The primary strategic goals of the Company in the area of personnel management are the improvement of its organisational structure, selection, placement, training and development of its personnel, formation of a personnel reserve, motivation of employees and establishment of a strong corporate culture. The Company's personnel policy is aimed at preserving the number of the Group's employees at its current level.

In July 2010, the Company approved a procedure for the recruitment and competitive selection of candidates to fulfil vacant positions. It also introduced the personnel pool programme which is intended to retain the talented employees. A unified database of internal candidates was created which now constitutes the primary source to search specialists, including for appointment to managerial positions within the Company. The Company created a personnel pool of 50 prospective employees through a selection process before their preparation for managerial positions.

The Company considers its relationship with its employees to be generally good. There is trade union representation in the Company, and all social benefits are provided for in the collective labour agreements concluded between the Company and the employees of the Western Branch, the Eastern Branch, the Company's central administrative office, RTC and Computer Centre of Collective Use in April-May 2011 for the period until 31 December 2013. The social allowances and benefits are the same for all employees irrespective of the region of residence of the employee. The social allowances and benefits are also provided for the retired employees of the Company.

The Company has also developed a strategic social support system for its employees, which includes such benefits as a special system of providing financial aid and other types of social benefits to employees, as well as a special health care system, including financing activities aimed at the protection of employees' health and implementation of multilevel corporate programmes of voluntary medical insurance for different categories of personnel.

The Company intends to implement an incentive programme using various financial and non-financial incentives in order to increase the employees' performance and strengthen their loyalty. The incentive programme will include, amongst other things, introduction of a performance-based bonus programme, career development and advanced training opportunities.

The Company prioritises professional training and development. The existing system of personnel training is based on offering opportunities and support in professional growth to each employee of the Company by way of regular training and development courses that enable employees to acquire and develop necessary skills and expertise. The Company treats the staff training expenses as long-term investments into the development of human resources. During 2011, the Company conducted 285 training sessions attended by 7,508 employees, including 4,649 members of operating staff and 2,859 members of administrative and managerial staff.

Legal Proceedings

In the ordinary course of its business the Company is a party to various legal proceedings. There are no and have not been any material litigation or arbitration proceedings against the Company or any of its assets which may have or have had during the 12 months prior to the date of this Investment Memorandum a material adverse effect on the financial position of the Company.

MANAGEMENT AND CORPORATE GOVERNANCE

Governing Bodies of the Company

As at the date of this Investment Memorandum the Company's governing bodies include the general shareholders' meeting of the Company ("**General Shareholders' Meeting**"), board of directors of the Company (the "**Board of Directors**"), the management board of the Company (the "**Management Board"**) and the Internal Audit Department.

General Shareholders Meeting

The powers of the General Shareholders Meeting are set forth in the Law of the Republic of Kazakhstan dated 13 May 2003 "On Joint Stock Companies" (the "**JSC Law**") and in the Company's charter. See "*Description of Charter Capital and Certain Requirements of Legislation of the Republic of Kazakhstan – Summary of the Company's Charter – General Shareholders' Meeting*".

The address of the Board of Directors and Management Board is JSC KazTransOil, Block "B", 19 Kabanbai batyra avenue, Astana, Republic of Kazakhstan, 010000.

Board of Directors

According to the JSC Law and the Company's charter, the Board of Directors is responsible for the general management of the Company's business, including:

- defining the Company's priorities,
- approving its development strategy,
- electing, dismissing the members of the Management Board and approving their remuneration,
- establishing committees of the Board of Directors,
- approving the acquisition or sale of 10% or more of the shares (participation interests) of other legal entities by the Company,
- approving major transactions and related party transactions, and
- addressing other matters not within the exclusive competence of the General Shareholders Meeting.

Matters that are within the exclusive competence of the Board of Directors may not be delegated to the Management Board. See "*Description of Charter Capital and Certain Requirements of Legislation of the Republic of Kazakhstan – Summary of the Company's Charter – Board of Directors*".

After the Offering the quantitative composition of the Board of Directors shall be determined by the General Shareholders Meeting. As at the date of this Investment Memorandum, the Board of Directors consists of six members, two of whom are independent directors. According to the Company's charter and JSC Law the Board of Directors must include at least three individuals and at least 30% must qualify as independent directors. A member of the Board of Directors is elected from:

- shareholders who are individuals;
- individuals nominated (recommended) for election to the Board of Directors as the shareholders' representatives;

- individuals who are not shareholders of the Company and not nominated (not recommended) as the shareholder's representatives.

Only a person satisfying certain independence criteria provided in the JSC Law can be an independent director. See "— *Corporate Governance – Independent Directors*". The term of incumbency of the Board of Directors is determined by the General Shareholders Meeting and expires when the new Board of Directors is elected. Currently the general term for the Board of Directors is three years, expiring in 2014. Members of the Board of Directors are elected by cumulative voting of the shareholders in accordance with the Company's charter. Prior to the Offering, the chairman of the Board of Directors was appointed by KMG. KMG will continue to have the right to nominate the chairman of the Board of Directors after the Offering.

Given that the Company aims to replace the members of the Board of Directors on a regular basis, under the Company's charter election of any person to the Board of Directors for a term exceeding six consecutive years is subject to special consideration. According to the Company's charter, a person may be re-elected to the Board of Directors upon the expiration of his or her term, but no person may serve on the Board of Directors for more than nine consecutive years (in exceptional circumstances election term exceeding nine years is allowed, and in such case the re-election of such person to the Board of Directors should take place annually). Pursuant to the Company's charter, the members of the Management Board, except for the chairman of the Management Board, cannot be elected to the Board of Directors. The general director (chairman of the Management Board) cannot be the Chairman of the Board of Directors.

As of the date of this Investment Memorandum, the members of the Board of Directors are as follows.

Name	**Position**	**Year of Birth**	**Appointment date***
Nurtas Shmanov	Chairman, representative of KMG	1956	8 September 2011
Arman Darbayev	Member of the Board of Directors, representative of KMG	1969	8 September 2011
Ardak Kassymbek	Member of the Board of Directors, representative of KMG	1977	19 October 2012
Daniel Mihalik	Independent Director	1953	8 September 2011
Moustafa Habib	Independent Director	1944	8 September 2011
Kairgeldy Kabyldin	Member of the Board of Directors, General Director (chairman of the Management Board)	1953	12 October 2011

* The most recent appointment date is specified.

Nurtas Shmanov. Mr. Shmanov graduated from the Ufa Oil Institute with specialisation in "Designing and Exploitation of Oil and Gas Pipelines, Gas Storages and Petroleum Installations", and later from the Institute of Market under the Kazakh State Academy with specialisation in "Finance and Credit" and from the University of Massachusetts (Boston, United States). For over 30 years he has worked in the pipeline transportation industry in the Republic of Kazakhstan. He has held various managerial positions in Caspian Pipeline Consortium – Russia, Chevron Oil & Gas and Chevron Overseas Petroleum Inc. From 2007 to 2008 he was the General Director (chairman of the Management Board) of the Company. Currently he is the deputy chairman of the Management Board for transport infrastructure of KMG. He also serves as the chairman of the board of directors of AO "NMSK "KazMorTransFlot", AO "KazTransGaz", member of the board of directors of CJSC "Caspian Pipeline Consortium – R", all of which are affiliated companies of KMG. Mr. Shmanov has been the Chairman of the Company's Board of Directors and representative of KMG since 16 September 2009. The date of his election for the current term is 8 September 2011.

Arman Darbayev. Mr. Darbayev graduated from the State Academy of Management after S. Ordzhonikidze (Moscow, Russian Federation) with specialisation in "Organisation of management in construction". He has over 10 years of experience the fields of project management and oil transportation. From 1999 to 2002, he worked at the Ministry of Transport and Communications of the Republic of Kazakhstan and coordinated a number of major investment projects. From 2002 to 2004 he held various positions with the Company, after which he was appointed deputy director of the oil & gas pipeline transportation projects department, and then executive director of transportation at KMG. At present, Mr. Darbayev is a director of the oil & gas pipeline transportation projects department of KMG and a member of the board of directors of AO "NMSK "KazMorTransFlot", an affiliate of KMG. Mr. Darbayev has been a member of the Company's Board of Directors and representative of KMG since 16 September 2009. The date of his election for the current term is 8 September 2011.

Ardak Kassymbek. Mr. Kassymbek holds bachelor's and master's degrees in Economics and a master's degree in Finance. He graduated from Al-Farabi Kazakh National University and Business School of City University, London. He has over 14 years of experience in Finance Management. From 1998 to 2000, Mr. Kassymbek worked as a senior banker in structured finance of Halyk Bank Kazakhstan. From 2000 to 2006, he held senior positions in various departments of KMG and its subsidiaries. From 2007 to 2009, he worked as Executive Director of Economy and Finance Department in KMG. From 2009 to 2012, Mr. Kassymbek held a position of General Manager of Corporate Development and Asset Management Department of KMG. At present, Mr. Kassymbek is a Director of Corporate Finance and Asset Management Department of KMG. The date of his election for the current term is 19 October 2012.

Daniel Mihalik. Mr. Mihalik holds a master's degrees in petrochemical engineering and business administration, as well as a doctoral degree in law. He graduated from the Universities of Toledo (Ohio, United States), Michigan, and Houston (Texas, United States). He has over 30 years of experience in the oil, gas and chemical industries and deep knowledge in technical, legal, and commercial areas, as well as work experience in the United States, Central Asia, Europe and the Middle East. He worked as chief engineer-researcher in Getty and later Texaco Research & Engineering, manager in Gaviota Terminal Co., chief regional vice-president of Texaco Pipeline International and consultant in Kazakhstan North Caspian Partnership. Additionally he is general counsel at the Association of Oil Pipelines in Washington, D.C. Mr. Mihalik has been an independent director of the Board of Directors of the Company since 19 August 2008. The date of his election for the current term is 8 September 2011.

Moustafa Habib. Mr. Habib has a bachelor degree in Natural Sciences, and master degree in Physics. He also graduated High technical school of Paris in 1970 (with a diploma of engineer-chemist) and High national school of electronics and electro mechanics in 1967 in Caen, France (with a diploma of engineer-electro technician). He has extensive work experience in the United States, Central Asia, Europe, Africa and Middle East. He has worked in such companies as Shell and Chevron coordinating marketing and oil and by-products transportation. He participated in the construction of a demercaptanization plant at Tengiz, worked as the general manager for marketing and development of alternative oil and gas transportation routes at TengizChevroil, as general manager at Chevron Overseas Petroleum Inc. in London and as the vice president of Chevron International. Mr. Habib has been an independent director of the Board of Directors since 24 November 2008. The date of his election for the current term is 8 September 2011.

Kairgeldy Kabyldin. Mr. Kabyldin graduated from the Kazakh Polytechnic Institute after V.I. Lenin with specialisation in electronic data processing machines and qualified as "engineer electrician" in 1975. In 2008 Mr. Kabyldin received a degree of candidate of sciences in technical sciences from the Ministry of Education of the Republic of Kazakhstan. He has over 34 years of experience in the oil transportation industry. He started his professional career in 1977 as an engineer-adjuster at Pavlodarsky SMNU p/o "Kazspetsautomatica" of the USSR Ministry of Instrument-Making, Automation Facilities and Control Systems. He held position of the head of department of production infrastructure and head of department of pipeline transportation in the Ministry of Energy and Gas Industry of the Republic of Kazakhstan. Starting from 2002 he worked as a managing director for transport infrastructure and service projects, and then as a vice-president, of KMG. In 2007 he was appointed as a deputy chairman of the management board of AO "Kazakhstan Holding on Management of State Assets "Samruk". From 2008 to October 2011 he served as the chairman of the management board of KMG. Mr. Kabyldin was appointed as a general director (chairman of the Management Board) of the Company on 10 October 2011 (took office on 12 October 2011) and was elected as a member of the Board of Directors of the Company on 12 October 2011.

Management Board

The Management Board is the collegial executive body and is responsible for the day-to-day management of the Company. The Management Board is led by the general director (chairman of the Management Board). The Management Board has the authority to decide on any matters of the Company that do not fall within the competence of other bodies and officials pursuant to the legislative acts of the Republic of Kazakhstan and the Company's charter.

The composition of the Management Board and the term of office of the Management Board members are determined by the Board of Directors. According to the Company's charter, the Management Board shall be comprised of fewer than five individuals. The Management Board members may be re-elected an unlimited number of times.

The Management Board meets regularly, usually at least once a month. Most Management Board decisions are made by a simple majority vote of the members of the Management Board present at the meeting as well as those who are absent from the meeting but have submitted written voting instructions on the agenda. Decisions of the Management Board in connection with related party transactions must be adopted by a vote of not less than three-quarters of the total number of the elected members of the Management Board. Only at the initiative of the general director (chairman of the Management Board) in certain exceptional cases, the Management Board may adopt resolutions by absentee voting.

As of the date of the Investment Memorandum, the members of the Management Board are as follows.

Name	Position	Year of Birth	Appointment Date*
Kairgeldy Kabyldin	Chairman of the Management Board, General Director	1953	12 October 2011**
Sisengali Utegaliyev	Member of the Management Board, First Deputy General Director for Production	1950	23 May 2012
Aziz Ileuov	Member of the Management Board, Deputy General Director	1970	23 May 2012

	for Economics and Finance		
Bolat Otarov	Member of the Management Board, Deputy General Director for Transportation	1966	23 May 2012
Bulat Zakirov	Member of the Management Board, Deputy General Director for Development	1976	23 May 2012
Ruslan Mestoev	Member of the Management Board, Deputy General Director for Business Support	1973	23 May 2012
Zhaydarman Isakov	Member of the Management Board, Head of the Legal Department	1965	23 May 2012

* The most recent appointment date is indicated.

** Mr. Kabyldin was appointed as the general director (Chairman of the Management Board) on 10 October 2011 and took the office on 12 October 2011.

Kairgeldy Kabyldin. The general director (chairman of the Management Board). See - "*Board of Directors*".

Sisengali Utegaliyev. Mr. Utegaliyev graduated from the Tumen Industrial Institute in 1972 with specialisation in "Geology and Exploration of Oil and Gas Fields" and qualification as "mountain engineer-geologist". He has over 40 years of experience in the oil and gas industry in the Republic of Kazakhstan and has served as the head of the development department in the Ministry of Oil and Gas Industry of the Republic of Kazakhstan from 1995 to 1997 and held various positions from chief specialist of the technical policy department to the head of the project development department within NC "Kazakhoil" from 1997 to 2002 and head of exploration and development department and head of oil and gas development department within KMG from 2002 to 2004. Mr. Utegaliev joined the Company in 2 March 2012, when he was appointed to the position of deputy general director. He has been a member of the Management Board since 16 March 2012 and was re-elected due to expiration of the incumbency period of the Management Board on 23 May 2012.

Aziz Ileuov. Mr. Ileuov graduated from the Belarus State University in 1992 with a qualification as "economist, lecturer of political economy and social sciences". He began his career in 1992 and held the position of deputy chairman, serving as the chairman of the External Borrowing Committee of the Ministry of Finance of the Republic of Kazakhstan, as well as a number of positions in CJSC "Almaty Power Consolidated", CJSC "National Company" Oil and Gas Transport", CJSC "Intergas Central Asia", CJSC "KazTransGas", MunaiTas, KKT, AO "NK "Social-Entrepreneurial Corporation "Zhetisu", "KazMunaiGaz" – processing and marketing and JSC "KazTransGas". Mr. Ileuov has been with the Company since 14 March 2012, when he was appointed as the managing director for economics and finance. He has been a member of the Management Board since 18 April 2012 and was re-elected due to expiration of the incumbency period of the Management Board on 23 May 2012.

Bolat Otarov. In 1988, Mr. Otarov graduated from the Kazakh Polytechnic Institute after V.I. Lenin with specialisation in "Technology of machine-building, metal-cutting machines and instruments" and with a qualification of "engineering mechanic". He has been working in the oil and gas industry since 1988. In particular, he worked at the oil and gas production departments of "Karazhanbastermneft", in "Komsomolskneft", "KalamkasMunaiGas" and "Yuzhnefteprovod". In February 1998, he was appointed as deputy director of the Western Branch of the Company and then worked as the director and executive director of the transportation department and deputy general director of the Company responsible for transportation. On 7 May 2007 Mr. Otarov was appointed as the Deputy General

Director for Transportation of the Company. From 15 June 2009 he was appointed as the deputy general director of the Company responsible for transportation. On 20 February 2008 Mr. Otarov was elected as the member of the Board of Directors and was re-elected due to expiration of the incumbency period of the Management Board on 23 May 2012.

Bulat Zakirov. Mr. Zakirov graduated from the Kazakh State Academy of Management in 1997 with specialisation "International Economic Relations" and qualification as "economist on international matters". From 1997 to 1998 he studied in the University of Dundee (UK) in "Economy of Oil and Gas" and received a degree of master of sciences in energy fields. He started his professional career in 1999 with the Company as a specialist in the strategic planning department. From 1999 to 2001 he held the positions of chief specialist, project coordinator, manager of project management department of the Company. Between 2001 and 2006 he held the positions of chief manager, deputy director and director of transport logistics department of the Company. From April 2006 to January 2009 he held the position of deputy general director of the Company for development. During 2010-2011 he was the general director of LLP "KMG-Transkaspi", an affiliate of KMG. Mr. Zakirov re-joined the Company in January 2012, when he was appointed as the adviser to the general director of the Company. He has been a member of the Management Board since 16 March 2012 and was re-elected due to expiration of the incumbency period of the Management Board on 23 May 2012.

Ruslan Mestoev. Mr. Mestoev graduated from the Almaty State University after Abai in 2002 with specialisation in information technology and computerisation management. He held responsible positions with Glencore International AG, Vneshinvest Corporation, CJSC Non-state Ular Umit Pension Fund, was counsel to Atyrau oblast Akim, headed the Atyrau branch of Halyk Bank Kazakhstan, was the head of the department of transportation services market and auto-electro transport development of the Ministry of Transport and Communications of the Republic of Kazakhstan, worked in JSC NC Temir Zholy, JSC Transport of Oil and Gas, North Caspian Operation Company and Shell Development Kashagan (the Netherlands). Mr. Mestoev also worked in the Company as the head of the Company's representative office in Moscow between 2006 - 2007. He re-joined the Company on 4 November 2011 as the managing director of the Company responsible for business support. He has been a member of the Management Board since 9 December 2011 and was re-elected due to expiration of the incumbency period of the Management Board on 23 May 2012.

Zhaydarman Isakov. Mr. Isakov graduated from the Kazakh State University after S.M. Kirov in 1989 with specialisation "Jurisprudence" and qualification as a lawyer. In 2003 he graduated from the Russian Governmental Academy of National Economy with the specialisation "lawyer in oil and gas sphere". He worked with various Kazakhstan law firms, companies and banks and also held positions with the legal department of the Ministry of Finance of the Republic of Kazakhstan. Mr. Isakov has been working in the oil and gas industry since 2000 in such companies as CJSC "KazTransGas", CJSC "NC Oil and Gas Transportation", KMG and the Company, where he held various positions, including deputy head (CJSC "KazTransGas") and head of the legal department of the Company. Mr. Isakov has been a director of the Company's legal department since 1 October 2002. He has been a member of the Management Board since 12 May 2003 and was re-elected to the Management Board on 23 May 2012.

General Director (Chairman of the Management Board)

The general director serves as the chairman of the Management Board and exercises powers in accordance with the legislation of the Republic of Kazakhstan, the Company's charter, and other internal policies of the Company. As at the date of this Investment Memorandum the General Director (chairman of the Management Board) was appointed by the KMG as the Company's sole shareholder. Early termination of the powers of the General Director (chairman of the Management Board) is also determined by KMG. After the Offering, the general director (chairman of the Management Board) will be appointed and dismissed by the Board of Directors. The current general director is Mr. Kairgeldy Kabyldin, who has held this position since 10 October 2011. See "— *Board of Directors*" for the biography of Mr. Kairgeldy Kabyldin.

The general director (chairman of the Management Board) manages the Company's daily operations, acts on behalf of the Company in relations with third parties, organises the implementation of decisions of the General Shareholders Meeting, the Board of Directors and the Management Board, hires and dismisses employees of the Company, enters into transactions for the acquisition or disposal of property with a value of less than 2% of the total value of the Company's assets, takes decisions on increases in the Company's obligations up to 5% of the Company's own capital value and undertakes other duties that are not within the exclusive competence of the General Shareholders Meeting, the Board of Directors and the Management Board.

Key Employees

As at the date of this Investment Memorandum, in addition to the Board of Directors and the Management Board, the Company employed the following key employees.

Name	Position	Year of Birth	Appointment Date
Almas Ungarsynov	Head of Central Office	1976	9 July 2012
Ferdinat Mamonov	Director of Western Branch	1947	23 February 2009
Zhenisbek Lukpanov	Director of Eastern Branch	1967	29 June 2007
Askar Kaipov	Director of RTC Branch	1963	14 June 2010
Timur Aldyyarov	Director of STC Branch	1952	1 February 2005

Almas Ungarsynov. Mr. Ungarsynov graduated from the Kazakh State Academy of Management in 1998 with a degree in "finances and credit", qualification "economist" and from the Aktau State University after Sh. Esenov in 2005 with a degree in "development of oil and gas fields" and a qualification as "mountain engineer". Mr. Ungarsynov worked in the tax authorities as a lieutenant of tax police. From September 2000 through December 2004 he held management positions with National Oil and Gas Company "Kazakhoil" as a chief analyst, OJSC UzenMunaiGas as a vice-president, AREM as a department director for Mangistau oblast and JSC KazMunaiGas Exploration and Production as a head of staff, adviser of the general director. From February 2009 through July 2011 Mr. Ungarsynov held management positions with RGP GosNPTszem. He joined the Company on 9 July 2012 as the head of central office of the Company.

Ferdinat Mamonov. Mr. Mamonov graduated from the Gurievsk Polytechnic Colleges in 1967 with a qualification as technician-mathematician. In 1993 he received a candidate degree in technical sciences and a qualification as engineer-mechanic from the Moscow State Open University. He commenced his professional career in 1967 as a section master of the auto-transport division of Kazakhneft. From 1970 to 1985 he worked with Balykshinsky district oil department in various positions including machinist of technological pumps, head of the emergency repair service, senior engineer, deputy head, head of the base, head of linear pumping control station (LPDS) and head of the oil pipeline exploitation part. From 1985 to 1999 he held management positions with Novorossiysk district oil department, in Kuybyshev United directorate of main oil pipelines in construction in West Kazakhstan, in production association "Yuzhnefteprovod" and in Atyrau branch of AOZT NNPK Kazakhnefteprovod. In December 1999 he was appointed as a director of West Branch of the Company, then from March 2006 to February 2009 he served as the first deputy general director. Since 23 February 2009 Mr. Mamonov has been the director of the Western Branch of the Company.

Zhenisbek Lukpanov. Mr. Lukpanov graduated from the Kazakh National Technical University in 1996 with a degree in "energy supply and electrification" and was qualified as an engineer-electrician. From February 1989 he worked in the pipeline system of the Company. He started as an electrician for installation and maintenance of electrical equipment of LPDS Karazhanbas. He worked at various positions: head of department at UEHZ Mangistauskoe oil pipeline department, engineer for electrochemical protection, chief power engineer of Uralsk oil pipeline department of the West Branch. From April 2000 to February 2006 he worked in the central office as the chief power engineer, manager, deputy department director of operation department. From February 2006 to May 2007 he worked as a head of Mangistauskoe oil pipeline department of the West Branch. Mr. Lukpanov was appointed as the director of the Eastern Branch on 29 June 2007.

Askar Kaipov. Mr. Kaipov graduated from the Moscow Institute of Physics and Technology in 1986 with a qualification of engineer physicist and specialisation in automatic control systems. Mr. Kaipov started his professional career in 1986 as a design engineer at the Alma-Ata industrial-technical enterprise and from 1989 to 1990 he worked as an engineer constructor in a scientific research centre for laser technologies and from 1991 to 1999 Mr. Kaipov worked in various service centres as a technical director and a director. In 1999 Mr. Kaipov joined the Company as a manager of the telecommunications department and from 1999 to 2007 he held various positions in the department of telecommunications. Mr. Kaipov was appointed director of RTC branch in 2007, whereupon in 2007 Mr. Kaipov worked at JSC “APC” as a head of telecommunication management department and as a director of telecommunications department until 2010. Mr. Kaipov was appointed as a director of RTS branch on 14 June 2010.

Timur Aldyyarov. Mr. Aldyyarov graduated from V.Y. Lenin Kazakh Polytechnic Institute in 1983 with a qualification of engineer mechanic and specialisation in technology of mechanical engineering, machine tools and instruments. He started his professional carrier as an assistant at the Kazakh Polytechnical Institute. He worked as an engineer at the General Directorate of Logistics “Glavsnab KazSSR” and at the ENEA KazSSR as a head engineer from 1976 to 1978. In the period from 1978 to 1987 Mr. Aldyyarov worked at various enterprises such as the Alma-Ata heavy engineering plant, “Kazavtotehnika”, Alma-Ata plant “Vtorchermet”, “Porshen”, specialised repair and construction management for physical culture and sports as a mechanic, engineer mechanic and worker. From 1987 to 1992 Mr. Aldyyarov worked at the Alma-Ata architecture and civil engineering institute where he held the positions of engineer, junior science assistant, chair assistant and senior lecturer. Mr. Aldyyarov also worked as senior lecturer at the Alma-Ata automobile and road institute from 1992 to 1993, held the position of director at the industrial and commercial firm “Zhangir” and at the “Tamos Education English Club” LLP from 1993 to 1997. In 1997 Mr. Aldyyarov began working in the oil and water pipelines department of the Company and held various responsible positions in different departments of the Company. Mr. Aldyyarov was appointed as director of STC branch on 1 February 2005.

Compensation

Board of Directors

The charter of the Company provides that members of the Board of Directors may be compensated for such services and may be reimbursed for expenses incurred in the course of their service on the Board of Directors. As of the date of this Investment Memorandum, the members of the Board of Directors that are representatives of KMG are not paid any compensation. As of the date of this Investment Memorandum, the Company pays compensation to independent directors only.

The Company compensates the members of its Board of Directors serving as independent directors in accordance with the Rules of Remuneration and Compensation of Expenses of Independent Directors of KMG’s Joint Stock Companies approved by KMG on 14 April 2011. The Company pays fixed and additional remuneration to independent directors. Fixed remuneration is paid by the Company in cash once every six months in relation to the period of work of the independent director in the respective half-year period of each calendar year. Additional remuneration is paid for participation in the meetings of the Board of Directors held by joint attendance. In addition each independent director is reimbursed for expenses incurred in connection with attending meetings of the Board of Directors held outside the place of permanent residence of such independent director. In the event of participation of the independent director in less than a half of all meetings of the Board of Directors held by joint attendance or by absentee voting in the reporting period, the fixed remuneration is not paid (except for the cases of absence of the independent director due to a valid excuse).

The amount of the annual fixed and additional compensation to the independent director is determined depending on the complexity and responsibility associated with the tasks of each director, as well as other criteria. In certain cases the size of the annual fixed remuneration can be decreased (due to the deterioration of financial and economic indices of the Company or non-achievement by an independent director of the goals and effectiveness indicators set for such independent director). The Company does not make other payments to the independent directors.

The Company has paid remuneration to the independent directors in the amount of KZT 5,119,221.88 in 2009, KZT 26,304,000 in 2010, KZT 42,631,629.02 in 2011 and KZT 12,086,802.58 in the first six months of 2012. The Company has paid reimbursement of expenses to the independent directors for transport, accommodation and daily allowance in the amount of KZT 7,536,969.45 in 2009, KZT 843,386.99 in 2010, KZT 1,701,264.32 in 2011 and KZT 2,260,403.35 in the first six months of 2012.

Management Board

The members of the Management Board are compensated in accordance with the Rules of Compensation of Employees of the Central Office of the Company, approved by the MOG on 23 April 2012.

Members of the Management Board receive salary payments on a monthly basis. To reward effectiveness and quality of work the Members of the Management Board can be paid discretionary annual bonuses upon the decision of the Board of Directors. The discretionary bonus is dependent on the financial result of the Company and performance of each member of the Management Board. The amount of the discretionary bonus cannot exceed three annual salary payments. In accordance with the policy of KMG members of the Management Board have not received bonuses during 2009 to 2012.

The Company has paid aggregate compensation to the members of the Management Board in the amount of KZT 141,350 thousand, KZT 141,440 thousand, KZT 136,427 thousand, and KZT 84,291 thousand in 2009, 2010, 2011 and the first six months of 2012, respectively.

Key Employees

Key employees receive salary payments on a monthly basis. According to the Regulation on Organisation and Payment of Labor of Employees of Branches and Representative Offices of the Company approved by the MOG on April 23, 2012, the salary payment of a branch director is comprised of a base amount and discretionary amount. Payment of the discretionary amount is dependent on the quality of work of a branch director and is not dependent on results of the Company's activity. If a branch director fails to perform his or her duties satisfactorily, the discretionary amount is not paid.

Loans to Directors and Senior Management

As of the date of this Investment Memorandum, there were no outstanding loans granted by the Company to the members of the Management Board and the members of the Board of Directors and no guarantees provided for their benefit.

Agreements with the Members of the Board of Directors and Employment Contracts with the Members of the Management Board

The Company enters into agreements with the independent directors and does not enter into agreements with non-independent members of the Board of Directors. As a matter of practice, election of the members of the Management Board occurs after employment contracts are executed with them as employees of the Company.

Interests of the Members of the Board of Directors and Members of the Management Board in the Share Capital

Prior to the Offering, none of the members of the Board of Director or members of the Management Board owned any Shares.

As of the date of this Investment Memorandum, Messrs. Shmanov, Darbayev and Kassymbek have been elected to the Board of Directors as representatives of KMG.

Family Relations between the Members of the Board of Directors, Members of the Management Board and Key Employees

There are no family relationships among any of the Company's directors, members of the Management Board and key employees.

Litigation Statement about the Members of the Board of Directors, Members of the Management Board and Key Employees

At the date of this Investment Memorandum, none of the Company's directors, members of the Management Board or key employees for at least the previous five years:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation;
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or
- has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Corporate Governance

Prior to the Offering, the Company has been a wholly owned subsidiary of KMG. As such, certain aspects of good corporate governance as they relate to public companies were not implemented. In connection with its preparation to be a public company, the Company has begun to implement certain measures to improve its corporate governance. The Company intends to implement further measures after the Offering, as described in more detail below. As of the date of this Investment Memorandum, the internal audit department and committees within the Board of Directors (the internal audit committee, nomination and remuneration committee, strategic planning committee and social matters committee) have not been established. The formation of the such committees within the Board of Directors is required under the JSC Law. If the Company did not form such corporate bodies after the Offering, it would violate the JSC Law requirements. See "*Risk Factors – Risks Related to the Group's Business – The Company has been and will continue to be controlled by KMG, whose interest may conflict with those of other shareholders*".

Independent Directors

According to the JSC Law, at least 30% of the Board of Directors must be independent directors. Currently there are two independent directors out of six in the Board of Directors. The number of the independent directors complies with the minimum required under the JSC Law. A director qualifies as an independent director if such person complies with the following independence criteria provided in the JSC Law: (i) such person is not and has never been an employee of the Company or its subsidiary within the last five years; (ii) such person has never received and does not receive any additional compensation from the Company (except for the compensation paid by the Company for serving in the Board of Directors), (iii) while holding a similar position in other companies he or she does not have significant relations with other members of the Board of Directors through participation in other companies or through holding positions in governing bodies of other organisations; (iv) such person is not a representative of the shareholder or state authorities; and (v) such person has not been a member of the Board of Directors for more than nine consecutive years.

Corporate Governance Code

The Corporate Governance Code (the "**Code**") was approved on 2 August 2012 by KMG as the sole shareholder of the Company. The Company views corporate governance as a means of improving its business efficiency, strengthening its reputation and reducing its cost of capital. The Code provides that the Board of Directors should determine (and report in the Company's annual report) whether a director is independent, name the reasons for designation of a director as independent, discuss the fulfilment by such director of the independence criteria according to the legislation of the Republic of Kazakhstan, and disclose the existence of relationships and circumstances that can have an effect on the designation of a director as independent.

The Code is a set of rules and recommendations for the Company to follow in the course of its activities to ensure high ethical standards in relations within the Company and with other market participants.

The purpose of the Code is to formulate and introduce in the Company's daily practice proper standards and traditions of corporate behaviour based on strict compliance with legislative requirements and ethical standards of business behaviour. The goal of implementing and complying with the Code is to create a positive image of the Company in the eyes of its shareholders, customers and employees, as well as to control and mitigate risks, maintain a sustainable financial results and successful operations in accordance with its charter.

The Code was developed on the basis of the JSC Law and the charter of the Company.

The Code was approved on 2 August 2012 by KMG as the sole shareholder of the Company. The Company views corporate governance as a means of improving its business efficiency, strengthening its reputation and reducing its cost of capital.

According to the Code, the fundamental principles of the Company's corporate governance are the principles of protection of shareholder rights and interests, efficient Company management by the Board of Directors and the Management Board, independent activities of the Company, transparency and objective disclosure of information regarding the Company's activities, legality and ethics, efficient dividend policies, efficient human resources policies, environmental protection, settlement of corporate disputes and conflicts of interest, and responsibility.

Investor Relations

To maintain good relations with its shareholders, the Company established the Investment Relations Department which will be a key Company contact with its shareholders.

Committees of the Board of Directors

Internal Audit Committee

In order to comply with the JSC Law, in preparation for the Offering the Company intends to form an Internal Audit Committee. According to its terms of reference adopted by the Board of Directors on 10 August 2012, the Internal Audit Committee will consist of the members of the Board of Directors and experts (without voting rights) who may be elected from among employees of the Company. The number of members of the Internal Audit Committee must be approved by the Board of Directors. No fewer than three members, including the chairman, of the Internal Audit Committee must be independent directors. The chairman of the Board of Directors cannot be a member of the Internal Audit Committee. The committee shall meet not less than once in a quarter.

The Internal Audit Committee's role will be to help the Board of Directors discharge its duties in relation to internal and external audits, risk management and internal controls. It will be responsible for, among other things, the control over the accuracy and completeness of financial reports and official statements released regarding the Company's financial results, including effectiveness of the risk management systems and internal control of the Company (including with respect to financial reporting), monitoring the independence of the Company's external auditors and monitoring compliance with the laws of the Republic of Kazakhstan.

Nomination and Remuneration Committee

Currently, the Board has a Nomination Committee and a Remuneration Committee, each of which was formed on 10 March 2010. Each committee is comprised of three members two of which are independent directors. The Nomination Committee is chaired by Mr. Mihalik, the member of the Board of Directors of the Company, and its other members are Mr. Habib and Mr. Kabyldin. The Remuneration Committee is chaired by Mr. Habib, the member of the Board of Directors of the Company, and its other members are Mr. Mihalik and Mr. Darbayev.

In order to comply with the requirements of the JSC Law, the Board intends to form a single Nomination and Remuneration Committee after the Offering. According to the terms of reference adopted by the Board of Directors on 10 September 2012, the number of the members of the Nomination and Remuneration Committee is approved by the Board of Directors. A majority of the members of the Nomination and Remuneration Committee are required to be independent directors. It shall be chaired by an independent director. It will have the following duties, amongst others: to help the Board of Director to appoint (elect), evaluate and compensate the members of the Board of Directors, members of the Management Board and corporate secretary; to ensure the Company has an effective human resources policy; to recommend the compensation to be paid to the members of the Management Board; to prepare the qualification requirements for the candidates for independent directors and members of the Management Board and other Company employees; to make recommendations to the Board of Directors for candidates for independent director and members of the Management Board; and to evaluate the performance of the Board of Directors, committees of the Board of Directors and Management Board. The terms of reference require the committee to meet at least two times each year.

Strategic Planning Committee

The Company intends to form the Strategic Planning Committee in order to improve the efficiency and quality of the Board of Directors through conducting preliminary reviews and making recommendations to the Board of Directors on the Company's development strategy, including the identification of strategic priorities. All proposals developed by the Committee will be of an advisory nature and referred for consideration by the Board of Directors.

According to the terms of reference adopted by the Board of Directors on 22 June 2012, the Strategic Planning Committee will make recommendations to the Board of Directors on matters such as strategy development, strategic goals, plans and programs, the conclusion of major transactions, participation in other legal entities, opening and closing branches, innovation, politics, asset management and restructuring non-core assets, investor relations and shareholders, policy of its own securities and the proposed reorganisation.

In addition, the Strategic Planning Committee will make recommendations to the Board of Directors for the preparation of the proposals to the General Meeting of Shareholders on the distribution of the

Company's dividends for the year and to prepare conclusions (recommendations) upon the request of the Board of Directors or on its own initiative on other matters within its competence.

The Strategic Planning Committee will be composed of members of the Board of Directors and the experts with special expertise to work in the Strategic Planning Committee, in an amount not less than four. Three members of the Strategic Planning Committee, including the chairman, should be independent directors. Experts may be elected from among employees of the Company and attend the meetings of the Strategic Planning Committee without voting rights.

Strategic Planning Committee meetings are to be held at least once every six months.

Social Matters Committee

The Company intends to form this committee after the Offering.

Control Environment

In preparation for becoming a public company, in mid-2012 the Company commenced a comprehensive review of the internal control environment and risk management functions, including such areas as inventory, financial reporting, procurement, asset management, business planning, fraud prevention and financial risk management. The Company has already taken steps to improve its control environment, such as the formation of an Audit Committee of the Board of Directors, the recently completed risk management review and the formation of an internal audit department as described below. Based on the outcome of this comprehensive review, the Company will make further improvements in this area after the completion of the Offering. For example, the Company intends to implement guidelines and processes in respect of conduct, business ethics and fraud risk after the Offering.

Risk Management

The Company established a formal risk management framework in December 2008. It has a formal risk management policy that was stipulated by KMG and approved by the Board of Directors in March 2011.

The Risk Management Committee was established on 6 April 2009. The Risk Committee is a consultative body within the Management Board and established for preliminary review of risk management matters. Decisions of the Risk Management Committee serve as recommendations for the Management Board. The role of the Risk Management Committee is to help the Management Board evaluate and analyse the monitoring results and effectiveness of the risk management system.

The Company also has a Department for Risk Management and Integrated Management System, established in 2010, which reports directly to the general director (chairman of the Management Board) and is responsible for identifying, assessing and overseeing the risks facing the Company. In 2010, the Department for Risk Management and Integrated Management System initiated a review of such risks. In April 2012, the risk management program for 2012-2014 was adopted by the Board of Directors.

Internal Audit Department

The Company has not had its own internal audit function but rather has relied on the internal audit department of KMG. In preparation for becoming a public company and in order to comply with the JSC Law, the Company plans to establish an Internal Audit Department. The Internal Audit Department will report directly to the Internal Audit Committee of the Board of Directors rather than reporting to the general director (chairman of the Management Board) or the Management Board. The head of the Internal Audit Department will be entitled to participate in the General Shareholders' Meetings on matters previously considered by the Internal Audit Department and to participate in the Board of Directors' meetings on matters concerning the Internal Audit Department.

The Internal Audit Department will be responsible for assessing the Company's compliance with the laws of the Republic of Kazakhstan, monitoring the rational and effective use of the Company's assets, reviewing corporate governance matters, providing recommendations to the Board of Directors on the effectiveness of internal controls and assessing the risk management system.

PRINCIPAL SHAREHOLDER

As of the date of this Investment Memorandum, 100% of the Company's placed Shares are owned by KMG, a subsidiary of Samruk-Kazyna. After the Offering, KMG will continue to directly (and Samruk-Kazyna, through its ownership of KMG, will continue to indirectly) own approximately 90% of the placed Shares. The table below sets forth certain information regarding the ownership of Shares of the Company before and immediately after the Offering (assuming all Offered Shares are sold in the Offering):

	As of 23 October 2012		**After the Offering**	
	Number of ordinary shares	**% of charter capital**	**Number of ordinary shares**	**% of charter capital**
JSC NC KazMunayGas	346,172,040	90	346,172,040	90
Unplaced shares	38,463,560	10		
Public float		–	38,463,559*	approximately 10**
Total	**384,635,600**	**100**	**384,635,600**	**100**

Notes:

* The number of Shares in the public float will constitute 38,463,559 if the Offered Shares are fully subscribed in the Offering.

** If the Offered Shares are fully subscribed in the Offering, the number of Shares in the public float will amount to 38,463,559 which will constitute 10% of the total amount of issued and outstanding Shares minus one Share. See "*Risk Factors – Risks Related to the Shares and the Offering – The Company may violate the free float requirements of the KASE, which could result in the transfer of the Offered Shares into the lower category of the KASE*".

KMG was organised as a closed joint stock company under the laws of the Republic of Kazakhstan on 20 February 2002. It is the national oil and gas company of Kazakhstan and is wholly owned by the State through Samruk-Kazyna. Samruk-Kazyna is the national managing holding company controlled by the Government. The business address of KMG is 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan, and its telephone number is +7 (7172) 976 000.

See "*Related Party Transactions*" and "*Risk Factors – Risks Related to the Group's Business – The Company has been and will continue to be controlled by KMG, whose interests may conflict with those of other shareholders*".

RELATED PARTY TRANSACTIONS

Below is a brief summary of the most significant related party transactions entered into by the Company and its affiliates in 2009, 2010, 2011 and the first six months of 2012. For further details of these transactions, see the Financial Statements and notes thereto included in this Investment Memorandum.

Overview

In the ordinary course of its business, the Company has engaged and continues to engage in related party transactions with companies affiliated with Samruk-Kazyna and KMG. After the Offering, KMG will continue to directly (and Samruk-Kazyna, through its ownership of KMG, will continue to indirectly) own 90% of the Shares and the commercial relationships between the Company and its related parties will continue. See "*Risk Factors – Risks Related to the Group's Business – The Company has been and will continue to be controlled by KMG, whose interests may conflict with those of other shareholders*".

The Company receives a substantial amount of its revenue from related party transactions, most of which involve the provision to related parties of regulated services such as oil transportation, water supply, operation and maintenance of oil pipelines. The Company conducts related party transactions on terms agreed between the parties that may not necessarily be at market rates, except for the regulated services which are provided based on tariffs applicable to the Company and its counterparties.

The JSC Law defines "interested party transactions" as transactions entered into by the Company and its affiliates. In addition, International Accounting Standard ("IAS") 24 sets out criteria for the definition of "related parties". The definition of "related party transactions" under IAS 24 is broader than the definition of "interested party transactions" set out in the JSC Law and includes a wider spectrum of entities (or persons) as related parties. For the purposes of this Investment Memorandum "related party transactions" include those qualifying as "interested party transactions" as provided in the JSC Law and those qualifying as "related party transactions" as provided in IAS 24.

The table below sets out certain related party transactions entered into in 2009, 2010, 2011 and the first six months of 2012 as reported in the Financial Statements of the Company for the relevant period.

	For the six months ended 30 June	For the years ended 31 December		
	2012	2011	2010	2009
	(in thousands of Tenge)			
Long-term trade account receivables from the related parties	214,644	202,705	–	–
Trade and other accounts receivable	3,025,534	2,028,469	1,349,501	959,890
Advances provided to related parties	274,230	233,277	278,273	255,609
Total financial guarantees issued on behalf of related parties	272,390	338,919	232,071	301,141
Trade and other accounts payable to related parties	2,822,133	4,449,143	4,694,786	4,153,320
Advances received from related parties	5,375,411	7,021,835	7,008,869	6,454,500

Significant Related Party Transactions

Significant related party transactions of the Company entered into between 1 January 2009 and 30 June 2012 and transactions anticipated in 2012 are set out below. The transactions between related parties that involve regulated services are not included in the descriptions below.

Sale of KTO-Service

In August 2012 the Company decided to increase the charter capital of its subsidiary KazTransOil-Service JSC by way of issuance of new shares and paid the amount of KZT 6,496,889 thousand for the new shares. KazTransOil-Service JSC provides medicine, health treatment, sports and tourism related services. On 21 September 2012 the Company sold 100% of the shares in KazTransOil-Service JSC to KMG at a price of KZT 11,647,889 thousand, which was determined to be the market value of the shares by an independent appraiser TOO Bureau for Privatisation and Investments. The sale was approved by resolutions of the Company's Management Board and Board of Directors and also was approved by AREM and the MOG. This subsidiary was sold by the Company as part of the Group's corporate reorganisation programme to dispose of non-core assets.

Transfer of TON-2

In 2010 Samruk-Kazyna transferred to the Company the Kazakhstan part of the TON-2 oil pipeline for trust management by the Company until 2011. Samruk-Kazyna then transferred TON-2 to KMG and KMG in turn transferred TON-2 to the Company with all facilities of infrastructure and land plots as consideration for the Company's shares it acquired on 22 June 2011 for KZT 1,701 million.

Operation and Maintenance Agreement with KCP

On 11 June 2012 the Company entered into an agreement with KCP for the operation and maintenance of Atasu-Alashankou and Kenkiyak-Kumkol oil pipelines by the Company. From 2009 to 2012 such agreements are concluded between the Company and KCP on an annual basis.

Agreements with MunaiTas

On 29 June 2004 the Company executed a guarantee agreement with EBRD to secure the obligations of its joint venture MunaiTas under the credit agreement with EBRD executed on 29 July 2012 until June 2014 for the purposes of refinancing a loan of JSC "Halyk Bank of Kazakhstan" ("**Halyk Bank**") for the total amount of USD 81,600 thousand. The finance guarantee on 31 December 2009 was KZT 301,141 thousand, on 31 December 2010 was KZT 232,071 thousand, on 31 December 2011 was KZT 338,919 thousand and on 30 June 2012 was KZT 272,390 thousand.

On 20 April 2012 the Company and MunaiTas entered into an agreement relating to the operation and maintenance of Kenkiyak-Atyrau oil pipeline by the Company for the amount of KZT 863,599 thousand. From 2009 to 2012 the Company and MunaiTas have entered into such agreements on an annual basis.

Financial Consultancy Agreement with JSC "Kazkommertz Securities"

On 30 November 2011 the Company JSC "Kazkommertz Securities" entered into a financial consultancy services agreement relating to the Offering. This agreement was entered into on market terms.

Agreement with Halyk Bank

On 5 January 2009 the Company and Halyk Bank entered into a bank deposit agreement. As of the date of execution of the agreement Halyk Bank was the Company's affiliate; therefore any transaction concluded among them was a related party transaction. From January 2012 Halyk Bank ceased to be an affiliate of the Company. As of 30 June 2012 the Company's deposit amount held in Halyk Bank was KZT 2,000,000 thousand with an interest of 3.5%. The account with Halyk Bank was closed after 30 June 2012.

Conflict of Interest between KTO and KMG

KMG is the sole shareholder of the Company as at the date of this Investment Memorandum, and certain of KMG's officials hold positions in the Company's Board of Directors. As members of the Board of Directors of the Company and members of the senior management of KMG and its affiliates, Messrs. Shmanov and Darbayev could encounter conflicts of interest with respect to board approvals of transactions between the Company and KMG and KMG affiliates. Related party transactions pose the risk of the Company entering into transactions on terms less favourable than could be obtained in arm's length transactions with unrelated parties. See "*Management and Corporate Governance*" and "*Risk Factors – Risks Related to the Group's Business – The Company has been and will continue to be controlled by KMG, whose interest may conflict with those of other shareholders*".

Transactions with the Members of the Board of Directors, Members of the Management Board and Key Employees

The Company did not enter into transactions with the members of the Management Board, members of the Board of Directors or key employees listed in "*Management and Corporate Governance*" from 1 January 2009 to 30 June 2012.

DESCRIPTION OF CHARTER CAPITAL AND CERTAIN REQUIREMENTS OF LEGISLATION OF THE REPUBLIC OF KAZAKHSTAN

The following describes the Company's charter capital, the material provisions of the Company's charter and certain requirements of the legislation of the Republic of Kazakhstan. This description does not purport to be complete and is qualified in its entirety by reference to the Company's charter and applicable laws and regulations of the Republic of Kazakhstan.

Charter Capital

As of the date of this Investment Memorandum, the authorised charter capital of the Company is KZT 34,617,204,000. The Company's charter capital comprises 346,172,040 fully paid ordinary shares. The total number of authorised ordinary shares of the Company as of the date of this Investment Memorandum is 384,635,600 Shares. The Company has no preference shares or convertible securities, exchangeable securities or other similar securities.

All shares of the Company are registered in the shareholders register of the Company, maintained by an independent third-party registrar. The registrar of the Company is JSC Fondovy Center, located at: 79A Zheltoksan Street, 050091, Almaty, Republic of Kazakhstan. An extract from the shareholders register evidences ownership of the Company's shares.

Summary of the Company's Charter

As part of its preparations to become a public company after the Offering, the Company adopted a new Charter on 19 October 2012. Below is a description of the principal provisions of the charter.

Rights of Holders of Shares

Holders of Shares of the Company have the right to vote in all general shareholders' meetings of the Company. Pursuant to the requirements of the JSC Law and the Company's charter, an ordinary share gives each shareholder owning such ordinary share rights equal to those of other holders of ordinary shares. Each fully paid Share except for those repurchased by the Company affords its owner the right to:

- participate in the management of the Company according to legislation of the Republic of Kazakhstan or the charter of the Company;
- receive dividends;
- receive information about the operations of the Company, including a review of the financial statements of the Company in the manner determined by the general shareholders' meeting or the charter of the Company;
- receive extracts from the registrar of the Company or the nominal holder, confirming its ownership of the Shares;
- challenge in court any decisions approved by the Company's corporate bodies;
- in the event of ownership individually or together with other shareholders of 5% or more of the voting shares of the Company, petition judicial authorities on its behalf under the circumstances provided in the legislation of the Republic of Kazakhstan, and request that management of the Company compensate the Company for damages caused and return to the Company any income received by management or its affiliates as the result of decisions made to enter into major transactions or interested party transactions;
- request the Company in writing to provide information about its activities and receive responses within 30 calendar days from the date of receipt by the Company of such request;
- obtain its share of the Company's assets in the event of liquidation of the Company;

- pre-emptive purchase of shares or other securities of the Company converted into its shares according to legislation of the Republic of Kazakhstan.

Unpaid and Bought-back Shares

According to the JSC Law, until a company's share is paid in full, it cannot be credited to the account of a new shareholder in the shareholders register. Instead, it is credited to the account of the company as authorised but unplaced shares. No dividends are distributed or payable on unplaced shares or shares that have been repurchased by a company.

Transactions with Shares

Transactions with shares are subject to registration in accordance with the legislation of the Republic of Kazakhstan. The right of ownership for the share arises as of the moment of registration of the transaction shareholders register at the Company's registrar.

Registration of a transaction with shares is made by the registrar on the basis of counter-orders of the participants in the transaction. The order for registration of a transaction with shares should be made in written form, executed by the shareholder or its representative and given to the registrar or nominal holder for execution. The order can be made and provided in electronic form with the use of information systems according to the legislation of the Republic of Kazakhstan on electronic document and electronic digital signature. The content of the order, terms and procedure of its registration by the registrar (nominal holder) are established by a legal act of the authorised state body and internal documents of the registrar (nominal holder). A transaction not reflected in the registrar's unified system of accounts is considered to be not registered.

An extract from the personal account of a shareholder in registrar's unified system of personal accounts, system of nominal holding, or system of central depositary may be used to confirm a shareholder's ownership rights to a share.

The registrar or nominal holder may refuse to register a transaction if the documents submitted do not conform to legislative requirements.

Alteration of Charter Capital

The Company may from time to time by a decision of its general shareholders meeting increase its authorised charter capital. The decision on the increase of the charter capital should be approved by the general shareholders' meeting in accordance with the procedure stipulated in the Company's charter.

Pre-emptive Rights

In the event of issuance by the Company of Shares or other securities convertible into Shares, and in the event of a sale by the Company of previously repurchased Shares, any shareholder of the Company has a pre-emptive right to purchase the Shares or other convertible securities.

The Company must, within 10 calendar days from the date of adoption of the decision on issuance or sale of previously repurchased Shares, offer to its shareholders, by means of a written notice or publication in the media, to acquire Shares or convertible securities on equal terms pro rata to the Shares already held by shareholders at the issuance or sale price established by the management body of the Company. Any shareholder within 30 calendar days from the notification of such offer by the Company, is entitled to file an application to acquire the Shares or convertible securities.

Share Buy-backs

Buy-backs at the Initiative of the Company

The Company, upon the consent of a shareholder, may buy back Shares from such shareholder for the purpose of their further sale or other purposes that do not contravene the legislation of the Republic of Kazakhstan.

The repurchase of outstanding Shares at the initiative of the Company is made in accordance with the methodology of determination of the purchase price which must be approved by KMG as the controlling shareholder of the Company. This methodology will not apply in the event of the Company's repurchase of Shares on the stock exchange by means of open trade. Shares bought back by the Company shall be credited to the account of the Company as repurchased Shares.

The Company is not permitted to acquire its Shares during the Offering.

Buy-backs at the Initiative of a Shareholder

According to the JSC Law, any shareholder is also entitled to request the Company to buy back the Shares held by such shareholder in the following circumstances:

- approval by the general shareholders' meeting of a decision on reorganisation of the Company, if the shareholder participated in the meeting at which the question on reorganisation was considered and voted against reorganisation;
- approval by the general shareholders' meeting of a decision on delisting of the Shares, if the shareholder did not participate in the meeting at which this question was considered, or participated in such meeting and voted against delisting;
- approval of a decision on delisting of the Shares by the stock exchange;
- disagreement with a decision to enter into a major transaction or interested party transaction;
- approval by the general shareholders' meeting of a decision to introduce amendments and additions into the Company's charter which would have the effect of limiting the rights attached to the Shares, if the shareholder did not participate in the general shareholders' meeting at which such decision was made or participated in the meeting and voted against such decision.

The buy-back by the Company of outstanding Shares at the request of a shareholder is made in accordance with the methodology of determination of the Share price in the event of their buy-back by the Company at the over-the-counter market. This methodology does not apply in the event of buy-back of Shares at the stock exchange by means of open trade.

A shareholder is entitled to request the buy-back of Shares by the Company by sending a written request within 30 days from the date of approval by the Company of a decision indicated above, or from the date of approval of a decision on delisting of the Company's shares by the relevant stock exchange.

General Shareholders' Meeting

The general shareholders' meeting is the highest corporate body of the Company. In accordance with the Company's charter and the JSC Law, after the Offering the exclusive competence of the general shareholders' meeting shall include, among others, the following matters:

- making amendments and additions to the Company's charter or approval of its restated versions;
- approval of the Company's corporate governance code and amendments and additions thereto;

- voluntary reorganisation and liquidation of the Company;
- approval of a decision on an increase of the authorised shares of the Company or a change of the type of the Company's unplaced authorised shares;
- approval of a decision on the issuance or sale of the Company's shares, including on the number of the Company's shares to be issued or sold out of the total number of authorised shares and approval of a decision on the manner and price or such issuance or sale (except for shares placed on an organised securities market) so as to implement a resolution of the Government of the Republic of Kazakhstan;
- determination of the number of members of the Board of Directors of the Company, election of its members, including the chairman of the Board of Directors, and early termination of their powers, determination of the amount and payment terms of remuneration and compensation to members of the Board of Directors, and approval of regulations of the Board of Directors;
- appointment of the auditor of the Company as well as determination of the amount to be paid for such auditor's services;
- approval of the Company's standalone annual financial statements and consolidated annual financial statements;
- approval of the procedure for the distribution of the Company's net income for the reporting fiscal year, approval of the payment of dividends on Shares and approval of the dividend amount per Share;
- approval of the methodology for determination of the share price in the event of a share buy-back by the Company on an unorganised market in accordance with the JSC Law; and
- other matters which are described by the JSC Law or the Company's charter as being within the exclusive competence of the general shareholders' meeting.

Voting Rights

According to the JSC Law, voting may be open or confidential, where each shareholder present in person or by proxy has one vote per fully paid Share. Company shareholders shall have the right to open a general shareholders' meeting and vote on its agenda items if, as of the time of completion of registration of meeting participants, shareholders holding in aggregate 50% or more of voting shares of the Company are registered in person or through their representatives.

Resolutions of the general shareholders' meeting shall be approved by a simple majority vote except for resolutions on specified matters that require a qualified majority of votes in order to be approved in the manner provided for in the Company's charter.

The general meeting of shareholders shall have the right to reverse any resolution of other corporate bodies of the Company on matters related to the internal operation of the Company, by a simple majority vote.

Annual general shareholders' meetings shall be convened by the Board of Directors. Extraordinary general shareholders' meetings may be convened by the Board of Directors or by a major shareholder of the Company. Shareholders must be notified of a forthcoming general shareholders' meeting no later than 30 calendar days prior to the scheduled date of the meeting. The general shareholders' meetings shall be held in the City of Astana, Republic of Kazakhstan.

Board of Directors

The Board of Directors is responsible for carrying out the overall management of the Company, save for deciding on matters that are described by the Company's charter or the JSC Law as being the exclusive competence of the general meeting of shareholders.

After the Offering, pursuant to the Company's charter, the exclusive competence of the Board of Directors shall include the following matters:

- determination of the priority spheres for the Company's operation and approval of the Company's development strategy;
- convocation of annual and extraordinary general shareholders' meetings;
- preliminary approval of amendments and additions to or restatements of the Company's charter and corporate governance code as well as amendments and additions thereto;
- deciding on the buy-back by the Company of outstanding Shares or other securities and their buy-back price;
- preliminary approval of the Company's standalone annual financial statements, consolidated annual financial statements and annual report of the Company, provision to the general shareholders' meeting of the Company of proposals on the procedure for the distribution of the Company's net income for the previous fiscal year and the amount of dividend per Share;
- deciding on the terms of issuance of the Company's debt securities and derivative securities and making a decision to issue such securities;
- determination of the number of members of the Company's Management Board, election of the General Director (Chairman of the Management Board) and members of the Management Board and early termination of their powers;
- determination of the salaries and remuneration terms and bonuses of the General Director (Chairman of the Management Board) and members of the Management Board of the Company, deciding on the imposition of disciplinary measures on such persons;
- establishment of committees of the Board of Directors, approval of their regulations and election of members of such committees;
- approval of documents governing the internal operations of the Company the list of which shall be approved by the Board of Directors, including an internal document specifying the terms of and procedure for the conduct of auctions and subscription to Company's securities;
- deciding on the establishment and termination of branch and representative offices of the Company and approval of their regulations;
- deciding on entering into major and interested transactions except for transactions approval of which is within the competence of the Management Board; and
- other matters referred described by the JSC Law or the Company's charter as being within the exclusive competence of the Board of Directors.

The Board of Directors may not approve resolutions (i) on matters that are described by the Company's charter as being within the exclusive competence of the Management Board of the Company or (ii) that are in conflict with resolutions of the general meeting of shareholders of the Company.

Only an individual may be a member of the Board of Directors. A member of the Board of Directors may not delegate the functions vested in such person under the JSC Law or the Company's charter to other persons. Members of the Board of Directors shall be elected from among:

- individual shareholders;
- persons nominated (recommended) for election to the Board of Directors as shareholders' representatives;
- individuals not being Company shareholders and not nominated (not recommended) for election to the Board of Directors as shareholders' representatives.

The Board of Directors shall consist of at least three members. At least 30% of the Board of Directors of the Company shall be independent directors. The quorum for a meeting of the Board of Directors shall be at least one-half of the membership in the Board of Directors and shall include members participating in the meeting by way of a video conference (interactive audio-visual communications), conference calls (simultaneous conference call conversation of the members), and with the use of other means of communication, and the votes of other members of the Board of Directors (provided that they had voted in writing and the results of such vote are available and may be taken into consideration). See "*Management and Corporate Governance*".

REGULATION OF TRANSPORTATION OF OIL AND OIL PRODUCTS IN THE REPUBLIC OF KAZAKHSTAN

Below is a brief overview of certain key aspects of the regulatory regime governing the transportation of oil and oil products in the Republic of Kazakhstan, including a description of certain normative legal acts relevant to the Company's business. This overview is not exhaustive and is intended only to provide general information to prospective investors. It is not designed to be a substitute for legal advice and is qualified in its entirety by reference to the applicable Kazakhstan normative legal acts.

Regulation of Trunk Pipelines

General

Trunk pipelines are regulated by the Civil Code of the Republic of Kazakhstan (the "**Civil Code**"), Land Code of the Republic of Kazakhstan of 20 June 2003 (the "**Land Code**"), Republic of Kazakhstan Law "On a Trunk Pipeline" of 22 June 2012 (the "**Trunk Pipeline Law**") and other regulations. The Trunk Pipeline Law is a special law governing matters relating to the design, construction, operation, conservation and decomissioning of trunk pipelines.

The Trunk Pipeline Law gives a clearer definition of a "trunk pipeline" than was provided for in the legislation previously in force. The Trunk Pipeline Law defines a "trunk pipeline" as a single industrial and technological complex, consisting of a linear part and facilities ensuring safe transportation of products, which meets the requirements of technical regulations and national standards. Trunk pipelines include oil, gas and oil product trunk pipelines. Trunk pipeline facilities include devices, equipment, constructions, buildings and other structures as well as underlying land plots, forming a single process unit. A trunk pipeline is an indivisible property complex and can be owned by the State or private persons. A trunk pipeline cannot be owned by individuals or legal entities registered under the laws of a foreign state.

The Trunk Pipeline Law also provides for allocation of rights and obligations between a "trunk pipeline operator" and an "owner of a trunk pipeline" and introduces a status of a "national operator" assigned by the Government of the Republic of Kazakhstan. Simultaneously with the adoption of the Trunk Pipeline Law, the Republic of Kazakhstan Law "On Amendments to Certain Legislative Acts of the Republic of Kazakhstan in Relation to a Trunk Pipeline and Taxation" of 22 June 2012 was adopted. It provides for changes to a number of normative legal acts of the Republic of Kazakhstan. Such amendments, among other things:

- provide that the linear part of trunk pipelines is classified as immovable property;
- provide that the ownership of the linear part of trunk pipelines does not result in the ownership of the land plots underlying such linear parts of trunk pipelines;
- provide that the use of land plots for the purposes of placement and operation of the linear part of trunk pipelines is carried out under the rules of a public easement, whereas the earlier legislation did not regulate this matter as a result of the unclear status of the linear part of a trunk pipeline;
- provide that lands required for operation of a trunk pipeline include the lands underlying trunk pipelines and protective zones of trunk pipelines and were designated as the lands of pipeline transportation whose legal regime is governed by land legislation of the Republic of Kazakhstan;
- set forth the rules for provision by an owner of a trunk pipeline, a trunk pipeline operator (as well as by a person possessing a trunk pipeline based on other legal grounds) of access to transportation services through a trunk pipeline in case of its limited throughput capacity;

- set forth MOG's powers related to defining in timetables (annual and monthly) of the volume of oil to be processed in the domestic market of the Republic of Kazakhstan as well as outside the Republic of Kazakhstan in order to ensure that the needs of the domestic market of the Republic of Kazakhstan are satisfied;

- provide that an "oil supplier" now means a legal entity supplying, on the conditions defined in the Republic of Kazakhstan Law "On State Regulation of Production and Turnover of Certain Types of Oil Products" of 20 July 2011, crude oil and/or gas condensate not only to a producer of oil products, but also to oil processing plants located outside the Republic of Kazakhstan, whereas under the earlier legislation, an oil supplier was deemed to be a legal entity supplying crude oil and/or gas condensate only to a producer of oil products.

Subsoil Regulatory Authorities

The State carries out monitoring and regulation of enterprises involved in oil transportation through the following competent state bodies.

- *The Ministry of Oil and Gas (the "**MOG**"),* which was established in 2010 and replaced the former Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("**MEMR**"), as the competent and authorized agency in oil and gas. According to the laws of the Republic of Kazakhstan, the MOG is responsible for, among other things: conducting, on the instructions of the President or the Government, negotiations and entering into agreements with the relevant agencies of other countries to ensure the possibility of construction and operation of trunk pipelines and other transportation facilities for oil and gas export in their territory; developing procedures for use of available capacities of trunk pipelines and railway loading facilities; determining the volumes of oil supplies by subsoil users to the domestic market for refining; developing technical regulations and approving normative technical documentation in the sphere of oil operations and transportation; assessment of risks related to potential damage to the life and health of the population and damage to the environment related to oil operations and transportation; and exercising other powers granted by the Subsoil Use Law and other Kazakhstan laws;

- *AREM,* which is responsible for, among other things, regulation of activities of natural monopolies (as described in more detail below in the section "*– Regulation of Natural Monopolies and Tariffs*" and issuance of licences for the operation of oil, gas and oil product trunk pipelines;

- *The Ministry of Industry and New Technologies of the Republic of Kazakhstan (the "**MINT**")*, which is responsible for the rational use of subsoil, industrial development and innovations, scientific and technical development, technical regulation and other issues. The MINT Committee for Technical Regulation and Metrology supervises the compliance of equipment used by oil transportation companies with Kazakhstan laws regarding technical regulation, as well as technical, quality and safety standards;

- *The Ministry of Environmental Protection of the Republic of Kazakhstan (the "**MEP**")*, which is the central executive body of Kazakhstan performing intra-industry coordination and the functions of state regulation and control in the area of environmental protection;

- *The Ministry of Emergency Situations of the Republic of Kazakhstan*, which is the competent state authority in charge of industrial safety at the hazardous production objects, and whose Committee on State Control of Emergency Situations and Industry Safety (under the Ministry of Emergency Situations), among other things, supervises industrial safety and health and safety matters relating to the operation of the trunk pipeline;

- *The Ministry of Finance of the Republic of Kazakhstan (the "**Ministry of Finance**")*, which implements the State's finance, economic and fiscal policies;

- *The Agency for Construction, Housing and Utilities* and various governmental authorities responsible for the approval of construction projects and the use of water and land resources; and

- certain other governmental agencies (and which, in addition to compliance, may require reporting, applications for permits or submission to audits for compliance).

National Operator

The Trunk Pipeline Law establishes a legal concept of a "national operator", which is a legal entity, the controlling stake in which is owned by the State (or a national management holding company or a national company) owning or possessing on other legal grounds one or more trunk pipelines. It is the Government of the Republic of Kazakhstan that designates the national operator. A national operator has the right to provide (i) services relating to the operation of a pipeline in Kazakhstan with respect to a certain type of products, 50% or more of the voting shares (interests) of the owner of which, directly or indirectly, is owned by the State, national managing holding company or a national company; and (ii) services relating to the transportation through pipeline networks of other states of products transported from the territory of the Republic of Kazakhstan through a trunk pipeline owned or possessed on other legal grounds by a national operator (operator activity on the single routing). Only the national operator has the right to provide these services, save for cases when the right of the trunk pipeline owner, 50% or more of the voting shares (interests) of which is owned by the State, national managing holding company or a national company, to render trunk pipeline operation services in the territory of Kazakhstan to another legal entity, 50% or more of the voting shares (interests) of which is owned by the State, national managing holding company or a national company, is granted by the relevant resolution of the Government of the Republic of Kazakhstan for the purposes of implementation of international treaties of the Republic of Kazakhstan.

The Kazakhstan Government Resolution "On the National Trunk Pipeline Operator" dated 8 October 2012 (which is not yet effective as of the date of this Investment Memorandum), identifies the Company as the national trunk pipeline operator. According to the Regulations of the National Trunk Pipeline Operator to be approved by the above draft resolution, the principal tasks of the national trunk pipeline operator, *inter alia*, include: (i) the development and submission for consideration to the authorised state agency proposals on draft regulations aimed at improving the trunk pipeline legislation of the Republic of Kazakhstan; (ii) participation in the drafting of regulatory and regulatory and technical documentation on trunk pipelines; (iii) participation in the development and implementation of international treaties in the area of oil transportation through trunk pipelines; (iv) participation in the implementation of international projects aimed at strengthening energy security and diversification of oil transportation routes. The national operator, among other things, has the authority: (i) to enter into agreements for administration of oil transportation through pipeline networks of other states with product shippers; and (ii) based on agreements for administration of oil transportation through pipeline networks of other states in force, to enter into relevant agreements with entities (including entities of other states) providing for the services of oil transportation and oil transshipment through sea terminals, forwarding services in the case of oil transshipment through sea terminals, and similar matters.

Construction and Operation of a Trunk Pipeline

Construction of a trunk pipeline is regulated by the Civil Code, Land Code, Trunk Pipeline Law, Kazakhstan Republic Law "On Architecture, Urban Planning and Construction Activities in the Republic of Kazakhstan" of 16 July 2001, as amended, and other legislative acts of the Republic of Kazakhstan. These legislative acts establish the relevant procedures, starting from allocation of a land plot and preliminary assessment of environmental impact to acceptance of a trunk pipeline by a state acceptance commission, which gives the owner of the constructed trunk pipeline the right to register its ownership of a newly constructed trunk pipeline. The Environmental Code of the Republic of Kazakhstan of 9 January 2007 (the "**Environmental Code**") contains environmental requirements related to allocation, design and construction of trunk pipelines. For safety purposes, no structures unrelated to a trunk pipeline may be constructed within the minimum distance set out by construction standards and rules.

The State, represented by the Kazakhstan Government, has a pre-emptive right to participate in any project relating to the construction of a new trunk pipeline with a share of not less than 51%. A person intending to construct a trunk pipeline must submit to the authorised state agency an offer to participate in the construction of a trunk pipeline. A person intending to construct a trunk pipeline may begin construction, together with other entities or independently, only if the State declines to participate in the construction. The provisions on the pre-emptive right of the Kazakhstan Government to participate in a project do not apply to expansion of an existing pipeline.

Trunk pipeline facilities must be operated in compliance with technical regulations adopted by the Kazakhstan Government. Owners of trunk pipelines, in coordination with local agencies and other interested parties, must develop measures to prevent accidents and other hazards during construction and operation of trunk pipelines.

State Control of Ownership

Strategic Objects

In August 2007 the Civil Code was amended to include a new Article 193-1 containing a term "strategic object". Under Article 193-1, a strategic object is a property which is socially and economically significant for the sustainable development of Kazakhstan's society, possession, use and/or disposal of which will affect the national security of the Republic of Kazakhstan.

Strategic objects, among others, include trunk pipelines and blocks of shares or participatory interests (a) in legal entities owning strategic objects; and (b) of individuals and legal entities which may directly or indirectly determine or influence decisions of the legal entities owning strategic objects.

The list of strategic objects was approved by the Resolution of the Government of 30 June 2008 (as amended) and is publicly available. All the shares in the Company, the shares in the Company's joint ventures: in KKT (50%) and in MunaiTas (51%), oil pipelines of the Company and of its joint ventures: Uzen-Atyrau-Samara pipeline (from the pipe-end oil pumping station "Uzen" (0 km) up to the border with the Russian Federation (1237,4 km), Kalamkas-Karazhanbas-Aktau pipeline, Uzen-Zhetybai-Aktau pipeline (1st and 2nd lines), Zhanazhol-Kenkiyak pipeline, Kenkiyak-Orsk pipeline (2nd line), Omsk-Pavlodar pipeline (from the border with the Russian Federation (214.7 km) up to the pipe-end oil pumping station "Pavlodar" (437,3 km), with a length of 222,6 km), Pavlodar-Shymkent pipeline, Kumkol-Karakoin pipeline, Shymkent-Chardzhou pipeline, Atasu-Alashankou pipeline, Kenkiyak-Atyrau pipeline as well as all the shares in its direct and indirect shareholder, Samruk-Kazyna and KMG are included into the above list of strategic objects.

Strategic Industrial Objects

The Company, as KMG's affiliate, has also been included in a special list of objects in strategic industries, which ownership is subject to state control. Accordingly, the Company is subject to state monitoring in relation to property, which is exercised by the relevant state agency, currently, the Ministry of Finance of the Republic of Kazakhstan. In general, the State's primary goals in conducting such monitoring are analysis of the Company's economic activities, including from a national security perspective, and determination of the effectiveness of management of the Company's property. In practice, this means that the Company may, from time to time, be subject to additional requests for reports, inspections and recommendations of the governmental agencies in relation to the Company's business operations.

The State's Pre-emptive Right

Strategic objects may be owned by the State or private persons. If a strategic object is in private ownership and its owner intends to encumber or sell it, the State has a pre-emptive right to purchase it at its market value. In addition, under Republic of Kazakhstan Law "On State Property" of 1 March 2011 (the "**State Property Law**"), strategic objects may be nationalised. The market value of a strategic object must be estimated in accordance with applicable legislation on appraisal.

The State Property Law sets outs the procedures for obtaining a permit of the Government of the Republic of Kazakhstan for disposal and encumbrance of strategic objects with third parties' rights (a "**State Permit**"). The Government of the Republic of Kazakhstan can refuse to provide a State Permit if such encumbrance or disposal may result in a violation of Kazakhstan's laws, including the regulations relating to national security or international treaties to which Kazakhstan is a party. The State Property Law provides for a number of circumstances in which a State Permit is not required. The initial placement of shares in the strategic object in the organised securities market requires a State Permit. At the same time, further transactions in certain blocks of shares in the organised securities market do not require a State Permit. A State Permit is not required for off-exchange transactions in blocks of shares not in excess of 5% of the total number of voting shares in a strategic object.

Quotas

The Trunk Pipeline Law establishes that in the presence of free-flow capacity of a trunk pipeline, the owner (the person who owns the trunk pipeline or the operator) may not refuse a shipper's request to transport oil. At the same time, shippers have equal access to transportation services at the tariffs approved by AREM.

The MOG in its capacity as competent governmental agency distributes available capacity of a trunk pipeline among shippers based on the Rules for use of trunk pipeline and railway rack capacities in case of availability of free capacities approved by Governmental Resolution No. 1173 of 8 November 2010 (the "**Rules on Capacities**"). Trunk pipeline operators provide oil transportation services to shippers based on monthly transportation schedules approved by the MOG. According to the Rules on Capacities, shippers submit to the MOG their orders for transportation and uploading and unloading of oil through pipelines not later than 20 calendar days prior to the reporting month in order to obtain the MOG's approval of transportation schedules for such following month. If transportation capacities are available, the MOG approves monthly schedules and submits them to trunk pipeline operators at least ten days before beginning of the reporting month. The MOG must distribute the available capacity among shippers pro rata to the volumes to be transported as notified by the shippers. Within two calendar days upon MOG's approval of monthly transportation schedules, oil transportation companies submit such approved schedules to each of the shippers. No later than on the tenth day of the month following the reporting month an oil transportation company submits to the MOG its reports on the actual performance of the schedule together with the information on volumes and destinations of transportation and loading or unloading of oil. If upon receipt of transportation orders from shippers for the following month no transportation capacities are available, the MOG informs the shippers accordingly in compliance with the Rules on Capacities.

The Republic of Kazakhstan Law On Natural Monopolies of 9 July 1998 (the "**Natural Monopolies Law**") and the Rules for Provision of Equal Access to the Regulated Services (Goods, Works) in the Area of Natural Monopolies, approved by the Resolution of the Kazakhstan Republic Government of 19 January 2012 (the "**Rules on Equal Access**"), provide for equal access of market participants to the services of natural monopolies operating oil and oil product pipelines if there is limited technical capacity to provide such services as a result of lack of trunk pipeline free capacity. Therefore, the Trunk Pipeline Law provides for an order of priority for provision of oil transportation services in case of a limited throughput capacity of a trunk pipeline, and the Rules on Equal Access provide for an order of priority for provision of oil transportation services in case of a limited technical capacity of provision of services as a result of the lack of a trunk pipeline free capacity.

Under the Trunk Pipeline Law, in case of limited throughput capacity of a trunk pipeline, services for transportation of oil and/or oil products through a trunk pipeline are provided to oil shippers in the following order: (i) to shippers supplying oil to domestic oil processing plants in the volume intended for processing at such plants; (ii) to the owner of trunk pipeline or to a person owning trunk pipeline on other lawful ground for the transportation of own products or products of affiliates, (iii) to ensure fulfilment of decisions of the Government of the Republic of Kazakhstan and/or obligations under international treaties to which the Republic of Kazakhstan is a signatory, (iv) involved for investment to the construction of trunk pipeline or expanding of capacity of trunk pipeline or its separate objects, within the part of the trunk pipeline or its object in which investments were made, (v) to those who have taken obligations (under the agreement concluded with the owner of such trunk pipeline or other person lawfully owning such trunk pipeline) to provide mandatory minimum annual volumes of oil (oil products) for transportation within the limits of this mandatory annual volume, (vi) for transportation oil, the quality of which allows to bring the transported oil mix in compliance with the technical requirements to the oil quality established by normative-technical documents, during its transportation through pipeline systems of other countries.

Under the Rules on Equal Access, in case of limited technical capacity to provide oil transportation services as a result of the lack of free capacity of a trunk pipeline, the regulated services are provided in the first priority to the oil shippers in the following order: (i) shippers that supply oil to oil processing plants of the Republic of Kazakhstan; (ii) shippers that undertook to make available for transportation mandatory minimal annual oil volumes in compliance with an agreement for provision of oil transportation services; (iii) shippers providing for transportation oil and/or oil products of the required quality sufficient to bring the transported mixture of oil and/or oil products in compliance with technical quality requirements of oil pipeline companies in the countries on which territories oil is transported; (iv) shippers involved in investments into an increase of a throughput capacity of a trunk pipeline or of its separate facilities under an agreement, until it has obtained a full return on its investments; (v) shippers ensuring fulfilment of resolutions of the Government and/or international treaties to which the Republic of Kazakhstan is a signatory; and (vi) shippers that have no other technical means of transportation of oil and/or oil products. The MOG distributes the capacity of a trunk pipeline in case of limited throughput capacity or in case of limited technical capacity to provide services as a result of the lack of free capacity pro rata to the oil and/or oil product transportation volumes claimed by shippers.

The MOG defines a transit quota with regard to an intergovernmental trunk pipeline based upon the respective international treaty of Kazakhstan and approvals of competent state agencies of accepting or transiting countries. For example, with respect to export shipments through the Atyrau-Samara segment of the pipeline, the MOG must take into account the provisions of the intergovernmental agreement signed in June 2002 between the Republic of Kazakhstan and Russia expiring in 2017. The MOG defines and approves the transit quota annually.

Regulation of Natural Monopolies and Tariffs

Natural Monopolies

In Kazakhstan, activities of natural monopolies are regulated by the Natural Monopolies Law. A natural monopoly is subject to state control and regulation by AREM pursuant to the Natural Monopolies Law.

According to the list of regulated services (goods, works) of natural monopolies, approved by the Governmental Resolution No. 155 of 14 March 2006, as amended, the following activities are included in the list of the regulated GWS of natural monopolies in the area of transportation of oil and/or oil products through trunk pipelines: services on oil transportation through trunk pipelines; operator's integrated routing activity; oil pumping/delivery through a trunk pipeline network; discharge of oil from rail tank cars; loading of oil into rail tank cars; loading of oil into oil carriers; discharge of oil from tank trucks; loading of oil into tank trucks; oil storage; oil transshipment and oil mixing.

In addition, AREM approved a list of activities, technologically related to regulated services (goods, works) in the area of transportation of oil and/or oil products through trunk pipelines, including operating and technical maintenance of trunk oil pipelines owned by third parties; heating of oil at discharging, additional heating of oil for depressants batching.

The Company is included in the Republican Section of the State Register of Natural Monopolies, approved by the Order of AREM Chairman No. 16-OD of 24 January 2005, as amended. The following services are regulated types of services: (i) services on transportation of oil through trunk pipelines; (ii) operator's integrated routing activity; (iii) oil pumping/delivery through a trunk pipeline network; (iv) discharge of oil from rail tank cars; (v) loading of oil into rail tank cars; (vi) loading of oil into oil carriers; (vii) discharge of oil from tank trucks; (viii) loading of oil into tank trucks; (ix) oil storage; (x) oil transshipment; (xi) oil mixing; (xii) services relating to transfer and distribution of electric power; (xiii) services relating to production, transfer and distribution of thermal power; (xiv) services relating to supply of water through trunk pipelines; (xv) services relating to supply of water through distribution pipelines; and (xvi) services relating to disposal of waste water. Thus, the Company provides 52 regulated services. Please refer to "*Business – Tariffs and Other Revenues – Types of Tariffs*" for information on tariffs for services provided by the Company.

According to the Natural Monopolies Law:

- the conduct of any activities by a natural monopoly other than the activities described in the Natural Monopolies Law (including technologically related activities) requires AREM's prior consent;

- any person acquiring more than 10% of the voting shares (participatory interest) in a natural monopoly must notify AREM in advance of such acquisition;

- the following requires AREM's prior consent is required for the alienation and/or other transactions with assets of a natural monopoly intended for production and provision of regulated services (goods and works), if the value of the disposed assets or of the assets of a natural monopoly subject to other transactions, reflected in the balance sheet as at the beginning of the current year, exceeds 0.05 % of the balance value of its assets in accordance with the balance sheet as at the beginning of the current year, provided that they do not entail increase of tariffs or tariff ceilings for the regulated GWS of a natural monopoly, breach of customer contracts, violation of the continuous technological system, interruption or significant reduction of the volume of provided regulated services;

- a natural monopoly may acquire shares or participatory interests in, or participate in other forms, in commercial entities carrying out activities permitted by the Natural Monopolies Law with AREM's prior consent; and

- reorganisation and liquidation of a natural monopoly requires AREM's prior consent.

AREM approves, inter alia, certain allowed technical losses, technical and technological volumes of raw materials, other materials, fuels, lubricants and electrical power to be used by a natural monopoly for its operations as well as the allowed number of employees to be involved. In general, a natural monopoly must comply with the rules for procurement of goods, works and services by natural monopolies which are taken into account when approving tariffs and tariff ceilings for regulated services. As the Company is a part of the Samruk-Kazyna group, the rules for procurement by natural monopolies do not apply to the Company.

Tariffs

Tariffs for the Company's oil transportation services are approved by AREM. The Company may apply to AREM with a request to review and modify the tariffs only once every 12 months. Upon review of the Company's application, AREM may increase or refuse to approve a new tariff.

Under the Natural Monopolies Law, tariffs or tariff ceilings for regulated services of a natural monopoly may not be lower than the value of the costs incurred for provision of such regulated services, and the law envisages revenues that ensure efficient performance of a natural monopoly.

The currently effective Methods of Calculation of Tariffs for Transportation of Oil through Trunk Pipelines is approved by the order of AREM Chairman of 27 July 2007. According to these methods, tariffs for sectorial oil shipment are calculated on the basis of a specific tariff, i.e. a tariff for shipment of 1 ton of oil for 1,000 kilometers. A tariff for services on discharge of oil from rail tank cars, on loading of oil into rail tank cars, on loading of oil into oil carriers, on discharge of oil from oil carriers, on discharge of oil from tank trucks, on loading of oil into tank trucks, on oil storage, on oil transhipment, on oil mixing and on operator's integrated routing activity is calculated for each type of services. To encourage the shipment of oil to the domestic market, domestic market routes can be subsidised at the expense of export routes and routes for transit oil transportation in AREM's calculation of tariffs. In addition, the Order of AREM of 5 July 2004 approved the Guidelines for Calculation of the Rate of Return on the Regulated Base of Utilised Assets of Natural Monopolies Providing Services on Transportation of Oil through Trunk Pipelines. See "*Business – Tariffs and Other Revenues – Types of Tariffs*" for information on tariffs for services provided by the Company.

For the purposes of approval of its tariffs related to transportation of oil through trunk pipelines, the Company must comply with the Rules for Maintenance of Separate Accounting of Income, Losses and Involved Assets by Natural Monopolies Rendering Services on Transportation of Oil and Oil Products through Trunk Pipelines, approved by Order of AREM Chairman of 29 September 2005.

Turnover of Oil Products

The MOG, as authorised governmental agency, has the power to determine the volumes of oil and gas to be delivered by oil and gas producers for processing domestically. In addition, the State regulates the production and turnover of certain oil products including: petrol, aviation and diesel fuels and fuel oil, based on provisions of the Kazakhstan Republic Law "On the State Regulation of Production and Turnover of Certain Oil Products" of 20 July 2011, as amended (the "**Law on Turnover**"). The Law on Turnover provides the legal basis for state control of the domestic supply of certain oil products, including to meet the needs of agricultural producers and heating supply organisations, to procure the maximum use of capacities of local refineries and to ensure fulfilment of the State's obligations in relation to production and turnover of oil products under international treaties to which the Republic of Kazakhstan is a party.

Under the Law on Turnover, the MOG approves an annual plan of oil processing for domestic refineries (except for small refineries) for the following year not later than on 15 December (the "**Annual Processing Plan**"). The Annual Processing Plan specifies volumes of crude oil and/or gas condensate which refineries must process monthly in order to meet the domestic market needs for oil products. The Annual Processing Plan is based on applications of oil suppliers for deliveries to the domestic market, which are filed with the MOG on or before 30 November of each year and based on which the MOG approves an annual plan of deliveries of crude oil and gas condensate to domestic refineries for suppliers (the "**Annual Deliveries Plan**"). The Annual Deliveries Plan is also approved on 15 December, and the oil suppliers must be informed of the approved Annual Deliveries Plan within 10 days upon its approval. The Annual Processing Plan and Annual Deliveries Plan may affect the operations of oil and gas transportation companies, including the Company.

Licensing

On 9 August 2007, the Republic of Kazakhstan Law "On Licensing" of 11 January 2007 (the "**Licensing Law**") entered into force.

Under the Licensing Law, the operation of gas, oil and oil product trunk pipelines and certain services related to oil transportation (construction, installation and design of oil and oil product trunk pipelines) are subject to licensing. Entities carrying out oil transportation are not required to obtain certain licences if certain activity related to oil transportation (for example, construction and installation of trunk pipelines) is performed by third-party licensed contractors. The Licensing Law also provides that operation of oil and oil product storage requires a licence. The MOG grants licences for oil transportation and certain related activities. The state body authorised to issue licences for operation of oil and gas processing plants, operation of oil and oil product storages and operation of oil and oil product trunk pipelines, is the Committee of State Inspection in Oil and Gas Complex of the MOG.

As a rule, licences are not transferable to another individual or legal entity. A licence is granted for either a limited or an unlimited period of time and is valid in the entire territory of the Republic of Kazakhstan, unless otherwise is provided for in Kazakhstan's laws. A competent state agency issues a licence upon submission of necessary documentation and payment of a fee. A licence can be suspended or cancelled in case of non-compliance with the qualification requirements, including among other things, in case of lack of qualified personnel or proper equipment.

Under the applicable law, if a legal entity carries out its activity without a licence required under the Licensing Law, such legal entity is subject to administrative liability and the executives of such legal entity are subject to administrative and criminal liability.

Procurement

Under the Republic of Kazakhstan Law "On National Wealth Fund" of 1 February 2012 (the "**NWF Law**"), Samruk-Kazyna and subsidiaries in which Samruk-Kazyna directly or indirectly owns 50% or more of shares (or participatory interest) or carries out trust management in respect of such shares (or participatory interest), including the Company and its joint ventures MunaiTas and KCP, must comply with the Samruk-Kazyna Rules. Under the NWF Law, the Company must give priority to local GWS suppliers. Samruk-Kazyna exercises overall supervision over compliance with the Samruk-Kazyna Rules. The Samruk-Kazyna Rules require public tenders in order to procure most types of GWS. In certain cases provided by the Samruk-Kazyna Rules, GWS may be procured from one source or outside of the application of the Samruk-Kazyna Rules.

Environmental Regulation

The Company's activity is subject to a variety of Kazakhstan's legislative acts and requirements governing air emissions, water use and disposal, waste management and impact on wildlife, as well as land use and reclamation. The liability for non-compliance with environmental protection requirements can be substantial, including penalties or even suspension or termination of the Company's activity. The Environmental Code is the main Kazakhstan law governing the activity related to the use of natural resources, including the activity of oil transportation companies.

Ecological Permits

The concept of an ecological permit (the "**EP**") was developed as a means for the State to regulate environmental pollution. An EP is a special permit granting a legal entity the right to emit or disperse emissions into the atmosphere and discharge waste substances into surface or underground waters. EPs contain the conditions governing the user's impact on the environment. Companies whose operations impact the environment are required to obtain an EP. An EP may be issued for a period of up to five years. Fees for pollution of the environment are established by the Tax Code of the

Republic of Kazakhstan and may be increased (within certain limits) by local representative bodies (Maslikhat). Holding an EP does not exempt a legal entity from liability to pay compensation for damage to the environment caused by its activity or exempt a legal entity from administrative or criminal liability.

Industrial Safety Declaration

Under the Industrial Safety Law, trunk pipelines are deemed to be dangerous industrial facilities. Dangerous industrial facilities are operated in Kazakhstan subject to maintenance of an industrial safety declaration, if during the operation of such facilities the possibility of harmful impact of dangerous industrial factors on the population and environment is not excluded. The Ministry for Emergencies, based on an industrial safety expert opinion, issues an industrial safety declaration. Pre-design projects as well as construction, modernisation, reconstruction and technical retooling projects are subject to such an expert appraisal.

An industrial safety declaration is developed by an entity operating a dangerous facility or a company qualified to conduct industrial safety operations and must be revised in case of changes in industrial safety conditions at the facility or of applicable industrial safety requirements within three months following such changes. An industrial safety declaration must be approved by the chief executive officer of the entity operating the dangerous facility. The owner of the entity operating the dangerous industrial facility is responsible for the completeness and accuracy of the information contained in the declaration. An industrial safety declaration must undergo expert appraisal, which is also required in case of changes to the information contained in the declaration.

Certificates for Green Gas Emissions

In March 2009 the President of the Republic of Kazakhstan signed the Law "On Ratification of the Kyoto Protocol" of 26 March 2009. Ratification of the Kyoto Protocol intended to limit or prevent emissions of greenhouse gases influenced environmental regulation in Kazakhstan.

On 3 December 2011 the President of the Republic of Kazakhstan signed the Law "On Amendments to Certain Legislative Acts of the Republic of Kazakhstan on Environmental Issues" (the "**2011 Environmental Law**"), which, *inter alia*, provided for the following changes to the Environmental Code: (i) it provided for a certificate for green gas emissions (the "**GGE Certificate**"); (ii) it provided for the requirement to obtain a quota for green gas emissions in compliance with the National Plan of Allocation of Quotas for Green Gas Emissions (the "**GGE Plan**"); (iii) it expanded authorities and functions of competent state agencies responsible for environmental regulation in Kazakhstan; and (iv) it provided for additional liability on nature users for violations of environmental laws and regulations.

Under the 2011 Environmental Law, from 1 January 2013, entities, including the Company and its joint ventures, will not be able to conduct operations in excess of the quota of the respective GGE Certificate, unless emissions in excess of the allocated quotas are compensated by quotas to be acquired from another nature user that has not used a certain part of the quota as a result of implementation of the relevant environmental protection projects. Extra quotas must be sold and purchased at commodity exchanges.

Under the Environmental Code, a legal entity operating in the oil and gas sector may not conduct its business operations if its green gas emissions exceed 20,000 tonnes of carbon dioxide per year. The Government approves the GGE Plan annually. The MEP maintains: (i) a state register of sources of green gas emissions and of their utilization; and (ii) a state register of hydrocarbon units.

The Company must annually keep an inventory of the sources of green gases and ozone-destroying discharges, maintain an inventory passport of consumption of ozone-destroying discharges and submit a report of inventory of green gases in the manner and in the procedure described in the Rules for

Inventory of Emissions of Green Gases and Ozone-destroying Substances. A passport of inventory of ozone-destroying discharges contains a description of the source of green gases, their quantitative and qualitative characteristics as well as their hazardous impact on the environment.

Water Permits

The Water Code of 9 July 2003 (the "**Water Code**") sets out obligations for the use of water and discharge of certain substances into water on the basis of Water Use Permits (the "**WUP**"). A WUP can be withdrawn in case of breach of the requirements specified in the relevant WUP. Such requirements include monitoring of the quality of underground water, submission of statistical and monitoring reports, complying with requirements relating to water pollution during mining operations and regular checks of equipment. In case of changes in any circumstances related to water use, a WUP holder is obliged to notify such changes to the relevant governmental agencies, such as, for example, the regional department for environmental protection and the sanitary and epidemiological service. The validity period of a WUP may be extended subject to compliance with requirements specified in the WUP.

Protective Zones

To ensure the safety of the population, to prevent environmental damage and to create conditions for safe operation of a trunk pipeline, protective zones must be established along the routes of trunk pipelines and around trunk pipeline facilities. Under the Trunk Pipeline Law, a "*trunk pipeline security zone*" means a territory (on-shore and/or off-shore) with specific security and use conditions which is adjacent to trunk pipeline facilities and is intended to ensure the safety of the population and to create necessary conditions for a safe and uninterrupted operation of pipeline facilities, within which territory any types of activities inconsistent with its purposes are restricted or prohibited.

Protective zones of a trunk pipeline include protective forest zones, land plots required to ensure safety, durability and strength of structures, equipment and other facilities, service roads as well as land plots adjoining a trunk pipeline located in mud slide zones, land slide zones or places that are exposed to other hazardous impacts. The boundaries of protective zones and facilities of trunk pipelines which are subject to protection are set out in accordance with the requirements of technical regulations on trunk pipeline safety. An owner of a trunk pipeline (a trunk pipeline operator) must ensure the safety and preservation of the trunk pipeline.

Insurance

Kazakhstan law establishes the types of insurance which must be maintained by any entity carrying out transportation of oil and oil products.

Environmental Insurance

Environmental insurance is a mandatory type of insurance provided for by the Environmental Code. Environmental protection is regulated by the Republic of Kazakhstan Law "On Mandatory Environmental Insurance" of 13 December 2005, under which any entity carrying out environmentally hazardous business activity and other activity must insure its property interest related to its responsibility to compensate for damage caused to life, health, third party property and/or environment as a result of its accidental pollution. A mandatory environmental insurance agreement must provide for compensation of damage caused to life, health, third party property and/or the environment as a result of its accidental pollution (save for compensation of moral damage, loss of profit and payment of contractual penalties).

Under the List of Types of Environmentally Hazardous Business Activity and Other Activity, approved by the Republic of Kazakhstan Resolution "On Approval of the List of Types of Environmentally Hazardous Business Activity and Other Activity" of 27 June 2007, environmentally hazardous types of activity include among others: (i) storage of oil, oil products and chemicals; and

(ii) operation of oil and chemical pipelines. Transportation of oil through trunk pipelines in the absence of environmental insurance is prohibited.

Insurance of Civil Liability of Owners of Dangerous Facilities

Under the Republic of Kazakhstan Law "On Mandatory Insurance of Civil Liability of Owners of Facilities Associated with the Danger of Damage to Third Parties" of 7 July 2004, the owner of a facility associated with the danger of damage to third parties must insure against risks associated with the possibility of causing harm to third parties, to compensate for harm caused to life, health and/or property of third parties by a hazardous manufacturing unit. Under the applicable law, a hazardous manufacturing unit is a unit that produces, uses, processes, generates, stores, transports or destroys at least one of the following substances: inflammable substances, explosives, fuels, oxidizing agents, toxic and high-toxic substances and other hazardous substances.

Insurance of Civil Liability of an Employer for Damage to Health and Life of Employees Caused during Carrying Out Their Labour Duties

Under the Republic of Kazakhstan Law "On Mandatory Insurance of the Civil Liability of an Employer for Damage to Health and Life of Employees Caused during Carrying Out Their Labour Duties" of 7 February 2005, from 1 July 2005 all employers must maintain insurance to compensate the property interest of an employee whose life and health is damaged as a result of an accident– regardless of the fault of the employee.

Insurance of Civil Liability of Owners of Transport Vehicles

Under the Republic of Kazakhstan Law "On Mandatory Insurance of the Civil Liability of Owners of Transport Vehicle " of 1 July 2003, as amended, civil liability of owners of, inter alia, cars, trucks, buses, microbuses and transport vehicles, motor transport and trailers (semi-trailers) to such vehicles is subject to mandatory insurance. The use of transport vehicles without insurance covering the civil liability of their owner is prohibited.

Health and Safety Requirements

The Company's activity is subject to laws and regulations of the Republic of Kazakhstan relating to health and safety, compliance with which is controlled by various governmental agencies based upon provisions of the Environmental Code and Labour Code of the Republic of Kazakhstan of 15 May 2007 (the "**Labour Code**").

Under Kazakhstan law, an employer must provide its employees with properly functioning and safe equipment, train its employees on health and safety requirements, provide special uniform, shoe wear and special nutrition, perform periodic medical examinations of its employees, obtain periodic third party attestation of equipment and worksites, provide adequate insurance to its employees, maintain third party liability insurance and comply with fire safety, sanitary and hygienic regulations.

TAXATION

The following is a general summary of the Republic of Kazakhstan tax consequences effective as of the date of this Investment Memorandum in relation to payment of dividends made under the Shares and in relation to the sale or transfer of Shares. It does not purport to be a complete analysis of all tax considerations relating to the Shares and potential purchasers are urged to consult their professional advisors as to the tax consequences to them of acquiring, holding and disposing of the Shares. The following summary does not also purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Shares, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules. This summary is based upon legislation of the Republic of Kazakhstan as in effect on the date of this Investment Memorandum and is subject to any change in legislation that may take effect after such date.

Dividends

Non-Kazakhstan Holders

Under legislation of the Republic of Kazakhstan as presently in effect, payments of dividends on the Shares to an individual of a legal entity who is a nonresident of the Republic of Kazakhstan (i) is not established in accordance with the legislation of the Republic of Kazakhstan, (ii) does not have its actual governing body (place of actual management) in the Republic of Kazakhstan, (iii) does not maintain a permanent establishment in the Republic of Kazakhstan and (iv) otherwise has no taxable presence in the Republic of Kazakhstan (together, "**Non-Kazakhstan Holders**") will be subject to withholding tax at a rate of 15%. Payments of dividends on the Shares to Non-Kazakhstan Holders registered in specified countries with a favorable tax regime (such as Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba and others) will be subject to withholding tax in the Republic of Kazakhstan at a rate of 20%.

Non-Kazakhstan Holders who are resident in countries with which the Republic of Kazakhstan has bilateral taxation treaties may be entitled to a reduced rate of withholding tax.

The withholding tax on dividends would not apply if the Shares are (i) listed, as at the date of accrual of dividends on the official list of a stock exchange operating on the territory of the Republic of Kazakhstan (such as the KASE), or (ii) held by one and the same Non-Kazakhstan Holders more than three years and such Non-Kazakhstan Holders are not registered in countries with a favorable tax regime.

Kazakhstan Holders

Dividends payable to residents of the Republic of Kazakhstan or to non-residents who maintain a permanent establishment in the Republic of Kazakhstan (together, "**Kazakhstan Holders**"), other than legal entities that are exempt from withholding tax on dividends, are subject to withholding tax at a rate of 5% unless the Shares are (i) listed, as at the date of accrual of dividends, on the official list of a stock exchange operating on the territory of the Republic of Kazakhstan, or (ii) held by one and the same Kazakhstan Holders more than three years.

Gains

Non-Kazakhstan Holders

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Shares will be subject to withholding tax at a rate of 15%. Gains realised by Non-Kazakhstan Holders registered in a country with a favorable tax regime, as referred to above, derived from the disposal, sale, exchange or transfer of the Shares will be subject to withholding tax at a rate of 20%.

There is no withholding tax on any gains realised by Non-Kazakhstan Holders in relation to the Shares (i) which are listed, as at the date of sale on the official list of a stock exchange operating on the territory of the Republic of Kazakhstan or a foreign stock exchange and sold through open trades on such stock exchanges, or (ii) which are held by one and the same Non-Kazakhstan Holders more than three years and such Non-Kazakhstan Holders are not registered in countries with a favorable tax regime.

Non-Kazakhstan holders who are resident in countries with which the Republic of Kazakhstan has bilateral taxation treaties may be entitled to a reduced rate of withholding tax.

Kazakhstan Holders

Gains realized by Kazakhstan Holders in relation to the Shares are subject to income tax except for the Shares which are (i) listed, as at the date of sale on the official list of a stock exchange operating on the territory of the Republic of Kazakhstan and sold through open trades on such stock exchanges, or (ii) held by one and the same Kazakhstan Holders more than three years.

SUBSCRIPTION AND SETTLEMENT

The procedure for subscription for the Company's Shares is set out in the JSC Law, in Republic of Kazakhstan Law "On the Securities Market" of 2 July 2003 (the "**Republic of Kazakhstan Securities Market Law**") and in the Rules on Subscription for Shares (the internal regulations of KASE).

Upon the inclusion of the Shares into the official KASE list, the Company will initiate the opening of an order book by submitting an application to KASE. Such application must contain the date of opening of the order book as well as the main subscription parameters, including the form of distribution of the Shares. Upon receipt of the Company's application, KASE publishes on its website (www.kase.kz) the notice on the opening of the order book with the subscription parameters, and the order book is announced as opened.

Upon opening of the order book, a person wishing to acquire Shares (see "*Overview of the Offering*" to see who is authorised to purchase Shares in the Offering) must place an order for the Shares through its broker with an indication of the number of Shares which such person wishes to acquire. At the time of placing the order, such person must ensure that adequate funds are deposited in its broker account.

The broker admits orders from its customers and submits them to KASE.

KASE will collect all orders from brokers during the one-month period from the opening of the order book. Based on the assumption that there will be a large number of bids made by potential investors, KASE will keep the order book. KASE's role is to collect orders, provide a register of the admitted bids and administer settlements based on the register of accepted orders provided by the Company.

Upon receipt of all orders from brokers, KASE, together with the Central Depositary, will verify them to prevent a single investor from making multiple bids and to make sure that the residency criteria have been complied with as well as to verify compliance with the other requirements and subscription parameters of the Offering. If an order complies with the subscription parameters and other requirements set out in the Company's application, the Central Depositary will submit to KASE a report on such compliance, and the Subscription Trading System will reflect that this order has been admitted into the order book. If an order does not comply with the subscription parameters and other requirements, the Central Depositary will send a report to KASE that such order is noncompliant, and it will be deemed cancelled. The Subscription Trading System will show the status of each order as admitted or cancelled. Each order must comply with the subscription parameters and other requirements set out in the Company's application and cannot be admitted in part.

Prior to the closing of the order book, any person who has placed an order for Shares may revoke its order. In such case, KASE notifies the Central Depositary regarding the cancellation of such orders.

Allocation

Upon expiry of the term for admission of orders into the order book and after KASE, together with the Central Depositary, has verified the compliance of the orders with the subscription parameters, a register of the admitted orders is created and submitted to the Company to be used as a basis for its decisions regarding allocation of the Offer Shares. For a discussion of the allocation procedures, see "*Allocation Procedures*".

The Company may in its own discretion satisfy any of the orders, in whole or in part. Within five business days of the receipt by the Company of the register of admitted orders, the Company must make entries in the register of admitted orders to indicate the number of Shares allocated in respect of each order and must submit the register to KASE. It is then transferred to the Central Depositary for settlement. Settlements are expected to be made within five business days of the receipt of the register of admitted orders by the Central Depositary.

Settlements Procedure

At the time of settlement, the Company must ensure that the required number of Shares is available in the relevant sub-account with the Central Depositary and provide to KASE, as evidence, an extract from the Company's sub-account with the Central Depositary. KASE, based on the register of satisfied bids, generates a register of instructions for registration of the transactions, which is submitted to the Central Depositary for settlements.

Upon the expiry of the term of five business days from the commencement of settlement, all unsettled transactions are deemed not to have been performed and the investor that placed the order is subject to a penalty of 0.1% of the total amount of unsettled transactions payable in favour of the Company.

After-Sales Procedures

Not later than the business day following the settlement, KASE will transfer stock exchange certificates to the Company and to the purchasers of Shares. On the same date, KASE will publish a notification on the results of the Offering on its website.

Grounds for Finding that the Offering Has Failed

KASE may find that the Offering has failed in the following cases: (i) if no orders were placed for the Shares or if there was a low level of demand for the Shares; or (ii) if KASE determines that there was inconsistent information in or damage to the register of admitted orders and does not receive a corrected register within the prescribed period.

If the Company finds that the Offering has failed, the Company will notify this to KASE through its authorised representative.

If either KASE or the Company finds that the Offering has failed, KASE will publish the relevant announcement on its website.

ALLOCATION PROCEDURES

Definitions

The term "*market maker for the Shares*" means a member of KASE which is recognised as such by the exchange and has assumed the obligation toward the Company to constantly update and maintain sale and purchase quotations for the Shares and perform all duties arising out of such status.

The term "*retail investors*" means citizens of the Republic of Kazakhstan

The term "*institutional investors*" means saving pension funds of the Republic of Kazakhstan.

Limitations on Investment Amounts

The following limitations on investment amounts shall apply in the admission of orders into the order book:

- *for market makers for the Shares* – not less than KZT 67,000,000, but not more than KZT157,000,000 tenge. The volume of the market maker's order is determined by the market maker at the closing of the order book and depends on the situation regarding retail and institutional demand for Shares that has developed on the potential secondary market. The final decision on the volume of the order is based on the examination of the nature of primary demand at the initial offering and depends on the prevailing sentiments among retail investors: short-term (speculative) or long-term.

- *for retail investors* – orders are accepted without limitations, subject to the terms described under "–Allocation among Investors".

- *for institutional investors* – orders are accepted into the order book without limitations, subject to the terms described under "–Allocation among Investors".

Allocation among Investors

The procedure for allocation of the Offered Shares among various groups of investors in the Offering shall be as follows. The date on which an order was admitted into the order book is not taken into account in the allocation process.

1. The market maker's order for Offered Shares is satisfied on a priority basis.

2. Retail investor orders for Offered Shares are fully satisfied within the limits of KZT 7,000,000.

3. If the aggregate amount of the retail investor orders mentioned above exceeds the total amount of Offered Shares (less the market maker's orders for Offered Shares), the fulfillment of orders will be reduced as follows:

   - the reduction will start from the maximum orders satisfaction amount equal to KZT 7,000,000;

   - the reduction step is the amount equal to the price of an Offered Share; and

   - the reduction is made until the demand and offer of the Offered Shares are balanced.

4. The Shares remaining after satisfaction of the market maker and retail orders described above are to be allocated to institutional investors in accordance with their orders.

5. If the aggregate demand from institutional investors exceeds the remaining amount of Offered Shares (i.e. the total amount of Offered Shares less the market maker and retail orders) institutional investors' orders will be satisfied pro rata to their orders.

6. The Offered Shares not allocated to investors pursuant to the above procedures are distributed among retail investors who submitted orders in excess of KZT 7,000,000 as follows:

    - if the aggregate demand is less than the remaining amount of Offered Shares, all orders are fully satisfied; and

    - if the aggregate demand is greater than the remaining amount of Offered Shares, orders are satisfied on a pro rata basis.

7. The Offered Shares that remain unsubscribed after the application of paragraphs 1 through 6 above are to be offered on an organised securities market not earlier than six months after the date of the Offering under the "People's IPO" Program in accordance with the statutory procedure.

KazTransOil JSC

Interim Condensed Consolidated Financial Statements

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

CONTENT

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholder and Management of KazTransOil JSC:

Introduction

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

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

Scope of review

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

ERNST & YOUNG

Conclusion

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

Ernst & Young LLP

Gulmira Turmagambetova
Auditor

Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

9 August 2012

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

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

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

General Director ______ *Kabyldin K.M.*

Chief Accountant ______ *Akhmedina A.S.*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

General Director _______ *Kabyldin K.M.*

Chief Accountant _______ *Akhmedina A.S.*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

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

NON-CASH TRANSACTIONS

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

Tax offset

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

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

General Director _______ *Kabyldin K.M.*

Chief Accountant _______ *Akhmedina A.S.*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

General Director ______ *Kabyldin K.M.*

Chief Accountant ______ *Akhmedina A.S.*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

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

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

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

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

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Basis of preparation of financial statements

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

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

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

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

Foreign currency translation

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

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

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

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SEASONALITY OF OPERATIONS

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

4. SEGMENT INFORMATION

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENT INFORMATION (continued)

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

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

Management analyses its operating segments by segment profit.

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENT INFORMATION (continued)

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. PROPERTY, PLANT AND EQUIPMENT

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INTANGIBLE ASSETS

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

7. INVESTMENTS IN JOINT VENTURES

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN JOINT VENTURES (continued)

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

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

8. ADVANCES TO SUPPLIERS FOR NON-CURRENT ASSETS

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

Movements in the allowance for doubtful debts were as follows:

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVENTORIES

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

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

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

10. TRADE AND OTHER ACCOUNTS RECEIVABLE

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

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

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

11. ADVANCES TO SUPPLIERS

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

Movements in allowance for impairment of advances were as follows:

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

12. VAT RECOVERABLE AND OTHER TAXES PREPAID

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

13. OTHER CURRENT ASSETS

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. BANK DEPOSITS

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

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

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

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

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

Bank deposits are denominated in the following currencies:

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

15. CASH AND CASH EQUIVALENTS

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. EQUITY

Share split

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

Earnings per share

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

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

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

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

Book value of ordinary shares

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. LOANS AND BORROWINGS

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

Halyk Bank Georgia

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

Sberbank of Russia

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

18. DEFERRED INCOME

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

19. TRADE AND OTHER ACCOUNTS PAYABLE

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. ADVANCES RECEIVED

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

21. OTHER TAXES PAYABLE

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

22. PROVISIONS

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

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

23. OTHER CURRENT LIABILITIES

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

24. REVENUE

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. COST OF SALES

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

26. GENERAL AND ADMINISTRATIVE EXPENSES

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. OTHER OPERATING INCOME

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

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

28. FINANCE INCOME

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

29. FINANCE COSTS

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

30. INCOME TAX EXPENSE

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. RELATED PARTY TRANSACTIONS

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

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

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

Other Long term assets from related parties are as follows:

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

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

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

Advances provided to related parties are as follows:

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. RELATED PARTY TRANSACTIONS (continued)

Other current assets from related parties are as follows:

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

Financial guarantee:

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

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

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

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

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

Advances received from related parties are as follows:

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. RELATED PARTY TRANSACTIONS (continued)

Other current liabilities to related parties are as follows:

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

The Group had the following transactions with the related parties:

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. RELATED PARTY TRANSACTIONS (continued)

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

Total remuneration of members of key management personnel comprised:

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

32. CONTINGENT LIABILITIES AND COMMITMENTS

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

Covenants

Guarantees

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

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

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

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

Contractual commitments

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Contractual commitments (continued)

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

Other contingent liabilities

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

33. EVENTS AFTER THE REPORTING PERIOD

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

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

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

KazTransOil JSC

Consolidated Financial Statements

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of KazTransOil JSC:

We have audited the accompanying consolidated financial statements of KazTransOil JSC and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2011, 2010 and 2009, and consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial positions of KazTransOil JSC as at 31 December 2011, 2010 and 2009, and its financial performance and its cash flows for the years 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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	Note	**31 December 2011**	31 December 2010	31 December 2009
ASSETS				
Non-current assets				
Property, plant and equipment	7	**330,514,478**	325,522,559	247,050,582
Intangible assets	8	**6,229,037**	7,189,956	9,805,960
Investments in joint ventures	9	**32,418,904**	9,118,148	5,262,464
Advances to suppliers for property, plant and equipment	10	**638,912**	417,522	1,886,728
Bank deposits	16	**6,000,000**	–	–
Other non-current assets		**351,086**	170,410	194,918
		376,152,417	342,418,595	264,200,652
Current assets				
Inventories	11	**2,784,431**	3,191,088	3,192,705
Trade and other accounts receivable	12	**7,689,387**	6,552,547	7,035,257
Advances to suppliers	13	**744,898**	742,008	685,674
Prepayment for corporate income tax	35	**1,756,038**	1,337,084	1,946,748
VAT recoverable and other prepaid taxes	14	**3,633,715**	6,471,575	5,530,917
Other current assets	15	**262,329**	154,506	670,174
Bank deposits	16	**35,123,823**	40,932,958	25,291,135
Cash and cash equivalents	17	**21,852,387**	16,914,394	16,401,503
		73,847,008	76,296,160	60,754,113
Assets classified as held for sale		**29,502**	–	378,378
		73,876,510	76,296,160	61,132,491
TOTAL ASSETS		**450,028,927**	418,714,755	325,333,143

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Note	31 December 2011	31 December 2010	31 December 2009
EQUITY AND LIABILITIES				
Equity				
Share capital	18	**34,617,204**	32,916,055	32,916,055
Asset revaluation reserve	18	**138,056,828**	124,828,954	48,783,757
Other capital reserves		**17,104**	17,104	17,104
Foreign currency translation reserve		**9,334,129**	8,590,235	8,878,846
Retained earnings		**189,472,821**	171,962,450	152,206,983
Total equity		**371,498,086**	338,314,798	242,802,745
Non-current liabilities				
Loans and borrowings	19	–	294,800	10,346,912
Financial guarantee issued on behalf of related party	37	**338,919**	232,071	301,141
Employee benefit liability	20	**5,909,892**	2,580,804	2,337,120
Deferred tax liabilities	35	**34,201,711**	36,044,262	20,686,894
Deferred income	21	**4,756,050**	5,053,861	5,218,819
Other non-current accounts payable		–	8,465	7,731
		45,206,572	44,214,263	38,898,617
Current liabilities				
Loans and borrowings	19	**303,181**	296,864	10,345,517
Employee benefit liability	20	**226,000**	141,000	131,880
Income tax payable	35	**1,156,184**	908,131	476,041
Trade and other accounts payable	22	**15,149,470**	14,100,509	12,890,968
Advances received	23	**11,226,796**	10,886,410	10,096,754
Other taxes payable	24	**1,269,317**	1,449,103	917,594
Provisions	25	**287,727**	3,946,660	4,530,699
Other current liabilities	26	**3,705,594**	4,457,017	4,242,328
		33,324,269	36,185,694	43,631,781
Total liabilities		**78,530,841**	80,399,957	82,530,398
TOTAL EQUITY AND LIABILITIES		**450,028,927**	418,714,755	325,333,143
Book value of ordinary shares *(in Tenge)*	6	**10,552**	10,060	7,079

The accounting policy and explanatory notes on pages 8 through 61 form an integral part of these consolidated financial statements.

General Director _______________ *Kabyldin K.M.*

Chief Accountant _______________ *Akhmedina A.S.*

KazTransOil

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	**Note**	**2011**	2010	2009
Revenue	27	**140,478,092**	138,240,940	126,181,133
Cost of sales	28	**(96,298,683)**	(82,406,630)	(71,442,500)
Gross profit		**44,179,409**	55,834,310	54,738,633
General and administrative expenses	29	**(6,730,370)**	(7,114,619)	(9,104,796)
Other operating income	30	**1,645,165**	2,055,088	1,092,860
Other operating expenses	31	**(2,766,295)**	(805,658)	(1,124,886)
Impairment of property, plant and equipment and intangible assets	7,8	**(7,409,186)**	(22,333,457)	(1,246,788)
Effect of recognizing of liabilities associated with acquisition in 2008		**–**	–	(5,017,821)
Impairment of goodwill	8	**–**	(2,370,792)	(1,306,548)
Operating profit		**28,918,723**	25,264,872	38,030,654
Net foreign exchange loss	32	**(434,972)**	(265,221)	(7,011,967)
Finance income	33	**2,895,026**	1,882,967	2,283,646
Finance costs	34	**(308,356)**	(863,112)	(1,995,645)
Share in income / (losses) of joint ventures	9	**1,602,528**	62,702	(2,912,125)
Profit before tax		**32,672,949**	26,082,208	28,394,563
Income tax expense	35	**(6,727,552)**	(6,463,907)	(12,856,131)
Profit for the year		**25,945,397**	**19,618,301**	**15,538,432**
Earnings per share *(in Tenge)*	6	**768**	596	472

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of Tenge	Note	**2011**	2010	2009
Other comprehensive income of the Group				
Foreign currency translation		**742,221**	(288,611)	8,956,622
Revaluation of property, plant and equipment	7	**13,582,220**	106,956,789	5,013,707
Income tax effect	35	**(2,716,444)**	(21,213,188)	(1,002,242)
		10,865,776	85,743,601	4,011,465
Impairment of property, plant and equipment	7	**(8,791,902)**	(7,971,841)	(242,291)
Income tax effect	35	**1,353,218**	1,581,031	48,458
		(7,438,684)	(6,390,810)	(193,833)
Other comprehensive income for the year of the Group, net of tax		**4,169,313**	79,064,180	12,774,254
Share of the other comprehensive income of joint ventures accounted for using the equity method				
Foreign currency translation		**1,673**	–	–
Revaluation of property, plant and equipment	9	**27,120,693**	5,213,474	–
Income tax effect		**(5,424,139)**	(1,043,622)	–
		21,696,554	4,169,852	–
Impairment of property, plant and equipment	9	–	–	(624)
Income tax effect		–	–	125
		–	–	(499)
Share of the other comprehensive income of joint ventures accounted for using the equity method, net of tax		**21,698,227**	4,169,852	(499)
Total other comprehensive income for the year, net of tax		**25,867,540**	83,234,032	12,773,755
Total comprehensive income for the year, net of tax		**51,812,937**	102,852,333	28,312,187

The accounting policy and explanatory notes on pages 8 through 61 form an integral part of these consolidated financial statements.

General Director _______________ *Kabyldin K.M.*

Chief Accountant _______________ *Akhmedina A.S.*

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Tenge	Note	For the years ended 31 December 2011	2010	2009
Cash flows from operating activities:				
Profit before tax		**32,672,949**	26,082,208	28,394,563
Non-cash adjustment to reconcile profit before tax to net cash flows:				
Depreciation and amortization	28, 29	**27,715,962**	22,058,358	17,204,943
Allowance / (Reverse of) for doubtful debts	29	**41,582**	(2,117,636)	567
Share in (income) / losses of joint ventures	9	**(1,602,528)**	(62,702)	2,912,125
Finance costs	34	**308,356**	863,112	1,995,645
Finance income	33	**(2,895,026)**	(1,882,967)	(2,283,646)
Actuarial losses	31	**1,540,000**	27,000	276,474
Employee benefits	20	**1,934,000**	203,000	191,000
(Reverse of) / Charge of Provisions	25	**(3,657,377)**	–	807,209
Loss on disposal of property, plant and equipment and intangible assets, net	31	**523,329**	253,784	88,524
Gain from disposal of assets classified as held for sale	31, 30	**(13,749)**	–	–
Effect of recognizing of liabilities associated with acquisition in 2008		**–**	–	5,017,821
Impairment of goodwill	8	**–**	2,370,792	1,306,548
Impairment of property plant and equipment	7,8	**7,409,186**	22,333,457	1,246,788
Income from write-off of payables	30	**(9,930)**	(30,692)	(25,038)
Amortization of deferred income	30	**(312,365)**	(312,366)	(519,071)
Write-off of VAT recoverable	29	**316,627**	346,922	341,258
Amortization of financial guarantee issued on behalf of related party	30	**(136,070)**	(67,098)	(67,171)
Unrealized foreign exchange loss		**576,332**	265,221	6,872,546
Write-off of loans given to employees		**–**	1,875	–
Allowance / (Reversal of) provision for allowance for obsolete inventory	29	**2,892**	(2,984)	(118,181)
Operating cash flows before working capital changes:		**64,414,170**	70,329,284	63,642,904
Changes in inventories		**403,765**	2,710,616	15,947
Changes in trade and other accounts receivable		**(1,119,231)**	(86,719)	(1,020,998)
Changes in advances to suppliers		**(5,317)**	(56,125)	(412,331)
Changes in taxes recoverable and other current assets		**341,699**	1,189,384	(177,970)
Changes in trade and other accounts payable		**454,462**	1,239,500	(666,544)
Changes in advances received		**340,386**	789,656	2,025,276
Changes in taxes payable		**(179,786)**	531,509	113,753
Changes in other current and non-current liabilities and employee benefits		**(977,395)**	40,240	3,735,272
Cash generated from operations:		**63,672,753**	76,687,345	67,255,309
Income taxes paid		**(7,910,075)**	(10,005,630)	(8,295,068)
Interest received		**2,311,977**	1,371,197	3,308,075
Interest paid		**(66,272)**	(376,228)	(2,224,053)
Net cash flow from operating activities		**58,008,383**	67,676,684	60,044,263

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Note	2011	2010	2009
		For the years ended 31 December		
Cash flows from investing activities:				
Withdrawal of term deposits		**51,483,846**	51,143,178	45,292,327
Placement of term deposits		**(51,145,698)**	(66,486,370)	(50,852,310)
Repayment of loans provided to related parties		–	–	3,777,305
Purchase of property, plant and equipment		**(33,775,309)**	(25,637,918)	(29,260,128)
Purchase of intangible assets		**(289,221)**	(131,064)	(110,513)
Proceeds from disposal of property, plant and equipment and intangible assets		**27,096**	604,943	847,189
Proceeds from disposal of assets calssified as held for sale		**229,461**	564,597	–
Dividends received		**17,608**	422,916	765,020
Net cash flow used in investing activities		**(33,452,217)**	(39,519,718)	(29,541,110)
Cash flows from financing activities:				
Proceeds from loans and borrowings		**299,105**	44,205	103,250
Repayment of loans and borrowings		–	(20,348,000)	(26,005,469)
Repayment of interest free loans		**(586,480)**	–	–
Dividends paid	18	**(19,330,798)**	(7,340,280)	(6,023,638)
Net cash flow used in financing activities		**(19,618,173)**	(27,644,075)	(31,925,857)
Net change in cash and cash equivalents		**4,937,993**	512,891	(1,422,704)
Cash and cash equivalents at the beginning of the year	17	**16,914,394**	16,401,503	17,824,207
Cash and cash equivalents at the end of the year	17	**21,852,387**	16,914,394	16,401,503

NON-CASH TRANSACTIONS

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

Depreciation included in cost of construction in progress

The amount of depreciation for 2011 included in cost of construction in progress was 11,054 thousand Tenge (2010: 13,020 thousand Tenge; 2009: 15,164 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; 2009; nil)

Deferred income

In 2009 the Group recognized deferred income of 1,874,193 thousand Tenge from reconstruction of railroad overpass which was received free-of-charge in 2009. Deferred income amortized in 2011 amounted to 312,365 thousand Tenge (2010: 312,366 thousand Tenge; 2009: 519,071 thousand Tenge) (*Note 30*).

The accounting policy and explanatory notes on pages 8 through 61 form an integral part of these consolidated financial statements.

General Director ____________ *Kabyldin K.M.*

Chief Accountant ____________ *Akhmedina A.S.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Note	Share capital	Asset revaluation reserve	Other capital reserves	Foreign currency translation reserve	Retained earnings	Total
As at 1 January 2009		**32,916,055**	**49,917,152**	**17,104**	**(77,776)**	**137,741,661**	**220,514,196**
Profit for the year		–		–	–	15,538,432	**15,538,432**
Other comprehensive income		–	3,817,133	–	8,956,622	–	**12,773,755**
Total other comprehensive income for the year		**–**	**3,817,133**	**–**	**8,956,622**	**15,538,432**	**28,312,187**
Depreciation transfer of revalued property, plant and equipment		–	(4,950,528)	–	–	4,950,528	–
Dividends	18	–	–	–	–	(6,023,638)	**(6,023,638)**
As at 31 December 2009		**32,916,055**	**48,783,757**	**17,104**	**8,878,846**	**152,206,983**	**242,802,745**
Profit for the year		–	–	–	–	19,618,301	**19,618,301**
Other comprehensive income		–	83,522,643	–	(288,611)	–	**83,234,032**
Total other comprehensive income for the year		**–**	**83,522,643**	**–**	**(288,611)**	**19,618,301**	**102,852,333**
Depreciation transfer of revalued property, plant and equipment		–	(7,477,446)	–	–	7,477,446	–
Dividends	18	–	–	–	–	(7,340,280)	**(7,340,280)**
As at 31 December 2010		**32,916,055**	**124,828,954**	**17,104**	**8,590,235**	**171,962,450**	**338,314,798**
Profit for the year		–	–	–	–	25,945,397	**25,945,397**
Other comprehensive income		–	25,123,646	–	743,894	–	**25,867,540**
Total other comprehensive income for the year		**–**	**25,123,646**	**–**	**743,894**	**25,945,397**	**51,812,937**
Depreciation transfer of revalued property, plant and equipment		–	(12,424,089)	–	–	12,424,089	–
Shares issuance	18	1,701,149	–	–	–	–	**1,701,149**
Dividends	18	–	–	–	–	(19,330,798)	**(19,330,798)**
Other distributions	18	–	–	–	–	(1,000,000)	**(1,000,000)**
Foreign currency translation		–	528,317	–	–	(528,317)	–
As at 31 December 2011		**34,617,204**	**138,056,828**	**17,104**	**9,334,129**	**189,472,821**	**371,498,086**

The accounting policy and explanatory notes on pages 8 through 61 form an integral part of these consolidated financial statements.

General Director _________ *Kabyldin K.M.*

Chief Accountant _________ *Akhmedina A.S.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

On 31 May 2004, 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	*Ownership* 31 December 2011	31 December 2010	31 December 2009
KTO–Service JSC ("KTO–Service")	Kazakhstan	Management of non-production assets	**100%**	100%	100%
SZTK MunayTas JSC ("MunayTas")	Kazakhstan	Oil transportation	**51%**	51%	51%
Kazakhstan–China Pipeline LLP ("KCP")	Kazakhstan	Oil transportation	**50%**	50%	50%
Batumi Capital Partners Limited ("BCPL")	Cyprus*	Forwarding, transhipment and storage of oil and oil products	**50%***	50%*	50%*
Batumi Industrial Holdings Limited ("BIHL")	Cyprus*	Forwarding, transhipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	**100%***	100%*	100%*

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION

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

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

3. BASIS OF CONSOLIDATION

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1. Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2. Interest in a joint venture

The Group has interests in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of these entities. Arrangements require participants to have agreed votes in regards, to financial and operational policies. The Group's investment in its joint ventures is accounted for using the equity method.

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

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

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

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

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

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

4.3. Foreign currency translation

The Group's consolidated financial statements are presented in Tenge, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date of the transaction first qualified for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency 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 terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3. Foreign currency translation (continued)

Group companies

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

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

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2005 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange of the reporting date.

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 2011, the currency exchange rate of KASE was:

Tenge	**31 December 2011**	31 December 2010	31 December 2009
USD	**148.40**	147.40	148.36
RUB	**4.61**	4.84	4.92
EUR	**191.72**	195.23	212.84
Lari	**88.63**	83.17	87.99

4.4. 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.

4.5. 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 Group 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 differ materially from its carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5. Property, plant and equipment (continued)

Any revaluation surplus is recorded in other comprehensive income and, have 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.

4.6. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. 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 except for goodwill 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7. Impairment of non-financial assets

The Group 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 Group 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 Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group'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.

For assets excluding goodwill, 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 Group 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.

Goodwill

Goodwill is tested for impairment annually (as at 30 September) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognised.

4.8. 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 Group 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 Group commits to purchase or sell the asset.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8. Financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss 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 Group has not designated any financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and 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 Group 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 Group did not have any held-to-maturity investments during the years ended 31 December 2011, 2010 and 2009.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8. Financial assets (continued)

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset 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 Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

4.9. Impairment of financial assets

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

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

If there is objective evidence that an impairment loss has 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 comprehensive statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the comprehensive statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Impairment of financial assets (continued)

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.

4.10. 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 Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, loans and borrowings, 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 Group 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 amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

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

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

Derecognition

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

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

4.11. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

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 39.*

4.13. 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.

4.14. 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 consolidated statement 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.

4.15. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects 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.

4.16. Employment benefits

The Parent 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 consolidated statement of comprehensive income as interest cost. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16. Employment benefits (continued)

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.

4.17. Revenue and other income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group 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:

Rendering of transportation services

Revenue from rendering of transportation and transhipment 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 Group's right to receive the payment is established.

4.18. 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 Group 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18. Taxes (continued)

Deferred tax (continued)

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.

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 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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

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 Group's operations a certain part of input VAT can be carried over into subsequent years. Such portion of VAT is classified as long-term asset and assessed for impairment and considered as a corporate asset allocated to existing cash generating units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19. 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 consolidated financial statements are authorized for issue.

4.20. 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:

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 Group. The Group 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 consolidated 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 Group because the Group 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 Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20. Changes in Accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

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 Group.

- 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 Group, 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 consolidated financial statements.

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

- IFRS 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 Group:

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

4.21. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group 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 Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21. Standards issued but not yet effective

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 Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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 Group'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 Group'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 Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21. Standards issued but not yet effective (continued)

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Group as the Group applies equity method to account its investments in JCEs in all periods presented.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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 Group 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.

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated 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 Group based its assumptions and estimates on parameters available when the consolidated 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 Group. 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) except for the property, plant and equipement of BIHL, that were revalued as of 31 December 2010. The revaluation was performed on the basis of an appraisal performed by an independent professional real estate appraisal company operating in the Republic of Kazakhstan under an appropriate license. The methods used to fair value property, plant and equipment were the cost (for specialised assets – depreciated replacement cost approach), the comparative (using comparative sales method) and the income approaches.

In applying the cost approach, key assumptions considered were:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Estimates and assumptions (continued)

Revaluation of property, plant and equipment (continued)

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 Group'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 Group 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 Group 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; 2009: 125 US Dollars (18,579 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; 2009: 2,101 thousand tons).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. 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 Group recognized an impairment of 15,666,218 thousand Tenge (2010: 30,305,298 thousand Tenge; 2009: 1,489,079 thousands Tenge) where the impairment of 6,874,316 thousand Tenge (2010: 22,333,457 thousand Tenge; 2009:1,246,788 thousand Tenge) was recognized in profit and losses 8,791,902 thousand Tenge (2010: 7,971,841 thousand Tenge; 2009: 242,291 thousand Tenge) was recognized in equity *(Note 7)*.

Useful lives of items of property, plant and equipment

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

Asset retirement obligation

The Group 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 Group has to abandon the pipelines. Currently, management does not believe that the Group 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 consolidated financial statements. Future changes to regulations or future incidents could require or oblige the Group to incur environmental liabilities or take certain actions upon decommissioning.

Allowances for doubdfull debts

The Group 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 consolidated financial statements. As of 31 December 2011, 2010 and 2009 allowances for doubtful accounts have been created for the amount of 115,747 thousand Tenge, 599,570 thousand Tenge and 2,632,193 thousand Tenge, respectively (*Notes 10, 12, 13 and 14*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Estimates and assumptions (continued)

Provisions

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

Significant management judgment is required to estimate the amount the Group may be liable for and the amount is subject to change depending on the outcome of the legal proceedings. As of 31 December 2011, tax provision amounted to 227,646 thousand Tenge (2010: 3,944,960 thousand Tenge; 2009: 4,519,823 thousand Tenge), what the management of the Group believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour. 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 Group reversed the provison in the amount of 3,718,848 thousand Tenge (*Note 25*).

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 judgement 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 2,913,773 thousand Tenge (2010: 2,541,633 thousand Tenge; 2009: 2,377,665 thousand Tenge) (*Note 35*).

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 20.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

As the parent company of the Group does not issue convertible financial instruments, basic earnings per share is equal to diluted earnings per share.

The following reflects the income and share data used in the basic earnings per share computations:

In thousands Tenge	**31 December 2011**	31 December 2010	31 December 2009
Net profit attributable to ordinary equity holders of the parent			
Net profit attributable to ordinary equity holders of the parent for basic earnings	**25,945,397**	19,618,301	15,538,432
Weighted average number of ordinary shares for basic earnings per share	**33,766,630**	32,916,055	32,916,055
Basic earnings per share,in relation to profit for the year attributable to ordinary equity holders of the parent Company *(in Tenge)*	**768**	596	472

Book value of the ordinary shares in accordance with requirements of KASE of the Parent company of the Group is as follows:

In thousands Tenge	**31 December 2011**	31 December 2010	31 December 2009
Total Assets	**450,028,927**	418,714,755	325,333,143
Less: Intangible assets	**(6,229,037)**	(7,189,956)	(9,805,960)
Less: Total Liabilities	**(78,530,841)**	(80,399,957)	(82,530,398)
Net assets for calculation of book value of ordinary shares	**365,269,049**	331,124,842	232,996,785
Quantity of ordinary shares	**34,617,204**	32,916,055	32,916,055
Book value of ordinary shares *(in Tenge)*	**10,552**	10,060	7,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. 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 2009	**14,542,841**	**52,622,416**	**6,188,045**	**34,863,857**	**68,457,665**	**38,319,922**	**9,670,298**	**7,956,066**	**232,621,110**
Foreign currency translation	3,449,784	–	(120,914)	1,008,952	1,950,991	–	406,709	(69,219)	**6,626,303**
Additions	153,097	25,595	1,590,503	1,490,801	1,645,618	297,200	577,267	23,537,160	**29,317,241**
Disposals	(192,992)	(298,364)	(67,733)	(1,022,387)	(936,838)	(150,879)	(1,748,840)	(275,538)	**(4,693,571)**
Depreciation charge	–	(4,399,467)	(697,079)	(1,750,277)	(7,896,781)	–	(1,706,592)	–	**(16,450,196)**
Accumulated depreciation on disposal	–	265,771	30,379	111,718	423,424	–	194,244	–	**1,025,536**
Impairment (included in net profit)	(30,150)	(129,751)	(849)	(815,675)	(83,148)	(136,156)	(31,874)	(19,185)	**(1,246,788)**
Impairment (revaluation reserve)	–	(206,903)	–	(13,961)	(20,508)	–	(919)	–	**(242,291)**
Revaluation (revaluation reserve)	3,318,976	–	46,615	–	–	718,327	894,718	35,071	**5,013,707**
Transfer from construction-in-progress	469	4,617,660	218,733	4,663,086	10,225,813	–	1,297,410	(21,023,171)	–
Transfer to Intangible assets	(4,746,533)	–	–	–	–	–	–	(173,936)	**(4,920,469)**
Transfers and reclassifications	3,792,311	2,074,273	(532,915)	(3,517,773)	(1,875,918)	–	60,022	–	–
Net book value as at 31 December 2009	**20,287,803**	**54,571,230**	**6,654,785**	**35,018,341**	**71,890,318**	**39,048,414**	**9,612,443**	**9,967,248**	**247,050,582**
Foreign currency translation	(129,203)	–	(10,262)	(30,526)	(43,282)	–	(12,292)	(3,171)	**(228,736)**
Additions	30,603	50,989	600,786	26,148	1,419,762	18,575	716,669	22,162,567	**25,026,099**
Disposals	(208,864)	(1,115,453)	(130,447)	(400,365)	(163,356)	(17,784)	(144,221)	(447,422)	**(2,627,912)**
Depreciation charge	–	(6,880,516)	(978,090)	(3,878,545)	(7,736,693)	–	(1,779,819)	–	**(21,253,663)**
Accumulated depreciation on disposal	–	1,090,917	41,903	69,651	81,054	–	105,224	–	**1,388,749**
Impairment (included in net profit)	(7,342,309)	(4,208,402)	(753,200)	(3,638,249)	(5,777,329)	72,101	(653,212)	(499,790)	**(22,800,390)**
Impairment (revaluation reserve)	(60,125)	(1,328,547)	(19,990)	(90,780)	(6,443,613)	–	(28,786)	–	**(7,971,841)**
Revaluation (revaluation reserve)	2,883,849	41,180,232	1,409,947	38,088,004	14,671,416	5,969,407	1,967,458	786,476	**106,956,789**
Recovery of impairment reserve (included in net profit)	466,933	–	–	–	–	–	–	–	**466,933**
Transfer from construction-in-progress	15,938	4,413,219	212,491	7,931,312	10,480,277	–	887,906	(23,941,143)	–
Transfer to Intangible assets	–	–	–	–	–	–	–	(484,051)	**(484,051)**
Transfers and reclassifications	–	3,163,996	(231,051)	(16,420)	(3,357,663)	–	414,302	26,836	–
Net book value as at 31 December 2010	**15,944,625**	**90,937,665**	**6,796,872**	**73,078,571**	**75,020,891**	**45,090,713**	**11,085,672**	**7,567,550**	**325,522,559**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
Net book value as at 31 December 2010	**15,944,625**	**90,937,665**	**6,796,872**	**73,078,571**	**75,020,891**	**45,090,713**	**11,085,672**	**7,567,550**	**325,522,559**
Foreign currency translation	32,977		359,123	792,840	(903,405)		(18,505)	113,176	**376,206**
Additions	192,386	765,482	616,071	1,766,247	2,010,881	6,945	997,231	28,515,312	**34,870,555**
Disposals	(3,581)	(186,521)	(41,196)	(745,484)	(172,285)	(1,728)	(172,452)	(320,670)	**(1,643,917)**
Depreciation charge	–	(9,320,851)	(1,094,561)	(6,313,079)	(8,181,093)	–	(1,928,669)	–	**(26,838,253)**
Accumulated depreciation on disposal	–	161,344	36,832	47,033	95,796	–	121,666	–	**462,671**
Impairment (included in net profit)	(5,320,693)	(73,367)	(124,319)	(858,623)	(654,279)	–	(19,181)	–	**(7,050,462)**
Impairment (revaluation reserve)	(136,943)	(244,996)	(142,275)	(5,931,915)	(2,301,384)	–	(34,389)	–	**(8,791,902)**
Revaluation (revaluation reserve)	–	–	–	–	–	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	133,304	3,035,890	6,230,224	–	1,474,425	(13,787,852)	–
Transfer to Intangible assets	–	–	–	–	(4,347)	–	(3,279)	(143,719)	**(151,345)**
Transfers and reclassifications	–	(13,002)	(137,151)	6,702,971	(4,585,667)	–	(1,862,025)	(105,126)	–
Net book value as at 31 December 2011	**10,725,968**	**84,922,566**	**6,402,700**	**71,574,451**	**66,555,332**	**58,853,972**	**9,640,494**	**21,838,995**	**330,514,478**

Property, plant and equipment are revalued, depending on changes in fair value of property, plant and equipment. The Group 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, except for property, plant and equipment of BIHL, revalued at 30 December 2010. The revaluation was performed based on the reports of independent appraiser, who hold a recognised and relevant professional qualification and experience *(Note 5)*.

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 Group *(Note 18)*.

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 construction-in-progress includes materials and spare parts in the amount of 10,664,024 thousand Tenge (2010: 1,199,074 thousand Tenge; 2009: 1,174,163 thousand Tenge), which were purchased for construction purposes.

As of 31 December 2011 the cost of fully depreciated but still in use property, plant and equipment were 1,792,193 thousand Tenge (2010: 726,349 thousand Tenge; 2009: 9,484,936 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

As of 31 December 2011 cost of property, plant and equipment which temporarily are not in use is 1,521,241 thousand Tenge (2010: 1,439,892 thousand Tenge; 2009: 879,841 thousand Tenge).

As of September 30, 2011, BIHL, a 100% subsidiary of the Group, recognized an impairment loss of 15,038,812 thousand Tenge on its property, plant and equipment. This impairment was recognized due to decrease of projected revenue. Management assessed that the assets are not recoverable through normal operating activity *(Note 8)*.

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

	Land	Buildings	Machinery and equipment	Pipelines	Transportation assets	Technological oil	Other	Construction in progress	Total
At 31 December 2011	**12,120,206**	**35,772,599**	**53,908,121**	**42,228,209**	**5,213,019**	**1,172,541**	**7,737,682**	**21,740,845**	**179,893,222**
At 31 December 2010	19,998,618	34,157,493	56,020,495	43,015,633	5,084,114	1,165,650	8,254,102	7,280,949	174,977,054
At 31 December 2009	20,217,348	28,000,332	46,491,605	39,067,769	12,251,254	1,147,561	7,653,863	49,697,762	204,527,494

8. INTANGIBLE ASSETS

In thousands of Tenge	Goodwill	Licenses	Software	Right for land use	Other	Total
Net book value at 1 January 2009	**2,151,310**	**56,327**	**1,281,186**	**–**	**708,243**	**4,197,066**
Additions	–	2,894	65,359	–	42,260	**110,513**
Disposals	–	–	(5,173)	–	(184,491)	**(189,664)**
Amortization charge	–	(16,912)	(432,907)	(170,388)	(149,704)	**(769,911)**
Accumulated amortization on disposals	–	–	4,851	–	–	**4,851**
Impairment	(1,306,548)	–	–	–	–	**(1,306,548)**
Transfers from property, plant and equipment	–	–	173,936	4,746,533	–	**4,920,469**
Foreign currency translation	1,526,030	–	845	1,164,699	147,610	**2,839,184**
Net book value at 31 December 2009	**2,370,792**	**42,309**	**1,088,097**	**5,740,844**	**563,918**	**9,805,960**
Additions	–	4,489	115,293	–	11,284	**131,066**
Disposals	–	–	(25,433)	–	(1,986)	**(27,419)**
Amortization charge	–	(16,551)	(450,217)	(195,652)	(155,295)	**(817,715)**
Accumulated amortization on disposals	–	–	25,289	–	82	**25,371**
Impairment	(2,370,792)	–	–	–	–	**(2,370,792)**
Transfers from property, plant and equipment	–	234,547	249,504	–	–	**484,051**
Foreign currency translation	–	(296)	(12)	(37,147)	(3,111)	**(40,566)**
Transfers and reclassifications	–	(4,273)	4,571	–	(298)	–
Net book value at 31 December 2010	**–**	**260,225**	**1,007,092**	**5,508,045**	**414,594**	**7,189,956**
Additions	–	22,908	265,790	–	523	**289,221**
Disposals	–	(1,118)	(14,110)	–		**(15,228)**
Amortization charge	–	(67,986)	(443,905)	(321,978)	(54,894)	**(888,763)**
Accumulated amortization on disposals	–	1,118	10,933	–	–	**12,051**
Impairment	–	–	–	(534,870)	–	**(534,870)**
Transfers from property, plant and equipment	–	9,056	142,289	–	–	**151,345**
Foreign currency translation	–	(294)	639	23,203	1,777	**25,325**
Transfers and reclassifications	–	28,564	(32,354)	–	3,790	–
Net book value at 31 December 2011	**–**	**252,473**	**936,374**	**4,674,400**	**365,790**	**6,229,037**

8. INTANGIBLE ASSETS (continued)

In thousands of Tenge	Goodwill	Licenses	Software	Right for land use	Other	Total
As at 31 December 2011						
At cost	21,374,497	377,246	3,555,659	5,860,598	742,115	**31,910,115**
Impairment	(21,374,497)	–	–	(534,870)	–	**(21,909,367)**
Accumulated amortization		(124,773)	(2,619,285)	(651,328)	(376,325)	**(3,771,711)**
Net book value	–	**252,473**	**936,374**	**4,674,400**	**365,790**	**6,229,037**
As at 31 December 2010						
At cost	21,230,473	316,958	3,194,362	5,902,831	733,635	**31,378,259**
Impairment	(21,230,473)	–	–	–	–	**(21,230,473)**
Accumulated amortization	–	(56,733)	(2,187,270)	(394,786)	(319,041)	**(2,957,830)**
Net book value	–	**260,225**	**1,007,092**	**5,508,045**	**414,594**	**7,189,956**
As at 31 December 2009						
At cost	21,230,473	82,745	2,850,159	5,939,978	728,587	**30,831,942**
Impairment	(18,859,681)	–	–	–	–	**(18,859,681)**
Accumulated amortization	–	(40,436)	(1,762,062)	(199,134)	(164,669)	**(2,166,301)**
Net book value	**2,370,792**	**42,309**	**1,088,097**	**5,740,844**	**563,918**	**9,805,960**

Impairment Testing of Georgian entities

BIHL includes two cash generating units:

- Batumi Oil Terminal LLC ("BOT")
- Batumi Sea Port LLC ("BSP")

The Group reviews its Cash Generating Units ("CGUs") for indicators of impairment on an annual basis and considers both internal and external sources of information for assessing if the CGUs are impaired. As a result of assessment made in 2011, 2010 and 2009 the Group identified indicators of impairment in its two CGUs: BSP and BOT. In 2011 significant impairment was caused due decrease of projected revenue.

Impairment of Goodwill for 2009 and 2010

As operations of CGUs are interrelated they were considered as a signle cash-generating unit for impairment testing purposes of goodwill. The Group performed its annual impairment test as at 30 September 2010 (2009: September 30, 2009). The recoverable amount has been determined based on a value in use calculation using cash flow projections covering a ten-year period. The pre-tax discount rate applied to cash flow projections is 19.98% (2009: 19.11%) that was weighted-average cost of capital of BIHL.

As a result of this analysis, in 2010 management has recognized an impairment charge of 2,370,792 thousand Tenge against goodwill (2009: 1,306,548 thousand Tenge) which is recorded in profit and loss in 2010.

Impairment of property, plant and equipment for 2011

As a result of the impairment tests in 2009 and 2010, goodwill was fully impaired. Accordingly, impairment loss identified in 2011 was allocated to property, plant and equipment and intangibles.

BSP CGU:

The recoverable amount of the BSP CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a 10-year period. The projected cash flows have been updated to reflect the decreased level of transshipments. The pre-tax discount rate applied to cash flow projections is 16.53% and cash flows beyond the 10-year period are extrapolated using a 1.77% growth rate that is the same as the long-term average inflation rate. As a result of the updated analysis, the Management identified an impairment loss of this CGU in the amount of 1,517,224 thousand Tenge. 982,354 thousand Tenge were allocated to property plant and equipment and 534,870 were allocated to right for land use.

8. INTANGIBLE ASSETS (continued)

Impairment Testing of Georgian entities (continued)

Impairment of property, plant and equipment for 2011 (continued)

BOT CGU:

The recoverable amount of the BOT CGU is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a ten-year period. The projected cash flows have been updated to reflect the decreased transshipment level. The pre-tax discount rate applied to the cash flow projections is 16.19%. The growth rate used to extrapolate the cash flows of the CGU beyond the ten-year period is 1.77%, a long-term inflation rate. As a result of the updated analysis, the Management identified an impairment loss of this CGU in the amount of 14,056,458 thousand Tenge, whole amount were allocated to property, plant and quipment.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for cash-generating unit is most sensitive to the following assumptions:

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

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

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

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

Sensitivity of changes in assumptions

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

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

Long-term growth rate: Management has considered the possibility of greater than determined long-term grouth rate. Any increase in long-term grouth rate would result in a further impairment.

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

9. INVESTMENTS IN JOINT VENTURES

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
KCP	**22,879,691**	–	–
MunayTas	**9,539,213**	9,118,148	5,262,464
	32,418,904	9,118,148	5,262,464

During 2011, the Group has recognized its share in income of MunayTas in the amount of 421,065 thousand Tenge (2010: 62,702 thousand Tenge; 2009: 376,931 thousand Tenge) and the Group did not recognize any share in other comprehensive income of MunayTas (2010: other comprehensive income 4,169,853 thousand Tenge; 2009: other comprehensive loss 499 thousand Tenge). In 2011 MunayTas did not pay dividends. Total amount of dividends received from MunayTas in 2010 and 2009 amounted to 376,871 thousand Tenge and 765,020 thousand Tenge respectively, which resulted in corresponding change in carrying amount of investments in 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES (continued)

Amount of investment in KCP was reduced to nil in 2009 due to significant losses of this entity for an amount, which exceeded carrying amount of investments (share in loss of KCP in 2009 amounted to 18,563,447 thousand Tenge, in other comprehensive income 42,421 thousand Tenge). The Group's share in unrecognized losses of KCP amounted to 15,231,970 thousand Tenge as at 31 December 2009 (share in loss of KCP recognized by the Group as at 31 December, 2009 amounted to 3,289,056 thousand Tenge). During 2010, the Groups share in income was for an amount 7,173,561 thousand Tenge and in other comprehensive loss 1,772 thousand Tenge. As at 31 December 2010, Group's share in the unrecognized losses of KCP totalled to 8,060,181 thousand Tenge. Accordingly, balance of investments in KCP as at 31 December 2010 remains as zero. During 2011, the Group has recognized its share in income of KCP in the amount of 9,241,644 thousand Tenge, and share in other comprehensive income 21,698,228 thousand Tenge, which resulted in the balance of investments in the amount 22,879,691 thousand Tenge as at 31 December 2011.

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

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Share in total assets and liabilities of joint ventures			
Current assets	**17,317,510**	6,731,501	20,527,980
Non-current assets	**136,015,551**	110,091,333	104,572,910
Current liabilities	**(8,759,544)**	(9,472,860)	(9,573,644)
Non-current liabilities	**(112,154,613)**	(106,292,007)	(125,496,752)
Share in net assets	**32,418,904**	1,057,967	(9,969,506)

In thousands of Tenge	**2011**	2010	2009
Total revenue and net income of joint ventures for the year			
Revenue	**30,312,259**	26,913,132	14,442,050
Net income	**9,662,709**	7,236,263	(18,186,516)

10. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Advances to third parties for property, plant and equipment	**638,912**	516,852	1,986,058
Less: allowance for non-performance	**–**	(99,330)	(99,330)
	638,912	417,522	1,886,728

Movement in allowance for non-performance was as follows:

In thousands of Tenge	**2011**	2010	2009
As at 1 January	**99,330**	99,330	134,846
Charge for the year	**–**	–	4,490
Reversal of allowance	**–**	–	(40,006)
Write-off of advances	**(99,330)**	–	–
As at 31 December	**–**	99,330	99,330

Advances issued to suppliers for property, plant and equipment are denominated as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Tenge	**546,011**	402,782	1,854,261
US Dollars	**63,518**	11,498	19,589
Euro	**–**	3,095	2,532
Other currency	**29,383**	147	10,346
	638,912	417,522	1,886,728

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. INVENTORIES

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Spare parts	**962,954**	1,259,136	1,750,977
Fuel	**710,189**	898,192	873,526
Construction materials	**155,431**	93,146	104,651
Chemical reagents	**126,207**	213,070	183,127
Goods	**82,744**	43,476	23,813
Other	**801,184**	740,832	471,933
Less: provision for slow-moving and obsolete inventory	**(54,278)**	(56,764)	(215,322)
	2,784,431	3,191,088	3,192,705

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

In thousands of Tenge	**2011**	2010	2009
As at 1 January	**56,764**	215,322	372,869
Charge for the year	**3,512**	3,131	158,083
Write-off of inventories	**(5,243)**	(155,315)	(42,683)
Reversal of provision	**(620)**	(6,115)	(276,264)
Currency translation difference	**(135)**	(259)	3,317
As at 31 December	**54,278**	56,764	215,322

12. TRADE AND OTHER ACCOUNTS RECEIVABLE

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Accounts receivable for oil transportation expedition on oil transportation	**4,637,780**	4,034,085	4,722,309
Trade accounts receivable from related parties (*Note 37*)	**1,969,984**	1,294,220	913,623
Trade accounts receivable from third parties	**917,274**	1,043,959	836,130
Other accounts receivable from third parties	**218,168**	623,179	871,868
Other accounts receivable from related parties (*Note 37*)	**58,485**	55,281	46,267
Less: allowance for impairment of trade and other accounts receivable	**(112,304)**	(498,177)	(354,940)
	7,689,387	6,552,547	7,035,257

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

In thousands of Tenge	**2011**	2010	2009
As at 1 January	**498,177**	354,940	427,269
Charge for the year	**63,653**	91,857	98,246
Write-off of receivable	**(425,841)**	(21,228)	(94,350)
Reversal of allowance	**(24,498)**	(33,444)	(63,250)
Currency translation	**813**	(604)	–
Reclassifications	**–**	106,656	(12,975)
As at 31 December	**112,304**	498,177	354,940

Trade and other accounts receivable are denominated as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Russian roubles	**4,480,515**	4,012,817	4,122,655
Tenge	**2,780,811**	1,947,382	1,347,197
US Dollars	**396,451**	535,157	1,356,399
Euro	**–**	–	97,768
Other currency	**31,610**	57,191	111,238
	7,689,387	6,552,547	7,035,257

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

As at 31 December the ageing analysis of trade and other 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	**7,689,387**	**7,415,672**	**30,421**	**144,360**	**10,976**	**24,672**	**63,286**
2010	6,552,547	5,426,427	892,046	112,752	72,576	16,603	32,143
2009	7,035,257	6,889,971	–	122,056	–	23,230	–

13. ADVANCES TO SUPPLIERS

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Advances to third parties	**515,064**	465,798	432,148
Advances to related parties (*Note 37*)	**233,277**	278,273	255,609
Less: provision for non-performance	**(3,443)**	(2,063)	(2,083)
	744,898	742,008	685,674

Movements in allowance for non-performance were as follows:

In thousands of Tenge	**2011**	2010	2009
As at 1 January	**2,063**	2,083	1,100
Charge for the year	**6,899**	1,097	1,393
Reclassifications	**–**	199	(104)
Write-off of advances	**(1,047)**	(10)	–
Reversal of provision	**(4,472)**	(1,306)	(306)
As at 31 December	**3,443**	2,063	2,083

14. VAT RECOVERABLE AND OTHER PREPAID TAXES

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
VAT recoverable	**3,337,369**	4,366,876	3,807,143
Withholding tax	**–**	1,594,170	1,592,382
Other taxes prepaid	**296,346**	510,529	131,392
	3,633,715	6,471,575	5,530,917

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

15. OTHER CURRENT ASSETS

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Deferred expenses to third parties	**15,652**	18,421	607,779
Deferred expenses to related parties (*Note 37*)	**149,104**	–	–
Due from employees	**49,669**	66,245	57,966
Prepaid insurance	**8,645**	10,168	4,429
Other	**39,259**	59,672	–
	262,329	154,506	670,174

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. BANK DEPOSITS

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Long-term bank deposit	**6,000,000**	–	–
Short-term bank deposits	**34,155,205**	40,486,425	25,267,338
Accrued interest on deposits	**968,618**	446,533	23,797
	41,123,823	40,932,958	25,291,135

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 of from 3.75% to 9% per annum (2010: from 5% to 6 % per annum; 2009: from 5% to 6 % per annum) and US Dollars with interst rate of 5% per annum (2010: 10% per annum; 2009: 10% per annum), maturing in December 2012, (2010: December 2011; 2009: May 2010).

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.

17. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Time deposits with banks – Tenge	**12,000,000**	4,452,309	–
Current accounts with banks – Tenge	**7,628,046**	9,731,884	10,692,022
Current accounts with banks – US Dollars	**1,316,131**	2,624,981	1,987,686
Current accounts with banks – Lari	**459,743**	52,180	35,620
Current accounts with banks – Other currencies	**228,833**	3,095	–
Current accounts with banks – Euro	**184,906**	24,026	29,535
Current accounts with banks – Russian Rouble	**16,090**	11,844	3,646,702
Other current accounts with banks	**10,240**	7,409	1,915
Cash on hand	**8,398**	6,666	8,023
	21,852,387	16,914,394	16,401,503

At 31 December 2011 most current accounts and time deposits placed with Kazakhstani banks carried interest ranging from 1% to 3.25% per annum (2010: from 2% to 3% per annum; 2009: from 2% to 3 % per annum).

18. 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 7)*.

As at 31 December 2011, Company's share capital comprised of 34,617,204 common shares (31 December 2010 and 31 December 2009: 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; 2009: 6,023,638 thousand Tenge from 2008 income). The dividend amounted to 558 Tenge per common share (2010: 223 Tenge; 2009: 183 Tenge).

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

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 Group distributed Tenge 1,000,000 thousand in order to construct housing for residents of West Kazakhstan region affected by the flood.

18. EQUITY (continued)

Asset revaluation reserve

Revaluation reserve was formed based on a revaluation of property, plant and equipment which is performed every 3 years in accordance with the accounting policy of the Group.

19. LOANS AND BORROWINGS

	Currency	Maturity	Effective Interest rate	31December 2011	31 December 2010	31 December 2009
TBC Bank	US dollars	31 October 2011	12-16%	–	591,664	700,200
Natixis Company	US dollars	28August 2013	LIBOR+1,70%	–	–	20,503,864
Halyk Bank Georgia	US dollars	27 October 2012	11%	**303,181**	–	–
Less: unamortized transaction costs				–	–	(511,635)
				303,181	591,664	20,692,429
Less: amounts due for settlement within 12 monts				**303,181**	296,864	10,345,517
Total long–term portion of interest bearing loans and borrowings				–	294,800	10,346,912

Long-term portion of interest bearing loans and borrowings are repayable as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
1 to 2 years	–	294,800	9,753,472
2 to 5 years	–	–	593,440
	–	294,800	10,346,912

TBC Bank

TBC Bank financed operations of certain Georgian entities of the Group. The loan of US Dollars 10,000 thousand was provided to Batumi Port Holdings and secured by Exclusive Rights of Disposal of 100% share of government stake in Batumi Sea Port Limited, a subsidiary of BIHL. The loan beared interest at rate of 12-16% per annum.

Natixis Company

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

Halyk Bank Georgia

Halyk Bank Georgia has provided loan to Group (Batumi Oil Terminal, located in Georgia) in the amount of 2,040 thousand US dollars on 27 October 2011 with maturity one year to refinance the loan, provided earlier by TBC Bank. The loan will be repaid on 27 October 2012. Loan bears interest at rate of 11% per annum for refinancing of loan from TBC Bank (*Note 37)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. EMPLOYEE BENEFIT 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 period. These benefits are unfunded.

On May 20, 2011, the Company approved Collective agreement on social support of employees of the Group ("Agreement"). In Agreement the Group 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	31 December 2009
Present value of defined benefits obligation at the beginning of the year	**2,721,804**	2,469,000	1,997,532
Past services cost	**1,638,000**	–	
Current services cost	**296,000**	203,000	191,000
Unwinding of discount (*Note 34*)	**163,000**	150,000	122,000
Actuarial losses (*Note 31*)	**1,540,000**	27,000	276,474
Benefits paid	**(222,912)**	(127,196)	(118,006)
Present value of defined benefit obligation at the end of the year	**6,135,892**	2,721,804	2,469,000
Less: current portion of present value of defined benefit obligation	**(226,000)**	(141,000)	(131,880)
Non-current portion of present value of defined benefit obligation	**5,909,892**	2,580,804	2,337,120

Amounts recognized in the consolidated statement of financial position and profit and loss for the current year are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Present value of defined benefit obligation at end of the year	**6,135,892**	2,721,804	2,469,000
Net liability	**6,135,892**	2,721,804	2,469,000
Past service cost	**1,638,000**	–	–
Current service cost	**296,000**	203,000	191,000
Actuarial losses (*Note 31*)	**1,540,000**	27,000	276,474
Unwinding of discount (*Note 34*)	**163,000**	150,000	122,000
Expenses recognized in the current period	**3,637,000**	380,000	589,474

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 and 1,315 thousand Tenge in 2009 capitalized as a part of property, plant and equipment.

Principal actuarial assumptions used for valuation of employee benefit obligation at 31 December 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Discount rate	**6,0%**	6,0%	6,0%
Future salary increases	**6,0%**	4,0%	4,0%
Mortality rate	**12,0%**	12,0%	12,0%

21. DEFERRED INCOME

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Deferred income from related parties (*Note 37*)	**885,036**	1,197,401	1,509,766
Deferred income from third parties	**3,871,014**	3,856,460	3,709,053
	4,756,050	5,053,861	5,218,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Accounts payable to third parties for goods and services	**5,498,346**	5,212,771	5,800,368
Accounts payable for oil transportation coordination for third parties	**4,688,339**	3,857,236	2,484,364
Accounts payable for oil transportation coordination for related parties (*Note 37*)	**3,915,508**	4,273,240	3,751,450
Accounts payable to related parties for goods and services (*Note 37*)	**531,875**	417,271	401,870
Other payables to related parties (*Note 37*)	**1,760**	4,275	–
Other payables	**513,642**	335,716	452,916
	15,149,470	14,100,509	12,890,968

Trade and other accounts payables are denominated as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Tenge	**13,190,931**	13,240,885	12,391,576
US Dollars	**1,497,885**	722,860	223,469
Russian roubles	**291,158**	7,299	14,477
Euro	**10,191**	12,592	110,372
Other currency	**159,305**	116,873	151,074
	15,149,470	14,100,509	12,890,968

23. ADVANCES RECEIVED

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Advances received from related parties (*Note 37*)	**7,021,835**	7,008,869	6,454,500
Advances received from third parties	**4,204,961**	3,877,541	3,642,254
	11,226,796	10,886,410	10,096,754

24. OTHER TAXES PAYABLE

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Personal Income Tax	**566,590**	818,171	469,609
Social Tax	**339,974**	266,014	198,319
Property tax	**49,437**	174,143	74,159
Other taxes	**313,316**	190,775	175,507
	1,269,317	1,449,103	917,594

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. PROVISIONS

Movements in provision were represented as follows:

In thousands of Tenge	KazTransOil (tax provisions)	BIHL (tax provisions)	Others	Total
As at 1 January 2009	**3,718,848**	–	–	**3,718,848**
Charged for the year	–	796,332	10,877	807,209
Foreign currency translation	–	4,643	–	4,643
As at 31 December 2009	**3,718,848**	**800,975**	**10,877**	**4,530,700**
Use of provision	–	(570,088)	(9,177)	(579,265)
Foreign currency translation	–	(4,775)	–	(4,775)
As at 31 December 2010	**3,718,848**	**226,112**	**1,700**	**3,946,660**
Charged for the year	–	–	61,471	61,471
Use of provision	–	–	(3,090)	(3,090)
Reversal of provision	(3,718,848)	–	–	(3,718,848)
Foreign currency translation	–	1,534	–	1,534
As at 31 December 2011	**–**	**227,646**	**60,081**	**287,727**

KazTransOil 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 Group made an appeal to the Ministry of Finance and the Tax Committee of the Republic of Kazakhstan. On 23 February 2010 the Group received a reply from the Tax Committee, which satisfied an appeal only partially. The management of the Group believed that the Group might be found liable to the Tax Authority. In 2008, the management has therefore made a provision in the financial statements in the amount of 3,718,848 thousand Tenge, which it believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour.

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 Group reversed a tax provision of 3,718,848 thousand Tenge.

BIHL Tax Provisions

As of 31 December 2009, the Group was also, involved in tax disputes with Georgian Tax Authorities in respect of additional accruals of corporate income tax of US Dollars 3,864,862 (equivalent of 573,391 thousand Tenge) and withholding tax of US Dollars 1,534,000 (equivalent of 227,584 thousand Tenge). As of the end of 2009, management of the Group believed that the Group might be found liable to Georgian Tax Authorities. Therefore, in 2009 the management has made a provision in the consolidated financial statements in the amount of 800,975 thousand Tenge, which it believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour. As of 31 December 2010, in respect of additional accrual of corporate income tax of US Dollars 3,864,862 (equivalent of 574,863 thousand Tenge), the Group, in accordance with the court decision, was found liable to the Georgian Tax Authorities and this amount was reclassified from provisions to the income tax payables during 2010.

As of 31 December 2011 and 2010 the amount of provision for tax claim of Georgian Tax authorities in respect of withholding amounted to US dollars 1,534,000 (2011: equivalent to 227,646 thousand Tenge; 2010: equivalent to 226,112 thousand Tenge).

Other Provisions

During 2011 the management of the Group 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. 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: 1,700 thousand Tenge; 2009: 10,877 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Salaries and wages	**2,620,037**	3,569,461	3,232,425
Accounts payable to pension funds	**382,588**	272,891	214,116
Current portion of deferred income from third parties	**353,010**	171,849	483,421
Current portion of deferred income from related parties (*Note 37*)	**312,365**	312,366	312,366
Other accruals	**37,594**	130,450	–
	3,705,594	4,457,017	4,242,328

27. REVENUE

In thousands of Tenge	**2011**	2010	2009
Crude oil transportation	**109,585,457**	109,395,974	97,682,797
Oil reloading and railway shipment	**13,795,329**	13,227,167	14,518,571
Water transportation	**6,119,862**	5,892,098	4,893,092
Pipeline operation services	**5,227,305**	4,530,016	3,319,662
Oil transportation expedition services	**3,764,703**	3,299,799	2,746,629
Oil storage services	**282,259**	356,998	77,058
Other	**1,703,177**	1,538,888	2,943,324
	140,478,092	138,240,940	126,181,133

28. COST OF SALES

In thousands of Tenge	**2011**	2010	2009
Depreciation and amortization	**26,685,966**	21,315,868	16,352,902
Personnel cost	**26,621,785**	22,803,744	20,043,438
Railway services	**8,726,951**	6,962,179	7,654,352
Materials and fuel	**5,727,463**	4,549,553	5,763,973
Electric energy	**4,933,238**	4,547,801	4,052,541
Repair and maintenance costs	**4,737,422**	4,651,005	3,973,515
Taxes other than corporate income tax	**4,079,963**	3,857,427	2,745,165
Security services	**3,403,589**	2,404,371	1,817,222
Gas expense	**1,966,908**	2,016,140	1,926,169
Air services	**1,942,330**	1,790,035	808,792
Post-employment benefits	**1,820,207**	189,603	177,075
Environmental protection	**954,634**	884,614	489,834
Rent expenses	**750,735**	910,240	817,691
Business trip expenses	**567,982**	533,296	683,894
Insurance	**480,034**	463,584	264,289
Diagnostics of pipelines	**419,693**	713,129	229,742
Communication services	**213,967**	196,002	156,099
Other	**2,265,816**	3,618,039	3,485,807
	96,298,683	82,406,630	71,442,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	**2011**	2010	2009
Personnel costs	**5,190,023**	4,842,758	4,310,939
Depreciation and amortization	**1,029,996**	742,490	852,041
Consulting	**703,429**	401,735	389,007
Taxes other than corporate income tax	**446,316**	226,592	303,553
Social sphere expenses	**378,841**	309,080	158,922
Charity expenses	**329,503**	334,548	99,066
Write-off of VAT recoverable	**316,627**	346,922	341,258
Insurance and security	**256,020**	277,533	188,455
Repair and technical maintenance	**239,297**	196,780	152,029
Rent expense	**198,919**	206,577	242,537
Business trip expenses	**180,017**	207,946	281,977
Materials and fuel	**164,879**	150,500	60,592
Training	**157,450**	126,272	73,211
Post-employment benefits	**113,793**	12,517	12,610
Communication services	**98,699**	113,491	153,319
Bank costs	**98,192**	109,420	147,902
Advertising expense	**84,835**	96,320	83,881
Transportation expenses	**79,271**	107,941	53,180
Information expenses	**76,182**	74,336	103,930
Provision / (Reversal of) for allowance for doubtful debt	**41,582**	(2,117,636)	567
Office maintenance	**34,956**	59,950	12,185
Provision / (Reversal of) allowance for obsolete and slow-moving inventories	**2,892**	(2,984)	(118,181)
(Reversal of) / Provisions *(Note 25)*	**(3,718,848)**	–	807,209
Other	**227,499**	291,531	394,607
	6,730,370	7,114,619	9,104,796

30. OTHER OPERATING INCOME

In thousands of Tenge	**2011**	2010	2009
Income from fines and penalties	**786,025**	938,816	136,583
Amortization of deferred income *(Note 37)*	**312,365**	312,366	519,071
Gain on disposal of other non-current assets	**229,465**	–	–
Amortization of financial guarantee issued to related party *(Note 37)*	**136,070**	67,098	67,171
Gain on disposal of inventory	**56,998**	–	–
Income from write-off of payables	**9,930**	30,692	25,038
Income from management services of CPC	–	173,762	116,126
Other income	**114,312**	532,354	228,871
	1,645,165	2,055,088	1,092,860

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

31. OTHER OPERATING EXPENSES

In thousands of Tenge	**2011**	2010	2009
Actuarial losses	**1,540,000**	27,000	276,474
Loss on disposal of property, plant and equipment and intangible assets	**523,329**	253,784	88,524
Loss on disposal of other non-current assets	**215,716**	–	–
Loss on disposal of inventory	**51,482**	–	56,061
Other expenses	**435,768**	524,874	703,827
	2,766,295	805,658	1,124,886

32. NET FOREIGN EXCHANGE LOSS

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

33. FINANCE INCOME

In thousands of Tenge	**2011**	2010	2009
Interest income on bank deposits	**2,816,026**	1,786,270	2,192,499
Income from guarantees	**17,741**	15,177	–
Dividends income (*Note 37*)	**17,608**	46,046	–
Other finance income	**43,651**	35,474	91,147
	2,895,026	1,882,967	2,283,646

34. FINANCE COSTS

In thousands of Tenge	**2011**	2010	2009
Employee benefits: unwinding of discount	**163,000**	150,000	122,000
Interest on loans and borrowings	**139,297**	709,579	1,869,050
Loss on initial recognition of loans to employees and related parties	–	–	4,595
Other	**6,059**	3,533	–
	308,356	863,112	1,995,645

35. INCOME TAX EXPENSE

As at 31 December 2011 prepayment for income tax in the amount of 1,756,038 thousand Tenge (2010: 1,337,084 thousand Tenge; 2009: 1,946,748 thousand Tenge) represents corporate income tax.

As at 31 December 2011 income tax liabilities in the amount of 1,156,184 thousand Tenge (2010: 908,131 thousand Tenge; 2009: 476,041 thousand Tenge) represents corporate income tax.

Income tax expenses for the years ended 31 December comprise:

In thousands of Tenge	**2011**	2010	2009
Current Income tax expense	**9,473,951**	10,683,626	7,681,285
Deferred Income tax (benefit) / expense	**(2,746,399)**	(4,219,719)	5,174,846
Income tax expense	**6,727,552**	6,463,907	12,856,131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. 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, is as follows:

In thousands of Tenge	2011	2010	2009
Profit before income tax	**32,672,949**	26,082,208	28,394,563
Statutory rate	**20%**	20%	20%
Income tax expense on accounting profit	**6,534,590**	5,216,441	5,678,913
Tax effect of permanent differences			
(Reverse of) / Provision for taxes	**(743,770)**	–	112,250
Impairment of goodwill	–	474,158	261,310
Other non deductible expenses	**1,294,111**	289,088	2,612,005
Tax effect of other adjustments			
Adjustment of tax return for prior years	**259,935**	604,797	60,424
Effect of changing tax rates in recognized tax assets and liabilities	–	–	3,426,938
(Income) / loss from joint ventures recognized according to equity method	**(320,506)**	(12,540)	582,425
Effect of difference in tax rates	**(296,808)**	(108,037)	121,866
Corporate income tax expense reported in the statement of comprehensive income	**6,727,552**	6,463,907	12,856,131

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. INCOME TAX EXPENSE (continued)

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

In thousands of Tenge	31 December 2011	Charged to profit and loss	Foreign currency translation	Charged to revaluation reserve	31 December 2010	Charged to profit and loss	Foreign currency translation	Charged to revaluation reserve
Deferred tax assets								
Bonuses and other employee compensation and related costs	**1,413,757**	409,354	–	–	**1,004,403**	590,796	–	–
Financial guarantee liability	**67,784**	21,371	–	–	**46,413**	(13,815)	–	–
Allowance for doubtful debts	**15,844**	(96,154)	–	–	**111,998**	(407,162)	–	–
Provision for slow-moving and obsolete inventory	**10,140**	(883)	–	–	**11,023**	(30,070)	–	–
Taxes payable	**50,997**	29,728	–	–	**21,269**	(13,482)	–	–
Financial aid to related parties and loans to employees	**5,653**	(8,404)	–	–	**14,057**	(21,746)	–	–
Other temporary differences	–	–	–	–	–	(170,436)	–	–
Deferred Income	**239,480**	(62,473)	–	–	**301,953**	(62,473)	–	–
Income of BIHL	**1,110,118**	79,571	–	–	**1,030,547**	292,386	–	–
	2,913,773	**372,110**	–	–	**2,541,663**	**163,998**	–	–
Deferred tax liabilities								
Investments in joint ventures	–	176,032		–	**(176,032)**	–	–	–
Other temporary differences	–	–	–	–	–	18,024	–	–
Property, plant and equipment	**(37,115,484)**	2,198,257	459,378	(1,363,226)	**(38,409,893)**	4,037,697	55,071	(19,632,158)
	(37,115,484)	**2,374,289**	**459,378**	**(1,363,226)**	**(38,585,925)**	**4,055,721**	55,071	(19,632,158)
Net deferred income tax liabilities	**(34,201,711)**	**2,746,399**	**459,378**	**(1,363,226)**	**(36,044,262)**	**4,219,719**	55,071	(19,632,158)

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 a result of revluation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. INCOME TAX EXPENSE (continued)

In thousands of Tenge	31 December 2009	Charged to profit and loss	Effect of PPE uplift on acquisition in 2008	Foreign currency translation	Charged to revaluation reserve	1 January 2009
Deferred tax assets						
Bonuses and other employee compensation and related costs	**413,607**	(22,293)	–	–	–	435,900
Financial guarantee liability	**60,228**	11,253	–	–	–	48,975
Allowance for doubtful debts	**519,160**	34,090	–	–	–	485,070
Provision for slow-moving and obsolete inventory	**41,093**	(24,413)	–	–	–	65,506
Taxes payable	**34,751**	32,121	–	–	–	2,630
Financial aid to related parties and loans to employees	**35,803**	24,374	–	–	–	11,429
Due to employees	**–**	(7,007)	–	–	–	7,007
Other temporary differences	**170,436**	(99,076)	–	–	–	269,512
Deferred Income	**364,426**	364,426	–	–	–	–
Income of BIHL	**738,161**	278,731	–	–	–	459,430
	2,377,665	**592,206**	–	–	–	**1,785,459**
Deferred tax liabilities						
Investments in joint ventures	**(176,032)**	(44,008)	–	–	–	(132,024)
Other temporary differences	**(18,024)**	(18,024)	–	–	–	–
Property, plant and equipment	**(22,870,503)**	(5,705,020)	(1,695,455)	(962,457)	(953,784)	(13,553,787)
	(23,064,559)	**(5,767,052)**	**(1,695,455)**	**(962,457)**	**(953,784)**	**(13,685,811)**
Net deferred income tax liabilities	**(20,686,894)**	**(5,174,846)**	**(1,695,455)**	**(962,457)**	**(953,784)**	**(11,900,352)**

36. SEGMENT INFORMATION

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

- Oil transportation and related services
- Oil transshipment
- Other

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. SEGMENT INFORMATION (continued)

Segments that are identified, but do not separately exceed quantitative limits (amount of separate segment revenue composes not less than 10 % of comprehensive income) are combined in "Other segments". Such services include services provided by subsidiary KTO-Service, and also transhipment of dry cargo, (sugar-airbrick, ammonium nitrate, cement, grain, suflower and oil cake) in Batumi sea port with operating of dry-cargo, ferry and container terminal, also railway terminal services.

Oil Transportation and related services provided by the Company, which do not exceed quantity limits and intimately connected with operating activities, or with main asset of the Company - pipelines. These services include such services as: water transportation, oil storage, expedition services, services on support and maintenance of pipelines. Seperate management report is not provided to the Management of the Group on some types of these services and accordingly they can not be identified as separate segment. Services on transhipment of oil and oil-products through Batumi sea port with operation of Batumi oil terminal are included in "Oil transhipment" segment.

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

Management analyses its operating segments by segment profit.

	31 December 2011						31 December 2010					
In thousands Tenge	Oil Transportation and related services	Oil transshipment	Other	Total segments	Adjustments and eliminations	Consolidated	Oil Transportation and related services	Oil transshipment	Other	Total segments	Adjustments and eliminations	Consolidated
Revenue												
External customers	122,258,114	14,296,770	3,923,208	**140,478,092**	–	**140,478,092**	121,138,542	13,557,526	3,544,872	**138,240,940**	–	**138,240,940**
Inter-segment	–	–	537,747	**537,747**	(537,747)	–	–	–	509,709	**509,709**	(509,709)	–
Total revenue	**122,258,114**	**14,296,770**	**4,460,955**	**141,015,839**	**(537,747)**	**140,478,092**	**121,138,542**	**13,557,526**	**4,054,581**	**138,750,649**	**(509,709)**	**138,240,940**
Results												
Impairment of property, plant and equipment (included in net profit)	61,250	(5,953,279)	(982,287)	**(6,874,316)**	–	**(6,874,316)**	(13,435,254)	(7,988,578)	(909,625)	**(22,333,457)**	–	**(22,333,457)**
Impairment of Intangible assets	–	–	(534,870)	**(534,870)**	–	**(534,870)**	–	–	–	–	–	–
Depreciation and amortization	(25,508,041)	(1,580,270)	(627,651)	**(27,715,962)**	–	**(27,715,962)**	(20,200,668)	(1,103,540)	(556,323)	**(21,860,531)**	(197,827)	**(22,058,358)**
Interest income	2,741,951	43,400	37,859	**2,823,210**	–	**2,823,210**	1,711,935	64,834	29,835	**1,806,604**	(15,177)	**1,791,427**
Interest expenses	(74,638)	(70,524)	(14,122)	**(159,284)**	14,122	**(145,162)**	(621,904)	(82,516)	(32,506)	**(736,926)**	25,286	**(711,640)**
CIT expense	(7,869,141)	1,091,879	(201,456)	**(6,978,718)**	251,166	**(6,727,552)**	(7,853,109)	(214,394)	1,786,479	**(6,281,024)**	(182,883)	**(6,463,907)**
Segment profit	**29,463,371**	**(4,965,724)**	**(1,934,668)**	**22,562,979**	**3,382,418**	**25,945,397**	**28,893,743**	**300,152**	**(7,177,699)**	**22,016,196**	**(2,397,895)**	**19,618,301**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. SEGMENT INFORMATION (continued)

In thousands Tenge	Oil Transportation and related services	Oil transshipment	Other	Total segments	Adjustments and eliminations	Consolidated
	31 December 2009					
Revenue						
External customers	107,101,391	16,464,835	2,614,907	**126,181,133**	–	**126,181,133**
Inter segment	–	–	409,928	**409,928**	(409,928)	–
Total revenue	**107,101,391**	**16,464,835**	**3,024,835**	**126,591,061**	**(409,928)**	**126,181,133**
Results						
Impairment of property, plant and equipment (included in net profit)	337,253	–	909,535	**1,246,788**	–	**1,246,788**
Depreciation and amortization	15,314,744	843,408	876,406	**17,034,555**	170,388	**17,204,943**
Interest income	2,114,555	69,831	8,113	**2,192,499**	–	**2,192,499**
Interest expenses	1,755,311	110,346	3,393	**1,869,050**	–	**1,869,050**
CIT expense	12,251,809	135,853	179,803	**12,567,465**	288,667	**12,856,132**
Segment profit	**24,300,173**	**740,173**	**(5,962,680)**	**19,077,666**	**(3,539,234)**	**15,538,432**

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustments and eliminations'column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Reconciliation of profit			
Segment profit	**22,562,979**	22,016,196	19,077,666
Adjustments and eliminations	**1,779,890**	(150,121)	1,457,024
Goodwill impairment	**-**	(1,933,605)	(1,306,548)
Recognition of share in income / (losses) of joint ventures	**1,602,528**	(314,169)	(3,677,145)
Foreign exchange gain / (loss)	**-**	–	(12,565)
Group profit	**25,945,397**	19,618,301	15,538,432

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. 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, 2010 and 2009 and the related balances as at 31 December 2011, 2010 and 2009:

Long term trade accounts receivables from related parties are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
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 are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Trade and other accounts receivable from related parties			
Trade accounts receivable from joint ventures	**1,396,428**	739,121	473,974
Trade accounts receivable from entities under common control of KMG	**573,349**	555,058	437,221
Trade accounts receivable from entities of Samruk-Kazyna Group	**207**	41	2,428
	1,969,984	1,294,220	913,623
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	**58,485**	55,281	46,267
Total trade and other accounts receivable	**2,028,469**	1,349,501	959,890

Advances provided to related parties are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Advances to related parties			
Advances to entities under common control of KMG	**170,207**	215,867	230,264
Advances to entities of Samruk-Kazyna Group	**63,070**	62,406	25,345
Total advances paid to related parties	**233,277**	278,273	255,609

Deferred expenses to related parties are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Deferred expenses			
Halyk Bank JSC – other affiliate	**149,104**	–	–
Total deferred expenses to related parties	**149,104**	–	–

37. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Current accounts			
Halyk Bank JSC – other affiliate	**14,917,426**	1,124,104	927,098
Total current accounts placed in banks which are related parties	**14,917,426**	1,124,104	927,098

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; 2009: from 1% to 1.5% per annum) and of other current accounts with interest rate from 0.1% to 3% per annum (2010: from 0.5% to 1.5% per annum; 2009: from 0.5 to 1.5% per annum).

Bank deposits			
Halyk Bank JSC – other affiliate	**5,000,000**	23,000,209	18,983,418
Total bank deposits placed in banks which are related parties	**5,000,000**	23,000,209	18,983,418

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; 2009:from 5.3% to 6.5% per annum).

Interest receivable on bank deposits			
Halyk Bank JSC – other affiliate	**195,528**	228,681	12,078
Total interest receivable on bank deposits	**195,528**	228,681	12,078

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

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Accounts payable for oil transportation expedition for related parties			
Accounts payable for oil transportation expedition for entities under common control of KMG	**3,915,508**	4,273,240	3,751,450
	3,915,508	4,273,240	3,751,450
Accounts payables to related parties for goods and services			
Accounts payables to entities under common control of KMG	**454,221**	302,773	300,106
Accounts payables to entities under control of Samruk-Kazyna Group	**77,654**	114,498	101,764
	531,875	417,271	401,870
Other payables to related parties			
Other payables to entities under control of Samruk-Kazyna Group	**1,760**	–	–
Other payables to entities under common control of KMG	–	4,275	–
	1,760	4,275	–
Total trade and other accounts payable to related parties	**4,449,143**	4,694,786	4,153,320

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

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Financial guarantee issued on behalf of MunaiTas JSC	**338,919**	232,071	301,141
Total financial guarantee issued on behalf of related parties	**338,919**	232,071	301,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. RELATED PARTY TRANSACTIONS (continued)

Advances received from related parties are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Advances received from related parties			
Advances from entities under common control of KMG	**6,111,963**	5,982,993	5,459,071
Advances from entities under control of Samruk-Kazyna Group	**909,872**	1,025,876	995,429
Total advances received from related parties	**7,021,835**	7,008,869	6,454,500

Loans and borrowings to related parties are as follows:

In thousands of Tenge	31 December 2011	31 December 2010	31 December 2009
Loans received from related parties			
Halyk Bank JSC – other affiliate	**303,181**	–	–
Total loans received from related parties	**303,181**	–	–

Other current liabilities to related parties are as follows:

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Employee benefits			
Employee benefits of key management personnel	**4,943**	5,024	16,006
	4,943	5,024	16,006
Current portion of deferred income from related parties			
Current portion of deferred income from entities under common control of KMG	**312,365**	312,366	312,366
	312,365	312,366	312,366
Total other current liabilities to related parties	**317,308**	317,390	328,372

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

In thousands of Tenge	**31 December 2011**	31 December 2010	31 December 2009
Deferred income from related parties			
Deferred income from entities under common control of KMG	**885,036**	1,197,401	1,509,766
Total non-current deferred income to related parties	**885,036**	1,197,401	1,509,766

37. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of Tenge	2011	2010	2009
Sales to related parties:			
Income from main acitivies from entities under common control of KMG	**66,603,554**	66,753,417	38,200,708
Income from services to entities of Samruk-Kazyna Group	**9,155,985**	10,395,311	9,040,592
Income from services to joint ventures	**4,372,631**	3,789,049	2,642,761
Income from other activities from entities under common control of KMG	**373,899**	205,700	689,278
Income from other activities from entities of Samruk-Kazyna Group	**425**	4,583	3,049
Income from other activities from joint ventures	**1,060**	4,721	–
Sale of property,plant and equipment to other entities under common control of KMG	**240,093**	–	–
	80,747,647	81,152,781	50,576,388
Purchases from related parties:			
Purchases of services from entities under common control of KMG	**6,812,352**	6,002,203	4,174,928
Purchases of services from entities of Samruk-Kazyna Group	**1,759,717**	1,878,821	1,624,990
Purchases of inventory from Samruk-Kazyna Group	**5,354**	12,000	–
Purchases of property, plant and equipment from entities of Samruk-Kazyna Group	**19,205**	23,121	–
	8,596,628	7,916,145	5,799,918
Interest income on bank deposits			
Halyk Bank JSC – other affiliate	**866,619**	1,059,096	918,431
	866,619	1,059,096	918,431

In thousands of Tenge	2011	2010	2009
Dividend income			
Dividend income from joint ventures	**–**	376,871	765,020
Other dividend income	**17,608**	46,046	–
	17,608	422,917	765,020
Other operating income from related parties			
Amortization of deferred income from related parties	**312,365**	312,366	356,232
Amortization of financial guarantee issued to related party	**136,070**	67,098	67,171
	448,435	379,464	423,403
Interest expenses to related parties			
Interest expenses on loans	**6,011**	–	–
	6,011	–	–
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	2011	2010	2009
Salary	**98,997**	100,253	105,895
Short-term employee benefits	**37,430**	41,187	35,455
Post–employment benefits	**1,908**	176	1,246
	138,335	141,616	142,596
Number of persons	**7**	7	9

38. 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 Groups's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements *(Note 25).*

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 Group'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 Group's positions with regard to transfer pricing will be sustained.

Tax commitments of Georgian entities

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

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

VAT taxation of import and export cargo trasshipment services of Georgian entities

On 28 October 2011 BIHL applied to the Georgian Tax Authorities ("GTA") with request to issue advance tax ruling in relation to certain matters related to VAT taxation of port operations in Georgia. In particular, the Management has requested the official position of the GTA on VAT taxation of import and export cargo transshipment services since the provisions of the Tax Code of Georgia ("TCG") in this respect are ambiguous. During discussions with GTA held in December 2011, GTA expressed the position that according to the provisions of the TCG transshipment services in relation to the cargo declared in export regime are exempted from VAT taxation. The Management believes that whether the cargo is declared in export regime or not and, therefore, whether VAT exemption applies, should be assessed upon completion of transshipment operations and issuance of relevant invoice for the rendered services.

38. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Taxation (continued)

VAT taxation of import and export cargo trasshipment services of Georgian entities (continued)

However, the GTA's current position is that transshipment operation should be broken down into unloading, storage and loading operations and whether VAT exemption applies to the particular component shall be assessed on the basis of whether cargo was declared in export regime before commencement of that particular component. If, for example, cargo was not yet declared in export regime upon commencement of unloading, this component of cargo transshipment service should be taxed with VAT.

GTA have already issued the final signed advance tax ruling, however as of the reporting date the ruling has not been delivered to the Management. The Management strongly opposes the position by GTA and intends to initiate formal appeal process against the ruling. As of the reporting date the Management is not able to calculate the exact exposure in monetary terms due to impracticability of determining it since the accounting records do not contain sufficient information to make this assessment as detailed check of supporting documents is required.

Based on approximate calculations the Management assess maximum amount of tax exposure for US Dollars 3,928 thousand (equivalent to 582,915 thousand Tenge).

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

Covenants

Guarantees

At 31 December 2011, the Company has guaranteed to EBRD in respect of the obligations of MunayTas under the loan agreement with EBRD. According to the Guarantee Agreement concluded between the Company and EBRD, the Company has to comply with the following covenants:

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

As of 31 December 2011, 2010 and 2009, the Company fully complied with covenants.

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

38. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Covenants (continued)

Borrowings

On August 28, 2008 the Company concluded a syndicate loan facility agreement with BTMU (Europe) Limited, ING Bank N.V. and Natixis (the "Creditors") for amount of 275 million US Dollars (*Note 19*), According to the Loan facility Agreement concluded between the Company and the Creditors, the Company has to comply with the following covenants:

- Current ratio of not less than 1:1;
- a ratio of Financial Debt to Earnings before interest, income tax, depreciation and amortization of not more than 3.5:1;
- a ratio of Financial Debt to Equity of not more than 2:1;
- a ratio of Earning before interest, income tax to total debt costs of not more than 2:1.

As of redemption date (4 March 2010) and 31 December 2009 the Company fully complied with the covenants.

Contractual commitments

As at 31 December 2011, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 10,267,168 thousand Tenge (2010: 16,646,055 thousand Tenge; 2009: 10,355,911 thousand Tenge). In addition, as at 31 December 2011, the Group has committed to purchase inventory (materials and spare parts) and services for the amount of 2,002,637 thousand Tenge (2010: 5,225,741 thousand Tenge; 2009: 4,491,628 thousand Tenge).

Share of the Group as at 31 December 2011 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services for the amount of 141,092 thousand Tenge (2010: 1,207,096 thousand Tenge; 2009: 3,094,809 thousand Tenge) and has commitments to purchase inventory (materials and spare parts) and services for the amount of 169,364 thousand Tenge (2010: 11,806 thousand Tenge; 2009: 179,880 thousand Tenge).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest Rate Risk

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

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest Rate Risk (continued)

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

In thousands of Tenge	Increase / decrease in basic points	Effect on profit before tax
2011		
US dollar	–	–
2010		
US dollar	–	–
2009		
US dollar	+100	205,039
	-25	(51,260)

Credit risk

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

The Group places deposits with Kazakhstani banks *(Notes 16 and 17)*. The Group's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Group's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits is required.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

		Ratings					
		2011	2010	2009	**2011**	2010	2009
Halyk Bank of Kazakhstan JSC	Kazakhstan	**Ba2/Stable**	B3/ Stable	Ba2/ Negative	**20,112,954**	24,352,994	19,922,594
SberBank of Russia JSC	Kazakhstan	**Ba2/Stable**	Ba2/ Stable	Ba2/ Negative	**19,562,153**	12,737,261	13,468,304
ATF Bank JSC	Kazakhstan	**Ba3/Negative**	Ba2/ Stable	Ba1/ Negative	**13,321,930**	54	77
KazKommerstBank JSC	Kazakhstan	**Ba3/Negative**	Ba3/ Negative	Ba3/ Negative	**8,253,742**	17,635,887	5,601,012
Berenberg Bank	Cyprus	**Not available**	not available	not available	**870,663**	956,769	828,668
TBC Bank	Georgia	**B**	B+	B+	**264,597**	31,656	47,939
Bank of Cyprus	Georgia	**Ba2/Negative**	A3/Stable	BBB+	**195,146**	203,658	36,780
BOG Bank	Georgia	**BB-**	B+	not available	**99,131**	7,947	329
BNP Paribas	Cyprus	**AA-**	AA	AA	**38,881**	906,119	1,016,037
Basis Bank	Georgia	**B-**	B-	not available	**33,093**	6,732	5,882
Republic Bank	Georgia	**A+**	–	–	**15,878**	–	–
Procredit Bank	Georgia	**BB**	BB-	not available	**14,840**	16,069	2,208
RBS Bank Kazakhstan JSC	Kazakhstan	**A2/Negative**	A1/ Stable	Aa3/Stable	**6,059**	33,756	10,468
Cartu Bank	Georgia	**Not available**	not available	not available	**5,046**	951,360	739,400
Slavinvestbank LLC	Russia	–	–	Caa2/ Negative	**4,622**	–	10
CITI Bank Kazakhstan JSC	Kazakhstan	**A1/Negative**	A3	F1+	**669**	7	12
VTB Bank	Georgia	**BB-**	BB-	not available	**148**	400	3,771
Bank CenterCredit JSC	Kazakhstan	**Ba3/Negative**	Ba3/ Negative	Ba1/ Negative		12	7
Alliance Bank JSC	Kazakhstan	–	–	not avaibable	**-**	–	1,110
Popular Bank	Cyprus	–	–	not available	**-**	–	7
Other	–	–	–	–	**168,260**	5	-
					62,967,812	57,840,686	41,684,615

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risks

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

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

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2011, 2010 and 2009 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						
Loans and borrowings	–	**303,181**	–	–	–	**303,181**
Trade and other payable	–	**13,892,063**	**1,257,407**	–	–	**15,149,470**
Other liabilities	–	**2,620,037**	–	–	–	**2,620,037**
	–	**16,815,281**	**1,257,407**	–	–	**18,072,688**
As at 31 December 2010						
Loans and borrowings	–	296,864	–	294,800	–	**591,664**
Trade and other payable	–	14,100,509	–	–	–	**14,100,509**
Other liabilities	–	3,569,461	–	–	–	**3,569,461**
	–	**17,966,834**	–	**294,800**	–	**18,261,634**
As at 31 December 2009						
Interest-bearing loans and borrowings	–	10,345,517	10,346,912	–	–	**20,692,429**
Trade and other payable	–	12,890,968	–	–	–	**12,890,968**
Other liabilities	–	3,232,425	–	–	–	**3,232,425**
	–	**26,468,910**	**10,346,912**	–	–	**36,815,822**

Currency Risk

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

In thousands of Tenge	*US Dollar*	*Russian Ruble*	*Euro*	*Georgian Lari*	*Ukrai-ninan Grivna*	*Great Britian Pound*	*Other curren-cies*	*Total*
At 31 December 2011								
Assets	**570,969**	**4,487,448**	**12,465**	–	–	–	**107,672**	**5,178,554**
Liabilities	**1,766,342**	**310,262**	**30,967**	–	–	–	**290,700**	**2,398,271**
At 31 December 2010								
Assets	731,789	4,026,722	31,543	52,108	–	–	71,006	4,913,168
Liabilities	1,529,729	28,588	98,231	–	–	–	233,299	1,889,847
At 31 December 2009								
Assets	1,416,724	4,166,428	119,949	176,477	1,592	3,249	–	5,884,419
Liabilities	21,897,849	14,477	110,372	143,721	5	7,348	–	22,173,772

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The Group also has transactional currency exposures. Such exposure arises from revenues in US Dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency Risks (continued)

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

In thousands of Tenge	Increase / decrease in US dollar rate	Effect on profit before tax
2011		
US Dollar	**10.72%**	**(128,144)**
	-10.72%	**128,144**
2010		
US Dollar	+12%	(95,753)
	-12%	95,753
2009		
US Dollar	+10%	(2,048,113)
	-15%	3,072,169

Capital management

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

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

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011, 2010 and 2009.

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

As of December 31, 2011, 2010 and 2009 the Group does not have significant debts. The Group has sufficient cash, exceeding its debt as of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial instruments

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

In thousands of Tenge	Carrying amount			Fair Value		
	31 December 2011	31 December 2010	31 December 2009	**31 December 2011**	31 December 2010	31 December 2009
Financial Assets						
Cash and cash equivalents	**21,852,387**	16,914,394	16,401,503	**21,852,387**	16,914,394	16,401,503
Bank deposits	**41,123,823**	40,932,958	25,291,135	**41,123,823**	40,932,958	25,291,135
Trade and other receivables	**7,689,387**	6,552,547	7,035,257	**7,689,387**	6,552,547	7,035,257
Other financial assets	**89,290**	108,546	252,884	**89,290**	108,546	252,884
Financial liabilities						
Floating rate borrowings	–	–	19,992,229	–	–	19,992,229
Fixed rate borrowings	**303,181**	591,664	700,200	**303,181**	591,664	700,200
Trade and other payables	**15,149,470**	14,100,509	12,890,968	**15,149,470**	14,100,509	12,890,968
Other financial liabilities	**3,345,708**	3,842,352	3,446,541	**3,345,708**	3,842,352	3,446,541

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

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

40. EVENTS AFTER THE REPORTING PERIOD

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

KazTransOil JSC

Consolidated Financial Statements

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of KazTransOil JSC:

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

ERNST & YOUNG

Opinion

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

Ernst & Young LLP

Nicholas Rytel
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

28 February 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	6	**325,522,559**	247,050,582
Intangible assets	7	**7,189,956**	9,805,960
Investments in joint ventures	8	**9,118,148**	5,262,464
Advances to suppliers for property, plant and equipment	9	**417,522**	1,886,728
Other non-current assets		**170,410**	194,918
		342,418,595	264,200,652
Current assets			
Inventories	10	**3,191,088**	3,192,705
Trade and other accounts receivable	11	**6,552,547**	7,035,257
Advances to suppliers	12	**742,008**	685,674
Prepayment for corporate income tax	34	**1,337,084**	1,946,748
VAT recoverable and other prepaid taxes	13	**6,471,575**	5,530,917
Other current assets	14	**154,506**	670,174
Short-term bank deposits	15	**40,932,958**	25,291,135
Cash and cash equivalents	16	**16,914,394**	16,401,503
		76,296,160	60,754,113
Assets classified as held for sale		–	378,378
		76,296,160	61,132,491
TOTAL ASSETS		**418,714,755**	325,333,143

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Note	31 December 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity			
Share capital	17	**32,916,055**	32,916,055
Revaluation reserve		**124,828,954**	48,783,757
Other reserves	17	**17,104**	17,104
Currency translation reserve		**8,590,235**	8,878,846
Retained earnings		**171,962,450**	152,206,983
Total equity		**338,314,798**	242,802,745
Non-current liabilities			
Loans and borrowings	18	**294,800**	10,346,912
Financial guarantee issued on behalf of related party		**232,071**	301,141
Employee benefit liability	19	**2,580,804**	2,337,120
Deferred tax liabilities	34	**36,044,262**	20,686,894
Deferred income	20	**5,053,861**	5,218,819
Other non-current accounts payable		**8,465**	7,731
		44,214,263	38,898,617
Current liabilities			
Loans and borrowings	18	**296,864**	10,345,517
Employee benefit liability	19	**141,000**	131,880
Income tax payable	34	**908,131**	476,041
Trade and other accounts payable	21	**14,100,509**	12,890,968
Advances received	22	**10,886,410**	10,096,754
Other taxes payable	23	**1,449,103**	917,594
Provisions	24	**3,946,660**	4,530,699
Other current liabilities	25	**4,457,017**	4,242,328
		36,185,694	43,631,781
Total liabilities		**80,399,957**	82,530,398
TOTAL EQUITY AND LIABILITIES		**418,714,755**	325,333,143

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director ______ Sultan N.S.

Chief Accountant ______ Sarsengaliyeva Zh.O.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Note	2010	2009
Revenue	26	**138,240,940**	126,181,133
Cost of sales	27	**(82,406,630)**	(71,442,500)
Gross profit		**55,834,310**	54,738,633
General and administrative expenses	28	**(7,114,619)**	(9,104,796)
Other operating income	29	**2,055,088**	1,092,860
Other operating expenses	30	**(805,658)**	(1,124,886)
Impairment of property, plant and equipment	6	**(22,333,457)**	(1,246,788)
Effect of recognizing of liabilities associated with acquisition in 2008		**–**	(5,017,821)
Impairment of goodwill	7	**(2,370,792)**	(1,306,548)
Operating profit		**25,264,872**	38,030,654
Net foreign exchange loss	31	**(265,221)**	(7,011,967)
Finance income	32	**1,882,967**	2,283,646
Finance costs	33	**(863,112)**	(1,995,645)
Share in income / (losses) of joint ventures	8	**62,702**	(2,912,125)
Profit before income tax		**26,082,208**	28,394,563
Income tax expense	34	**(6,463,907)**	(12,856,131)
Net profit for the year		**19,618,301**	15,538,432
Other comprehensive income, net of tax			
Foreign currency translation		**(288,611)**	8,956,622
Revaluation of property, plant and equipment		**83,522,643**	3,817,133
Total other comprehensive income, net of tax		**83,234,032**	12,773,755
Total comprehensive income for the year		**102,852,333**	28,312,187

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director ______________________ *Sultan N.S.*

Chief Accountant ______________________ *Sultangaliyeva Zh.O.*

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Tenge	Note	For the years ended 31 December 2010	2009
Cash flows from operating activities:			
Profit before income tax		**26,082,208**	28,394,563
Adjustments for:			
Depreciation and amortization	27, 28	**22,058,358**	17,204,943
(Reverse of) / allowance for doubtful debts	28	**(2,117,636)**	380,575
Share in (income) / losses of joint ventures	8	**(62,702)**	2,912,125
Finance costs	33	**863,112**	1,995,645
Finance income	32	**(1,882,967)**	(2,283,646)
Actuarial losses	30	**27,000**	276,474
Employee benefits	19	**203,000**	191,000
Provisions	24	–	564,522
Loss on disposal of property, plant and equipment and intangible assets, net	30	**253,784**	88,524
Gain from disposal of assets classified as held for sale		**(186,219)**	–
Effect of recognizing of liabilities associated with acquisition in 2008		–	5,017,821
Impairment of goodwill	7	**2,370,792**	1,306,548
Impairment of property plant and equipment		**22,333,457**	1,246,788
Income from write-off of payables	29	**(30,692)**	(25,038)
Amortization of deferred income	29	**(312,366)**	(519,071)
Write-off of VAT recoverable	28	**346,922**	341,258
Amortization of financial guarantee issued on behalf of related party	29	**(67,098)**	(67,171)
Unrealized foreign exchange loss		**265,221**	6,872,546
Write-off of loans given to employees		**1,875**	–
Reversal of provision for allowance for obsolete inventory	28	**(2,984)**	(118,181)
Operating cash flows before working capital changes:		**70,143,065**	63,780,225
Changes in inventories		**2,710,616**	15,947
Changes in trade and other accounts receivable		**(86,719)**	(1,401,006)
Changes in advances to suppliers		**(56,125)**	(412,331)
Changes in taxes recoverable and other current assets		**1,189,384**	(177,970)
Changes in trade and other accounts payable		**1,239,500**	(666,544)
Changes in advances received		**789,656**	2,025,276
Changes in taxes payable		**531,509**	113,753
Changes in other current and non-current liabilities and employee benefits		**226,459**	3,977,959
Cash generated from operations:		**76,687,345**	67,255,309
Income taxes paid		**(10,005,630)**	(8,295,068)
Interest received		**1,371,197**	3,308,075
Interest paid		**(376,228)**	(2,224,053)
Net cash flow from operating activities		**67,676,684**	60,044,263

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Note	For the years ended 31 December 2010	2009
Cash flows from investing activities:			
Withdrawal of term deposits		**51,143,178**	45,292,327
Placement of term deposits		**(66,486,370)**	(50,852,310)
Repayment of loans provided to related parties		**–**	3,777,305
Purchase of property, plant and equipment		**(25,637,918)**	(29,260,128)
Purchase of intangible assets		**(131,064)**	(110,513)
Proceeds from disposal of property, plant and equipment and intangible assets		**604,943**	847,189
Proceeds from disposal of assets calssified as held for sale		**564,597**	–
Dividends received		**422,916**	765,020
Net cash flow used in investing activities		**(39,519,718)**	(29,541,110)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**44,205**	103,250
Repayment of loans and borrowings		**(20,348,000)**	(26,005,469)
Dividends paid		**(7,340,280)**	(6,023,638)
Net cash flow used in financing activities		**(27,644,075)**	(31,925,857)
Net change in cash and cash equivalents		**512,891**	(1,422,704)
Cash and cash equivalents at the beginning of the year	16	**16,401,503**	17,824,207
Cash and cash equivalents at the end of the year	16	**16,914,394**	16,401,503

NON-CASH TRANSACTIONS

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

Depreciation included in cost of inventory

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

Deferred income

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

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director ______________ *Sultan N.S.*

Chief Accountant ______________ *Sultangaliyeva Zh.O.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Note	Share capital	Revaluation reserve	Other reserves	Currency translation reserve	Retained earnings	Total
As at 1 January 2009		**32,916,055**	**49,917,152**	**17,104**	**(77,776)**	**137,741,661**	**220,514,196**
Net profit for the year		–	–	–	–	15,538,432	**15,538,432**
Foreign currency translation		–	–	–	8,956,622	–	**8,956,622**
Impairment of property, plant and equipment		–	(193,833)	–	–	–	**(193,833)**
Revaluation of property, plant and equipment		–	4,010,966	–	–	–	**4,010,966**
Total comprehensive income for the year		–	**3,817,133**	–	**8,956,622**	**15,538,432**	**28,312,187**
Amortisation of revaluation reserve		–	(4,950,528)	–	–	4,950,528	–
Dividends	17	–	–	–	–	(6,023,638)	**(6,023,638)**
As at 31 December 2009		**32,916,055**	**48,783,757**	**17,104**	**8,878,846**	**152,206,983**	**242,802,745**
Net profit for the year		–	–	–	–	19,618,301	**19,618,301**
Foreign currency translation		–	–	–	(288,611)	–	**(288,611)**
Impairment of property, plant and equipment		–	(6,390,810)	–	–	–	**(6,390,810)**
Revaluation of property, plant and equipment		–	89,913,453	–	–	–	**89,913,453**
Total comprehensive income for the year		–	83,522,643	–	**(288,611)**	**19,618,301**	**102,852,333**
Amortisation of revaluation reserve		–	(7,477,446)	–	–	7,477,446	–
Dividends	17	–	–	–	–	(7,340,280)	**(7,340,280)**
As at 31 December 2010		**32,916,055**	**124,828,954**	**17,104**	**8,590,235**	**171,962,450**	**338,314,798**

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director Sultan N.S.

Chief Accountant ...ngaliyeva Zh.O.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. POLITICAL AND ECONOMIC ENVIRONMENT

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

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

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

3. BASIS OF PREPARATION

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Revaluation of property, plant and equipment

Property, plant and equipment were revalued to fair value as of 30 June 2010 (previous revaluation was performed as of 30 June, 2007) except for the property, plant and equipement of BIHL, that were revalued as of 31 Decembet 2010. The revaluation was performed on the basis of an appraisal performed by an independent professional real estate appraisal company operating in the Republic of Kazakhstan under an appropriate license. The methods used to fair value property, plant and equipment were the cost (for specialised assets – depreciated replacement cost approach), the comparative (using comparative sales method) and the income approaches.

In applying the cost approach, key assumptions considered were:

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

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

Income approach procedures were performed for identification of economical deterioration.

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

Revaluation of property, plant and equipment (continued)

The most significant assumptions affecting profitability test are:

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

No economical 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 was revalued as of 30 September 2010. Revaluation was performed by an independent appraiser.

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

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

Taking into account all these factors, the management concluded that the most appropriate price to reflect fair value for the technological oil in pipeline that would be determined by informed market participant would be 143 US Dollars per tonne as of 30 September 2010 (21,111 Tenge) (2009: USD 125 (18,579 Tenge) per tonne). As a result of test on adequate profitability in terms of revaluation of technological oil by using income approach no economical deterioration was revealed.

As of 31 December 2010, the amount of oil in the pipeline included as part of property, plant and equipment was 2,136 thousand tons (2009: 2,101 thousand tons).

Asset retirement obligation

Current Kazakhstani legislation in respect to environmental obligations prescribes that companies operating in extracting industries to dismantle certain assets and reclaim the land upon ceasing operations. Management of the Group believes that environmental law relating to extractive industry is not applicable to the Group's operations. However, dismantling of pipeline and land reclamation upon retirement is required by land lease agreements with local authorities. The Group sells pipelines upon abandonment and all dismantling and land reclamation costs are covered by the buyer of the pipelines. As a result, no asset retirement obligation as of 31 December 2010 and 2009 were recognized in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Impairment of property, plant and equipment

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

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

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

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by 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 2010 the Group recognized an impairment of 30,305,298 thousand Tenge (2009: impairment of 1,489,079 thousand Tenge was recognized in profit and loss) where the impairment of 22,333,457 thousand Tenge (2009: 1,246,788 thousand Tenge) was recognized in profit and losses and 7,971,841 thousand Tenge (2009: 242,291 thousand Tenge (193,833 thousand Tenge, net of tax)) was recognized in equity *(Note 6)*.

Useful lives of items of property, plant and equipment

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

Allowances for doubdfull debts

The Group 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 consolidated financial statements. As of 31 December 2010 and 2009, allowances for doubtful accounts have been created for the amount of 599,570 thousand Tenge and 2,632,193 thousand Tenge, respectively (*Notes 9, 11 and 12*).

Deferred tax assets

Deferred tax assets are recognized for all provisions for doubtful debts, allowances for slow-moving inventories and other liabilities to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The amount of recognized deferred tax assets as of 31 December 2010 was 2,541,633 thousand Tenge (2009: 2,377,665 thousand Tenge) (*Note 34*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Provisions

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

Significant management judgment is required to estimate the amount the Group may be liable for and the amount is subject to change depending on the outcome of the legal proceedings. As of 31 December 2010, tax provision amounted to 3,944,960 thousand Tenge (2009: 4,530,699 thousand Tenge), what the management of the Group believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour (*Note 24*).

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in Accounting Policies and disclosures

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

New and amended standards and interpretations

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

IFRS 2 Share-based Payment (Revised)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

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

IFRIC 17 Distribution of Non-cash Assets to Owners

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

Improvements to IFRSs

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

Issued in May 2008

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

Issued in April 2009

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

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

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

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

IFRS and Interpretations issued but not yet effective

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS and Interpretations issued but not yet effective (continued)

IAS 24 Related Party Disclosures (Amendment)

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

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

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

IFRS 9 Financial Instruments: Classification and Measurement

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

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

Improvements to IFRSs (issued in May 2010)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Subsidiaries

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

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

Exchange rates

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

As at 31 December 2010, the currency exchange rate of KASE was 147.40 Tenge to 1 USD, rate was used to translate monetary assets and liabilities denominated in US dollars as of 31 December 2010 (2009: 148.36 Tenge to 1 USD).

Principles of consolidation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

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

Business combinations achived in stages are accounted as separate steps. Any additional acquired share of interest does not affect previously recognized goodwill.

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

Subsidiaries

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Non-controlling interest represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholder's equity.

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

Disposals of non-controlling interest are accounted for using entity method, whereby, the Group recognizes such disposals as transactions with shareholders, no gain or loss is recognized in profit and losses, nor is there any adjustment to goodwill.

Interest in joint ventures

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest in joint ventures (continued)

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

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

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

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

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

Property, plant and equipment

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

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

	Years
Buildings and constructions	20 – 60
Machinery and equipment	5 – 40
Pipelines and other transportation assets (excluding technological oil)	10 – 50
Other	2 – 20

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

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

Assets classified as held for sale

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets classified as held for sale (continued)

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

Revaluation of property, plant and equipment

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

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

Revaluation reserve is amortised on the same basis as the property, plant and equipment through a charge directly to retaining earnings. Transfer from revaluation reserve to retained earnings is included in separate statement of changes in equity.

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

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

Intangible assets

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

Impairment of non-financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

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

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

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

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

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

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

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

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

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

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

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

Derecognition

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

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

Cash and cash equivalents and bank deposits

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

Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Value Added Tax (VAT)

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

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

Employee benefits

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

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

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

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

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

Provisions

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

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

Revenue recognition

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

Rendering of transportation services

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rendering of other services

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

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity

Share capital

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

Dividends

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

Reclassifications

Certain reclassifications have been made to the previous year statement of financial position in order to conform to the current year presentation. The most significant reclassifications are described below:

In thousands of Tenge	**Amount**
Reclassification to provisions from other current liabilities	247,329
Reclassification to deferred income from other non-current accounts payable	1,050,340

Following is the effect of reclassifications made on the consolidated statement of financial position:

In thousands of Tenge	As originally presented	As adjusted
Consolidated statement of financial position as of 31 December 2009		
Provisions	4,283,370	4,530,699
Other current liabilities	4,489,657	4,242,328
Other non-current accounts payable	1,058,071	7,731
Deferred income	4,168,479	5,218,819
	13,999,577	13,999,577

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. 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 2009	**14,542,841**	**52,622,416**	**6,188,045**	**34,863,857**	**68,457,665**	**38,319,922**	**9,670,298**	**7,956,066**	**232,621,110**
Foreign currency translation	3,654,013	–	(120,914)	1,008,952	1,950,991	–	406,709	(69,219)	**6,830,532**
Additions	153,097	25,595	1,590,503	1,490,801	1,645,618	297,200	577,267	23,537,160	**29,317,241**
Disposals	(192,992)	(298,364)	(67,733)	(1,022,387)	(936,838)	(150,879)	(1,748,840)	(275,538)	**(4,693,571)**
Depreciation charge	–	(4,399,467)	(697,079)	(1,750,277)	(7,896,781)	–	(1,706,592)	–	**(16,450,196)**
Accumulated depreciation on disposals	–	265,771	30,379	111,718	423,424	–	194,244	–	**1,025,536**
Impairment (included in net profit)	(30,150)	(129,751)	(849)	(815,675)	(83,148)	(136,156)	(31,874)	(19,185)	**(1,246,788)**
Impairment (revaluation reserve)	–	(206,903)	–	(13,961)	(20,508)	–	(919)	–	**(242,291)**
Revaluation (revaluation reserve)	3,114,747	–	46,615	–	–	718,327	894,718	35,071	**4,809,478**
Transfers from construction-in-progress	469	4,617,660	218,733	4,663,086	10,225,813	–	1,297,410	(21,023,171)	–
Transfers to Intangible assets	(4,746,533)	–	–	–	–	–	–	(173,936)	**(4,920,469)**
Transfers and reclassifications	3,792,311	2,074,273	(532,915)	(3,517,773)	(1,875,918)	–	60,022	–	–
Net book value as at 31 December 2009	**20,287,803**	**54,571,230**	**6,654,785**	**35,018,341**	**71,890,318**	**39,048,414**	**9,612,443**	**9,967,248**	**247,050,582**
Foreign currency translation	(129,203)	–	(10,262)	(30,526)	(43,282)	–	(12,292)	(3,171)	**(228,736)**
Additions	30,603	50,989	600,786	26,148	1,419,762	18,575	716,677	22,162,567	**25,026,107**
Disposals	(208,864)	(1,115,453)	(130,447)	(400,365)	(163,356)	(17,784)	(144,221)	(447,422)	**(2,627,912)**
Depreciation charge	–	(6,880,516)	(978,090)	(3,878,545)	(7,736,693)	–	(1,779,819)	–	**(21,253,663)**
Accumulated depreciation on disposal	–	1,090,917	41,903	69,651	81,054	–	105,224	–	**1,388,749**
Impairment (included in net profit)	(7,342,309)	(4,208,402)	(753,200)	(3,638,249)	(5,777,329)	72,101	(653,212)	(499,790)	**(22,800,390)**
Impairment (revaluation reserve)	(60,125)	(1,328,547)	(19,990)	(90,780)	(6,443,613)	–	(28,786)	–	**(7,971,841)**
Revaluation (revaluation reserve)	2,883,849	41,180,232	1,409,947	38,088,004	14,671,416	5,969,407	1,967,450	786,476	**106,956,781**
Recovery of impairment reserve (included in net profit)	466,933	–	–	–	–	–	–	–	**466,933**
Transfer from construction-in-progress	15,938	4,413,219	212,491	7,931,312	10,480,277	–	887,906	(23,941,143)	–
Transfer to Intangible assets	–	–	–	–	–	–	–	(484,051)	**(484,051)**
Transfers and reclassifications	–	3,163,996	(231,051)	(16,420)	(3,357,663)	–	414,302	26,836	–
Net book value as at 31 December 2010	**15,944,625**	**90,937,665**	**6,796,872**	**73,078,571**	**75,020,891**	**45,090,713**	**11,085,672**	**7,567,550**	**325,522,559**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2010									
At cost	15,944,625	96,730,100	7,337,524	76,341,940	78,551,435	45,420,918	11,887,340	7,699,018	**339,912,900**
Impairment	–	(579,293)	(11,339)	(589,072)	(170,425)	(330,205)	(170,544)	(131,468)	**(1,982,346)**
Accumulated depreciation	–	(5,213,142)	(529,313)	(2,674,297)	(3,360,119)	–	(631,124)	–	**(12,407,995)**
Net book value	**15,944,625**	**90,937,665**	**6,796,872**	**73,078,571**	**75,020,891**	**45,090,713**	**11,085,672**	**7,567,550**	**325,522,559**
As at 31 December 2009									
At cost	20,317,953	70,974,890	8,312,791	43,041,837	90,967,934	50,923,331	13,046,342	10,074,719	**307,659,797**
Impairment	(30,150)	(704,400)	(12,191)	(2,981,000)	(556,809)	(11,874,917)	(154,836)	(107,471)	**(16,421,774)**
Accumulated depreciation	–	(15,699,260)	(1,645,815)	(5,042,496)	(18,520,807)	–	(3,279,063)	–	**(44,187,441)**
Net book value	**20,287,803**	**54,571,230**	**6,654,785**	**35,018,341**	**71,890,318**	**39,048,414**	**9,612,443**	**9,967,248**	**247,050,582**

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

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

As of 31 December 2010 and 2009 construction-in-progress ("CIP") mainly includes following oil transportation assets: pump stations, reserviours, gas-trap and drain systems, pump overpasses, strom drainages, measuring systems on reserviours, oil traps, oil sludge utilizations bases, towing ropes, production facilities; reconstruction and expansion of: industry safety systems of production facilities, oil pumping station "Kenkiyak", industrial process and production and technical communication automation system.

As of 31 December 2010 construction-in-progress includes inventories in the amount of 1,199,074 thousand Tenge (2009: 1,174,163 thousand Tenge), which were purchased for construction purposes.

As of 31 December 2010 the cost of fully depreciated but still in use property, plant and equipment was 726,349 thousand Tenge (2009: 9,484,936 thousand Tenge).

As of 31 December 2010 cost of property, plant and equipment which temporarily are not in use is 1,439,892 thousand Tenge (2009: 879,841 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

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:

In thousands of Tenge	Land	Buildings	Machinery and equipment	Pipelines	Transportation assets	Technological oil	Other	Construction in progress	Total
At 31 December 2009	20,217,348	28,000,332	46,491,605	39,067,769	12,251,254	1,147,561	7,653,863	49,697,762	204,527,494
At 31 December 2010	**19,998,618**	**34,157,493**	**56,020,495**	**43,015,633**	**5,084,114**	**1,165,650**	**8,254,102**	**7,280,949**	**174,977,054**

7. INTANGIBLE ASSETS

In thousands of Tenge	Goodwill	Licenses	Software	Right for land use	Other	Total
Net book value at 1 January 2009	**2,151,310**	**56,327**	**1,281,186**	–	**708,243**	**4,197,066**
Additions	–	2,894	65,359	–	42,260	**110,513**
Disposals	–	–	(5,173)	–	(184,491)	**(189,664)**
Amortization charge	–	(16,912)	(432,907)	(170,388)	(149,704)	**(769,911)**
Accumulated depreciation on disposals	–	–	4,851	–	–	**4,851**
Impairment provision	(1,306,548)	–	–	–	–	**(1,306,548)**
Transfers from property, plant and equipment	–	–	173,936	4,746,533	–	**4,920,469**
Foreign currency translation	1,526,030	–	845	1,164,699	147,610	**2,839,184**
Net book value at 31 December 2009	**2,370,792**	**42,309**	**1,088,097**	**5,740,844**	**563,918**	**9,805,960**
Additions	–	4,489	115,293	–	11,284	**131,066**
Disposals	–	–	(25,433)	–	(1,986)	**(27,419)**
Amortization charge	–	(16,551)	(450,217)	(195,652)	(155,295)	**(817,715)**
Accumulated depreciation on disposals	–	–	25,289	–	82	**25,371**
Impairment provision	(2,370,792)	–	–	–	–	**(2,370,792)**
Transfers from property, plant and equipment	–	234,547	249,504	–	–	**484,051**
Foreign currency translation	–	(296)	(12)	(37,147)	(3,111)	**(40,566)**
Transfers and reclassifications	–	(4,273)	4,571	–	(298)	–
Net book value at 31 December 2010	–	**260,225**	**1,007,092**	**5,508,045**	**414,594**	**7,189,956**
As at 31 December 2010						
At cost	21,230,473	316,958	3,194,362	5,902,831	733,635	**31,378,259**
Impairment	(21,230,473)	–	–	–	–	**(21,230,473)**
Accumulated amortization	–	(56,733)	(2,187,270)	(394,786)	(319,041)	**(2,957,830)**
Net book value	–	**260,225**	**1,007,092**	**5,508,045**	**414,594**	**7,189,956**
As at 31 December 2009						
At cost	21,230,473	82,745	2,850,159	5,939,978	728,587	**30,831,942**
Impairment	(18,859,681)	–	–	–	–	**(18,859,681)**
Accumulated amortization	–	(40,436)	(1,762,062)	(199,134)	(164,669)	**(2,166,301)**
Net book value	**2,370,792**	**42,309**	**1,088,097**	**5,740,844**	**563,918**	**9,805,960**

Impairment Testing of Goodwill

BIHL includes the following divisions:

- Batumi Oil Terminal
- Batumi Sea Port

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INTANGIBLE ASSETS (continued)

Impairment Testing of Goodwill (continued)

As operations of divisions are interrelated they were considered as a signle cash-generating unit for impairment testing purposes. The Group performed its annual impairment test as at 30 September 2010. The recoverable amount has been determined based on a value in use calculation using cash flow projections covering a ten-year period. The pre-tax discount rate applied to cash flow projections is 19.98 % (2009: 19.11%) that is weighted-average cost of capital of BIHL.

As a result of this analysis, in 2010 management has recognized an impairment charge of 1,628,217 thousand Tenge and remaining part in the amount of 742,575 thousand Tenge by decision of the management of the Group, against goodwill (2009: 1,306,548 thousand tenge) which is recorded in the current period profit and loss in 2010.

Key assumptions used in value-in-use calculations

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

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

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

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

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

Sensitivity to changes in assumptions

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

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

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

8. INVESTMENTS IN JOINT VENTURES

In thousands of Tenge	**31 December 2010**	31 December 2009
MunayTas	**9,118,148**	5,262,464
	9,118,148	5,262,464

During 2010, the Group has recognized its share in income of MunayTas in the amount of 62,702 thousand Tenge (2009: income of 376,931 thousand Tenge) and share inother comprehensive income of MunayTas in the amount of 4,169,853 thousand Tenge; that resulted in increase of carrying amount of investments in MunayTas. Dividends received from MunayTas in 2010 amounted to 376,871 thousand Tenge (2009: 765,020 thousand Tenge) and resulted in corresponding decrease in carrying amount of investments in MunayTas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INVESTMENTS IN JOINT VENTURES (continued)

Amount of investment in KCP was reduced to nil in 2009 due to significant losses of this entity, which exceeded carrying amount of investments (share in the loss of KCP recognized by the Group in 2009 amounted to 3,289,056 thousand Tenge). The Group's share in the net liabilities of KCP amounted to 15,231,970 thousand Tenge as at 31 December 2009. During 2010, KCP generated net income of 14,347,123 thousand Tenge and other comprehensive income of 3,545 thousand Tenge. As at 31 December 2010, Group's share in the net liabilities of KCP totalled to 8,060,181 thousand Tenge. Accordingly, balance of investments in KCP in this consolidated financial statements remains as zero.

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

In thousands of Tenge	**31 December 2010**	31 December 2009
Total assets and liabilities of joint ventures		
Current assets	**6,731,501**	20,527,984
Non-current assets	**110,091,333**	104,572,910
Current liabilities	**(9,472,860)**	(9,573,644)
Non-current liabilities	**(106,292,007)**	(125,496,752)
Net assets	**1,057,967**	(9,969,502)

In thousands of Tenge	**2010**	2009
Total revenue and net income of joint ventures for the year		
Revenue	**26,913,132**	14,442,050
Net income	**7,236,263**	(18,186,516)

9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	**31 December 2010**	31 December 2009
Advances to third parties for property, plant and equipment	**516,852**	1,986,058
Less: allowance for non-performance	**(99,330)**	(99,330)
	417,522	1,886,728

Movement in allowance for non-performance was as follows:

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

Advances issued to suppliers for property, plant and equipment assets are denominated as follows:

In thousands of Tenge	**31 December 2010**	31 December 2009
Tenge	**402,782**	1,854,261
US Dollars	**11,498**	19,589
Euro	**3,095**	2,532
Other currency	**147**	10,346
	417,522	1,886,728

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INVENTORIES

In thousands of Tenge	**31 December 2010**	31 December 2009
Spare parts	**1,472,206**	1,750,977
Fuel	**898,192**	873,526
Construction materials	**93,146**	104,651
Other	**784,308**	678,873
Less: provision for slow-moving and obsolete inventory	**(56,764)**	(215,322)
	3,191,088	3,192,705

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

In thousands of Tenge	**2010**	2009
As at 1 January	**215,322**	372,869
Charge for the year	**3,131**	158,083
Write-off of inventories	**(155,315)**	(42,683)
Reversal of provision	**(6,115)**	(276,264)
Currency translation difference	**(259)**	3,317
As at 31 December	**56,764**	215,322

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

In thousands of Tenge	**31 December 2010**	31 December 2009
Accounts receivable for oil transportation coordination	**4,034,085**	4,722,309
Trade accounts receivable from related parties (*Note 36*)	**1,294,220**	913,623
Trade accounts receivable from third parties	**1,043,959**	836,130
Other accounts receivable from third parties	**623,179**	871,868
Other accounts receivable from related parties (*Note 36*)	**55,281**	46,267
Less: allowance for impairment of trade and other accounts receivable	**(498,177)**	(354,940)
	6,552,547	7,035,257

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

In thousands of Tenge	**2010**	2009
As at 1 January	**354,940**	427,269
Charge for the year	**91,857**	98,246
Write-off of receivable	**(21,228)**	(94,350)
Reversal of allowance	**(33,444)**	(63,250)
Currency translation	**(604)**	–
Reclassifications	**106,656**	(12,975)
As at 31 December	**498,177**	354,940

Trade and other accounts receivable are denominated as follows:

In thousands of Tenge	**31 December 2010**	31 December 2009
Russian roubles	**4,012,817**	4,122,655
Tenge	**1,947,382**	1,347,197
US Dollars	**535,157**	1,356,399
Euro	**–**	97,768
Other curency	**57,191**	111,238
	6,552,547	7,035,257

NOTES TO THE CONSOLIDATED 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
2009	7,035,257	6,889,971	–	122,056	–	23,230	–
2010	**6,552,547**	**5,426,427**	**892,046**	**112,752**	**72,576**	**16,603**	**32,143**

12. ADVANCES TO SUPPLIERS

In thousands of Tenge	**31 December 2010**	31 December 2009
Advances to third parties	**465,798**	432,148
Advances to related parties (*Note 36*)	**278,273**	255,609
Less: provision for non-performance	**(2,063)**	(2,083)
	742,008	685,674

Movements in allowance for non-performance were as follows:

In thousands of Tenge	**2010**	2009
As at 1 January	**2,083**	1,100
Charge for the year	**1,097**	1,393
Reclassifications	**199**	(104)
Write-off of advances	**(10)**	–
Reversal of provision	**(1,306)**	(306)
As at 31 December	**2,063**	2,083

13. VAT RECOVERABLE AND OTHER PREPAID TAXES

In thousands of Tenge	**31 December 2010**	31 December 2009
VAT recoverable	**4,366,876**	3,807,143
Withholding tax	**1,594,170**	1,592,382
Other taxes prepaid	**510,529**	131,392
	6,471,575	5,530,917

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

14. OTHER CURRENT ASSETS

In thousands of Tenge	**31 December 2010**	31 December 2009
Due from employees	**66,245**	57,966
Deferred expenses	**18,421**	607,779
Prepaid insurance	**10,168**	4,429
Other	**59,672**	–
	154,506	670,174

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. SHORT-TERM BANK DEPOSITS

In thousands of Tenge	**31 December 2010**	31 December 2009
Short-term bank deposits	**40,486,425**	25,267,338
Accrued interest on deposits	**446,533**	23,797
	40,932,958	25,291,135

At 31 December 2010 short-term bank deposits comprised Tenge denominated time deposits with Kazakhstani banks with maturity from 3 to 12 months, which earn interest of 5% to 6% per annum (2009: 5% – 6% per annum) and US Dollars with interst rate of 10%, repayable in December 2011 (2009: May 2010).

16. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**31 December 2010**	31 December 2009
Current accounts with banks – Tenge	**9,731,884**	10,692,022
Time deposits with banks – Tenge	**4,452,309**	–
Current accounts with banks – US Dollars	**2,624,981**	1,987,686
Current accounts with banks – Lari	**52,180**	35,620
Current accounts with banks – Euro	**24,026**	29,535
Current accounts with banks – Russian Rouble	**11,844**	3,646,702
Current accounts with banks – Other currencies	**3,095**	–
Cash on hand	**6,666**	8,023
Other current accounts with banks	**7,409**	1,915
	16,914,394	16,401,503

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

17. EQUITY

Share capital

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

Distributions to the shareholder

Dividends

During 2010, the Company declared and paid dividends for 2009, totalling 7,340,280 thousand Tenge from 2009 income (2009: 6,023,638 thousand Tenge from 2008 income). The dividend amounted to 223 Tenge per common share (2009: 183 Tenge).

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

Revaluation reserve

Revaluation reserve was formed based on a revaluation of property, plant and equipment performed by an independent appraiser for certain groups of assets as at 30 June 2010 (in relation to technological oil 30 September 2010), 20 June 2007, 31 December 2004 and 31 December 1999.

17. EQUITY (continued)

Other reserves

At 31 December 2010 and 2009, the reserve capital was 17,104 thousand Tenge, which comprised the social objects contributed by the Government of the Republic of Kazakhstan to the Group in 1997. These social objects were recorded as property, plant and equipment in 1997. The disposal of these assets requires approval of the Government represented by State Commette on Property and Privatisation of the Republic of Kazakhstan.

18. LOANS AND BORROWINGS

	Currency	Maturity	Effective Interest rate	31 December 2010	31 December 2009
Natixis Company	US dollars	28 August 2013	Libor+1.70%	–	20,503,864
TBC Bank	US dollars	21 September 2012	12-16%	**591,664**	700,200
Less: unamortised transaction costs				–	(511,635)
				591,664	20,692,429
Less: amounts due for settlement within 12 months				**296,864**	10,345,517
Total long–term portion of interest bearing loans and borrowings				**294,800**	10,346,912

Natixis Company

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

TBC Bank

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

Amounts after 12 months are repayable as follows:

In thousands of Tenge	31 December 2010	31 December 2009
1 to 2 years	**294,800**	9,753,472
2 to 5 years	–	593,440
	294,800	10,346,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. EMPLOYEE BENEFIT 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 period. The expected cost of these benefits is accrued over the year of employment using the same accounting methodology as used for the defined benefit plan. These benefits are unfunded.

Changes in defined benefit obligations are as follows:

In thousands of Tenge	**31 December 2010**	31 December 2009
Present value of defined benefits obligation at the beginning of the year	**2,469,000**	1,997,532
Current services cost	**203,000**	191,000
Unwinding of discount (*Note 33*)	**150,000**	122,000
Actuarial losses (*Note 30*)	**27,000**	276,474
Benefits paid	**(127,196)**	(118,006)
Present value of defined benefit obligation at the end of the year	**2,721,804**	2,469,000
Less: current portion of present value of defined benefit obligation	**(141,000)**	(131,880)
Non-current portion of present value of defined benefit obligation	**2,580,804**	2,337,120

Amounts recognized in the consolidated statement of financial position and profit and loss for the current year are as follows:

In thousands of Tenge	**31 December 2010**	31 December 2009
Present value of defined benefit obligation at end of the year	**2,721,804**	2,469,000
Net liability	**2,721,804**	2,469,000
Current service cost	**203,000**	191,000
Actuarial losses (*Note 30*)	**27,000**	276,474
Unwinding of discount (*Note 33*)	**150,000**	122,000
Expenses recognized in the current period	**380,000**	589,474

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

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

Discount rate	**6,0%**	6,0%
Future salary increases	**4,0%**	4,0%
Mortality rate	**12,0%**	12,0%

20. DEFERRED INCOME

In thousands of Tenge	**31 December 2010**	31 December 2009
Deferred income from related parties (*Note 35*)	**1,197,401**	1,509,766
Deferred income from third parties	**3,856,460**	3,709,053
	5,053,861	5,218,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**31 December 2010**	31 December 2009
Accounts payable to third parties for goods and services	**5,212,771**	5,800,368
Accounts payable for oil transportation coordination for related parties (*Note 35*)	**4,273,240**	3,751,450
Accounts payable for oil transportation coordination for third parties	**3,857,236**	2,484,364
Accounts payable to related parties for goods and services (*Note 35*)	**417,271**	401,870
Other payables	**339,991**	452,916
	14,100,509	12,890,968

Trade and other accounts payables are denominated as follows:

In thousands of Tenge	**31 December 2010**	31 December 2009
Tenge	**13,240,885**	12,391,576
US Dollars	**722,860**	223,469
Euro	**12,592**	110,372
Russian roubles	**7,299**	14,477
Other currency	**116,873**	151,074
	14,100,509	12,890,968

22. ADVANCES RECEIVED

In thousands of Tenge	**31 December 2010**	31 December 2009
Advances received from related parties (*Note 35*)	**7,008,869**	6,454,500
Advances received from third parties	**3,877,541**	3,642,254
	10,886,410	10,096,754

23. OTHER TAXES PAYABLE

In thousands of Tenge	**31 December 2010**	31 December 2009
Personal Income Tax	**818,171**	469,609
Social Tax	**266,014**	198,319
Property tax	**174,143**	74,159
Other taxes	**190,775**	175,507
	1,449,103	917,594

24. 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 Group made an appeal to the Ministry of Finance and the Tax Committee of the Republic of Kazakhstan. On 23 February 2010 the Group received a reply from the Tax Committee, which satisfied an appeal only partially. The Group plans to defend its position in the court and is in process of preparation to the legal proceedings. The management of the Group believes that the Group might be found liable to the Tax Authority. In 2008, the management has therefore made a provision in the separate financial statements in the amount of 3,718,848 thousand Tenge, which it believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. PROVISIONS (continued)

In order to avoid the fine accrual on claimed amount, the Group paid 1,572,705 thousand Tenge to tax authorities in 2009.

As of 31 December 2009, the Group was also, involved in tax disputes with Georgian Tax Authorities in respect of additional accruals of corporate income tax of US Dollars 3,864,862 (equivalent of 573,391 thousand Tenge) and withholding tax of US Dollars 1,534,000 (equivalent of 227,584 thousand Tenge). As of the end of 2009, management of the Group believed that the Group might be found liable to Georgian Tax Authorities. Therefore, in 2009 the management has made a provision in the consolidated financial statements in the amount of 800,975 thousand Tenge, which it believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour. As of 31 December 2010, in respect of additional accrual of corporate income tax of US Dollars 3,864,862 (equivalent of 596,681 thousand Tenge), the Group, in accordance with the court decision, was found liable to the Georgian Tax Authorities and this amount was reclassified from provisions to the income tax payables during 2010.

As of 31 December 2010, the amount of provision for tax claim of Georgian Tax authorities in respect of withholding tax amounted to US 1,534,000 (equivalent to 226,112 thousand Tenge).

25. OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2010**	31 December 2009
Salaries and wages	**3,569,461**	3,232,425
Current portion of deferred income from related parties (*Note 35*)	**312,366**	312,366
Accounts payable to pension fund	**272,891**	214,116
Current portion of deferred income from third parties	**171,849**	483,421
Other accruals	**130,450**	–
	4,457,017	4,242,328

26. REVENUE

In thousands of Tenge	**2010**	2009
Crude oil transportation	**109,395,974**	97,682,797
Oil reloading and railway shipment	**13,227,167**	14,518,571
Water transportation	**5,892,098**	4,893,092
Pipeline operation services	**4,530,016**	3,319,662
Oil transportation coordination services	**3,299,799**	2,746,629
Oil storage services	**356,998**	77,058
Other	**1,538,888**	2,943,324
	138,240,940	126,181,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. COST OF SALES

In thousands of Tenge	2010	2009
Personnel cost	**22,993,347**	20,220,513
Depreciation and amortization	**21,315,868**	16,352,902
Railway services	**6,962,179**	7,654,352
Repair and maintenance costs	**4,651,005**	3,973,515
Materials and fuel	**4,549,553**	5,763,973
Electric energy	**4,547,801**	4,052,541
Taxes other than corporate income tax	**3,857,427**	2,745,165
Security services	**2,404,371**	1,817,222
Gas expense	**2,016,140**	1,926,169
Air services	**1,790,035**	808,792
Rent expenses	**910,240**	817,691
Environmental protection	**884,614**	489,834
Diagnostics of pipelines	**713,129**	229,742
Business trip expenses	**533,296**	683,894
Insurance	**463,584**	264,289
Communication services	**196,002**	156,099
Other	**3,618,039**	3,485,807
	82,406,630	71,442,500

28. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	2010	2009
Personnel costs	**4,855,275**	4,323,549
Depreciation and amortization	**742,490**	852,041
Consulting	**401,735**	389,007
Write-off of VAT recoverable	**346,922**	341,258
Charity expenses	**334,548**	99,066
Social sphere expenses	**309,080**	158,922
Insurance and security	**277,533**	188,455
Taxes other than corporate income tax	**226,592**	303,553
Business trip expenses	**207,946**	281,977
Operational lease expenses	**206,577**	242,537
Repair and technical maintenance	**196,780**	152,029
Materials and fuel	**150,500**	60,592
Training	**126,272**	73,211
Communication services	**113,491**	153,319
Bank costs	**109,420**	147,902
Transportation expenses	**107,941**	53,180
Advertising expense	**96,320**	83,881
Information expenses	**74,336**	103,930
Office maintenance	**59,950**	12,185
Provisions for taxes	**–**	564,522
Reversal of allowance for obsolete and slow-moving inventories	**(2,984)**	(118,181)
(Reversal of) / provision for allowance for doubtful debt	**(2,117,636)**	380,575
Other	**291,531**	257,286
	7,114,619	9,104,796

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. OTHER OPERATING INCOME

In thousands of Tenge	2010	2009
Income from fines and penalties	**938,816**	136,583
Amortization of deferred income	**312,366**	519,071
Amortization of financial guarantee issued to related party	**67,098**	67,171
Income from write-off of payables	**30,692**	25,038
Other income	**706,116**	344,997
	2,055,088	1,092,860

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.

30. OTHER OPERATING EXPENSES

In thousands of Tenge	2010	2009
Loss on disposal of property, plant and equipment and intangible assets	**253,784**	88,524
Actuarial losses	**27,000**	276,474
Loss on disposal of inventory	**–**	56,061
Other expenses	**524,874**	703,827
	805,658	1,124,886

31. NET FOREIGN EXCHANGE LOSS

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

32. FINANCE INCOME

In thousands of Tenge	2010	2009
Interest income on bank deposits	**1,786,270**	2,192,499
Dividends income	**46,046**	–
Employees and related parties loans: unwinding of discount	**30,317**	91,147
Income grom guarantees	**15,177**	–
Finance rent income	**5,157**	–
	1,882,967	2,283,646

33. FINANCE COSTS

In thousands of Tenge	2010	2009
Interest on loans and borrowings	**709,579**	1,869,050
Employee benefits: unwinding of discount	**150,000**	122,000
Loss on initial recognition of loans to employees and related parties	**–**	4,595
Other	**3,533**	–
	863,112	1,995,645

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. INCOME TAX EXPENSE

As at 31 December 2010 prepayment for income tax in the amount of 1.337,084 thousand Tenge (2009: 1,946,748 thousand Tenge) represents corporate income tax.

As at 31 December 2010 income tax liabilities in the amount of 908,131 thousand Tenge (2009: 476,041 thousand Tenge) represents corporate income tax.

Income tax expenses for the years ended 31 December comprise:

In thousands of Tenge	2010	2009
Current Income tax expense	**10,683,626**	7,681,285
Deferred Income tax (benefit) / expense	**(4,219,719)**	5,174,846
Income tax	**6,463,907**	12,856,131

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	2010	2009
Profit before income tax	**26,082,208**	28,394,563
Statutory rate	**20%**	20%
Income tax expense on accounting profit	**5,216,441**	5,678,913
Tax effect of permanent differences		
Non-deductible employee benefits	**50,561**	66,926
Non-deductible interest expenses	**19,398**	22,301
Adjustment of tax return for prior years	**604,797**	60,424
Representative expenses	**6,176**	–
Non-deductible finance aid and sponsorship	**60,693**	15,368
VAT recoverable	**90,384**	10,056
Fines and penalties	**11,592**	18,007
Effect of changing tax rates in recognized tax assets and liabilities	–	3,426,938
(Income) / loss from joint ventures recognized according to equity method	**(12,540)**	582,425
Effect of difference in tax rates	**(108,037)**	121,866
Tax provisions	–	112,250
Impairment of goodwill	**474,158**	261,310
Other permanent differences	**50,284**	2,479,347
Corporate income tax expense reported in the statement of comprehensive income	**6,463,907**	12,856,131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. INCOME TAX EXPENSE (continued)

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

In thousands of Tenge	31 December 2010	Charged to profit and loss	Foreign currency translation	Charged to revaluation reserve	31 December 2009	Charged to profit and loss	Effect of PPE uplift on acquisition in 2008	Foreign currency translation	Charged to revaluation reserve	1 January 2009
Deferred tax assets										
Property, plant and equipment	–	(182,860)	–	–	**182,860**	182,860	–	–	–	–
Unrecognised deferred income tax assets	–	182,860	–	–	**(182,860)**	(182,860)	–	–	–	–
Bonuses and other employee compensation and related costs	**1,004,403**	590,796	–	–	**413,607**	(22,293)	–	–	–	**435,900**
Financial guarantee liability	**46,413**	(13,815)	–	–	**60,228**	11,253	–	–	–	**48,975**
Allowance for doubtful debts	**111,998**	(407,162)	–	–	**519,160**	34,090	–	–	–	**485,070**
Bad debt allowances	**11,023**	(30,070)	–	–	**41,093**	(24,413)	–	–	–	**65,506**
Taxes payable	**21,269**	(13,482)	–	–	**34,751**	32,121	–	–	–	**2,630**
Financial aid to related parties and loans to employees	**14,057**	(21,746)	–	–	**35,803**	24,374	–	–	–	**11,429**
Due to employees	–	–	–	–	–	(7,007)	–	–	–	**7,007**
Other temporary differences	–	(170,436)	–	–	**170,436**	(99,076)	–	–	–	**269,512**
Deferred Income	**301,953**	(62,473)	–	–	**364,426**	364,426	–	–	–	–
Income of BIHL	**1,030,547**	292,386	–	–	**738,161**	278,731	–	–	–	459,430
	2,541,663	**163,998**	–	–	**2,377,665**	**592,206**	–	–	–	**1,785,459**
Deferred tax liabilities										
Investments in joint ventures	**(176,032)**	–	–	–	**(176,032)**	(44,008)	–	–	–	**(132,024)**
Other temporary differences	–	18,024	–	–	**(18,024)**	(18,024)	–	–	–	–
Property, plant and equipment	**(38,409,893)**	4,037,697	55,071	(19,632,158)	**(22,870,503)**	(5,705,020)	(1,695,455)	(164,919)	(1,751,322)	**(13,553,787)**
	(38,585,925)	**4,055,721**	**55,071**	**(19,632,158)**	**(23,064,559)**	**(5,767,052)**	**(1,695,455)**	**(164,919)**	**(1,751,322)**	**(13,685,811)**
Net deferred income tax liabilities	**(36,044,262)**	**4,219,719**	**55,071**	**(19,632,158)**	**(20,686,894)**	**(5,174,846)**	**(1,695,455)**	**(164,919)**	**(1,751,322)**	**(11,900,352)**

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 a result of revluation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RELATED PARTY TRANSACTIONS

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

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

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

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

In thousands of Tenge	**31 December 2010**	31 December 2009
Trade and other accounts receivable from related parties		
Trade accounts receivable from joint ventures	**739,121**	473,974
Trade accounts receivable from entities under common control of KazMunayGas	**555,058**	437,221
Trade accounts receivable from entities of Samruk-Kazyna Group	**41**	2,428
	1,294,220	913,623
Other accounts receivables from entities under common control of KazMunayGas and Samruk-Kazyna Group	**55,281**	46,267
Total trade and other accounts receivable	**1,349,501**	959,890

Advances provided to related parties are as follows:

In thousands of Tenge	**31 December 2010**	31 December 2009
Advances to related parties		
Advances to entities under common control of KazMunayGas	**215,867**	230,264
Advances to entities of Samruk-Kazyna Group	**62,406**	25,345
Total advances paid to related parties	**278,273**	255,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of Tenge	**31 December 2010**	31 December 2009
Current accounts		
Halyk Bank JSC – other affiliate	**1,124,104**	927,098
Total current accounts placed in banks which are related parties	**1,124,104**	927,098

In thousands of Tenge	**31 December 2010**	31 December 2009
Bank deposits		
Halyk Bank JSC – other affiliate	**23,000,209**	18,983,418
Total bank deposits placed in banks which are related parties	**23,000,209**	18,983,418

In thousands of Tenge	**31 December 2010**	31 December 2009
Interest receivable on bank deposits		
Halyk Bank JSC – other affiliate	**228,681**	12,078
Total interest receivable on bank deposits	**228,681**	12,078

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

In thousands of Tenge	**31 December 2010**	31 December 2009
Accounts payable for oil transportation coordination for related parties		
Accounts payable for oil transportation coordination for entities under common control of KazMunayGas	**4,273,240**	3,751,450
	4,273,240	3,751,450
Accounts payables to related parties for goods and services		
Accounts payables to entities under common control of KazMunayGas	**307,048**	300,106
Accounts payables to entities under control of Samruk-Kazyna Group	**114,498**	101,764
	421,546	401,870
Total trade and other accounts payable to related parties	**4,694,786**	4,153,320

Advances received from related parties are as follows:

In thousands of Tenge	**31 December 2010**	31 December 2009
Advances received from related parties		
Advances from entities under common control of KazMunayGas	**5,982,993**	5,459,071
Advances from entities under control of Samruk-Kazyna Group	**1,025,876**	995,429
Total advances received from related parties	**7,008,869**	6,454,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RELATED PARTY TRANSACTIONS (continued)

Other current liabilities to related parties are as follows:

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

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

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

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

In thousands of Tenge	2010	2009
Sales to related parties:		
Transportation services to entities under common control of KazMunayGas	**66,753,417**	38,200,708
Transportation services to entities of Samruk-Kazyna Group	**10,395,311**	9,040,592
Transportation services to joint ventures	**3,789,049**	2,642,761
Dividends income from joint ventures	**376,871**	765,020
Income from other activities from entities under common control of KazMunayGas	**205,700**	689,278
Income from other activities from joint ventures	**4,721**	–
Income from other activities from entities of Samruk-Kazyna Group	**4,583**	3,049
Other income from dividends	**46,046**	–
	81,575,698	51,341,408
Purchases from related parties:		
Purchases of services from entities under common control of KazMunayGas	**6,002,203**	4,174,928
Purchases of services from entities of Samruk-Kazyna Group	**1,878,821**	1,624,990
Purchases of inventory from Samruk-Kazyna Group	**12,000**	–
Purchases of property, plant and equipment from entities of Samruk-Kazyna Group	**23,121**	–
	7,916,145	5,799,918
Interest income on bank deposits		
Halyk Bank JSC – other affiliate	**1,059,096**	918,431
	1,059,096	918,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RELATED PARTY TRANSACTIONS (continued)

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

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

36. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe.

Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2010. As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Groups's tax positions will be sustained.

Tax commitments of Georgian entities

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

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

Environmental matters

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Group'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 Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Covenants

Guarantees

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

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

As of 31 December 2010 and 2009, the Company fully complied with covenants.

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

Borrowings

On August 28, 2008 the Company concluded a syndicate loan facility agreement with BTMU (Europe) Limited, ING Bank N.V. and Natixis (the "Creditors") for amount of 275 million US Dollars (*Note 18*), According to the Loan facility Agreement concluded between the Company and the Creditors, the Company has to comply with the following covenants:

- Current ratio of not less than 1:1;
- a ratio of Financial Debt to Earnings before interest, income tax, depreciation and amortization of not more than 3.5:1;
- a ratio of Financial Debt to Equity of not more than 2:1;
- a ratio of Earning before interest, income tax to total debt costs of not more than 2:1.

As of repayment date (4 March 2010) and 31 December 2009 the Company fully complied with the covenants.

Contractual commitments

As at 31 December 2010, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 16,646,055 thousand Tenge (2009: 10,355,911 thousand Tenge). In addition, as at 31 December 2010, the Group has committed to purchase inventory (materials and spare parts) and services for the amount of 5,225,741 thousand Tenge (2009: 4,491,628 thousand Tenge).

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest Rate Risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest Rate Risk (continued)

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

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

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

Credit risk

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

The Group places deposits with Kazakhstani banks (*Notes 15, 16*). The Group's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Group's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits is required.

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

Bank	Location	Rating 2010	Rating 2009	2010	2009
Halyk Bank of Kazakhstan JSC	Kazakhstan	**B3/ Stable**	Ba2/ Negative	**24,353,203**	19,922,505
KazKommerstBank JSC	Kazakhstan	**Ba3/ Negative**	Ba3/ Negative	**17,635,887**	5,601,012
SberBank of Russia JSC	Kazakhstan	**Ba2/ Stable**	Ba2/ Negative	**12,737,261**	13,468,304
Berenberg Bank	Cyprus	**not available**	not available	**956,769**	828,668
Cartu Bank	Georgia	**not available**	not available	**951,360**	739,400
BNP Paribas	Cyprus	**AA**	AA	**906,119**	1,016,037
Bank of Cyprus	Georgia	**A3 (negative outlook)**	BBB+	**203,658**	36,780
RBS Bank Kazakhstan JSC	Kazakhstan	**A1/ Stable**	Aa3/Stable	**33,756**	10,468
TBC Bank	Georgia	**B+**	B+	**31,656**	47,939
BOG Bank	Georgia	**B+**	not available	**7,947**	329
Procredit Bank	Georgia	**BB-**	not available	**16,069**	2,208
Basis Bank	Georgia	**B-**	not available	**6,732**	5,882
VTB Bank	Georgia	**BB-**	not available	**400**	3,771
ATF Bank JSC	Kazakhstan	**Ba2/ Stable**	Ba1/ Negative	**54**	77
Bank CenterCredit JSC	Kazakhstan	**Ba3/ Negative**	Ba1/ Negative	**12**	7
CITI Bank Kazakhstan JSC	Kazakhstan	**A3**	F1+	**7**	12
Slavinvestbank LLC	Russia	–	Caa2/ Negative	**–**	10
Alliance Bank JSC	Kazakhstan	–	Not avaibable	**–**	1,199
Popular Bank	Cyprus	–	not available	**–**	7
				57,840,890	41,684,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risks

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

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

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 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 2009						
Loans and borrowings	–	296,864	–	294,800	–	**591,664**
Trade and other payable	–	14,100,509	–	–	–	**14,100,509**
Other liabilities	–	3,842,352	–	–	–	**3,842,352**
	–	**18,239,725**	–	**294,800**	–	**18,534,525**
As at 31 December 2009						
Interest-bearing loans and borrowings	–	10,857,152	10,858,547	–	–	**21,715,699**
Trade and other payable	–	12,890,968	–	–	–	**12,890,968**
Other liabilities	–	3,446,541	–	–	–	**3,446,541**
	–	**27,194,661**	**10,858,547**	–	–	**38,053,208**

Currency Risk

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

In thousands of Tenge	*US Dollar*	*Russian Ruble*	*Euro*	*Georgian Lari*	*Ukrainian Grivna*	*Great Britian Pound*	*Other currencies*	*Total*
At 31 December 2010								
Assets	**731,789**	**4,026,722**	**31,543**	**52,108**	–	–	**71,006**	**4,913,168**
Liabilities	**1,529,729**	**28,588**	**98,231**	–	–	–	**233,299**	**1,889,847**
At 31 December 2009								
Assets	1,416,724	4,166,428	119,949	176,477	1,592	3,249	–	5,884,419
Liabilities	21,897,849	14,477	110,372	143,721	5	7,348	–	22,173,772

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The Group also has transactional currency exposures. Such exposure arises from revenues in US Dollars. Approximately 9% (2009: 14%) of the Group's revenue is denominated in the US Dollars, whilst about 15% (2009: 19%) of cost of sales is denominated in US Dollars.

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

In thousands of Tenge	Increase / decrease in US dollar rate	Effect on profit before tax
2010		
US Dollar	**+12%**	**176,837**
	-12%	**(176,837)**
2009		
US Dollar	+10%	3,424,630
	-15%	(5,136,944)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

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

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

As at 31 December the gearing ratio is as follows:

In thousands of Tenge	**31 December 2010**	31 December 2009
Loans and borrowings	**591,664**	20,692,429
Trade and other payables	**17,942,851**	16,337,509
Less: cash and cash equivalents and deposits	**(57,847,352)**	(41,692,638)
Net debt	**(39,312,837)**	(4,662,700)
Capital	**338,314,798**	242,802,745
Capital and net debt	**377,627,635**	238,140,045
Gearing Ratio	**(0.12)**	(0.02)

Fair value hierarchy

As at 31 December 2010, the Group had the following financial instruments measured at fair value:

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

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

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

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

As at 31 December 2010 and 2009 the Group does not have Level 1 and Level 2 financial instruments.

Fair value of financial instruments

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

In thousands of Tenge	Carrying amount		Fair Value	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Financial Assets				
Cash and cash equivalents	**16,914,394**	16,401,503	**16,914,394**	16,401,503
Bank deposits	**40,932,958**	25,291,135	**40,932,958**	25,291,135
Trade and other receivables	**6,552,547**	7,035,257	**6,552,547**	7,035,257
Other financial assets	**108,546**	252,884	**108,546**	252,884
Financial liabilities				
Floating rate borrowings	–	19,992,229	–	19,992,229
Fixed rate borrowings	**591,664**	700,200	**591,664**	700,200
Trade and other payables	**14,100,509**	12,890,968	**14,100,509**	12,890,968
Other financial liabilities	**3,842,352**	3,446,541	**3,842,352**	3,446,541

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. EVENTS AFTER THE REPORTING PERIOD

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

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