Confirmed by resolution
of the Sole Shareholder
of JSC “KazTransOil”
(minutes of the meeting
of the Management Board
of JSC NC “KazMunaiGas”
dated «2» August 2012 № 92)

Annual Report
JSC “KazTransOil”
for 2011

Astana city, 2012

Content

I. About the company

1. Mission, vision, history of foundation and core activities

Mission

Provision of maximum benefits to Republic of Kazakhstan through performance of qualitative, timely, effective, and cost-competitive services on oil transportation via network of main oil pipelines with provision of equal conditions of customer access to regulated services of KazTransOil.

Vision

KazTransOil – public, competitive, and dynamic company, providing a wide range of services on oil transportation via modern, diversified pipeline network, which complies with the best practice in the field of safe operating activity and environment protection.

KazTransOil will tend to retain leading positions in the industry and become a national operator of Republic of Kazakhstan on oil transportation, through participation in the largest oil transporting projects of Republic of Kazakhstan and outside.

Strategic goal

Increase of market value (capitalization) of the company through implementation of the following objectives:

1) Increase of oil transportation and cargo turnover, water supply and provision of competitive, reliable and safe services;

2) Stable performance growth and cost optimization of KTO and SJCO;

3) Effective investment policy and participation in large transportation projects;

4) Mature financial strategy aimed at maintenance of solvent cash flows;

5) Maintenance of high standards of corporate governance, risk management, human resources and labor safety, fire safety and environment protection.

History of foundation

For the purposes of securing interests of the Republic of Kazakhstan in the field of oil transportation, export and import of oil and oil-products, by the resolution of the Government of the Republic of Kazakhstan No.461 dated April 2, 1997, closed joint-stock company “National Oil Transportation Company “KazTransOil” (CJSC “NOTC “KazTransOil”) with 100 % state participation in its charter capital was created.

In 2001, the state bloc of shares of CJSC “NOTC “KazTransOil” (renamed to CJSC “KazTransOil”) was transferred to charter capital of closed joint-stock company “National Company “Transport of Oil and Gas”, which was created in accordance with resolution of the Government of the Republic of Kazakhstan No.591, dated May 2, 2001.

By the decree of the President of the Republic of Kazakhstan No.811, dated February 20, 2002 on the basis of reorganized (by means of merger) closed joint stock companies “National Oil and Gas Company “Kazakhoil” and “National Company “Transport of Oil and Gas”, the Closed Joint-Stock Company “National Company “KazMunaiGas” was created and became the Sole Shareholder of CJSC “KazTransOil”.

On May 31, 2004, CSJC “KazTransOil” was renamed to JSC “KazTransOil” (hereinafter - the Company).

Core Activities

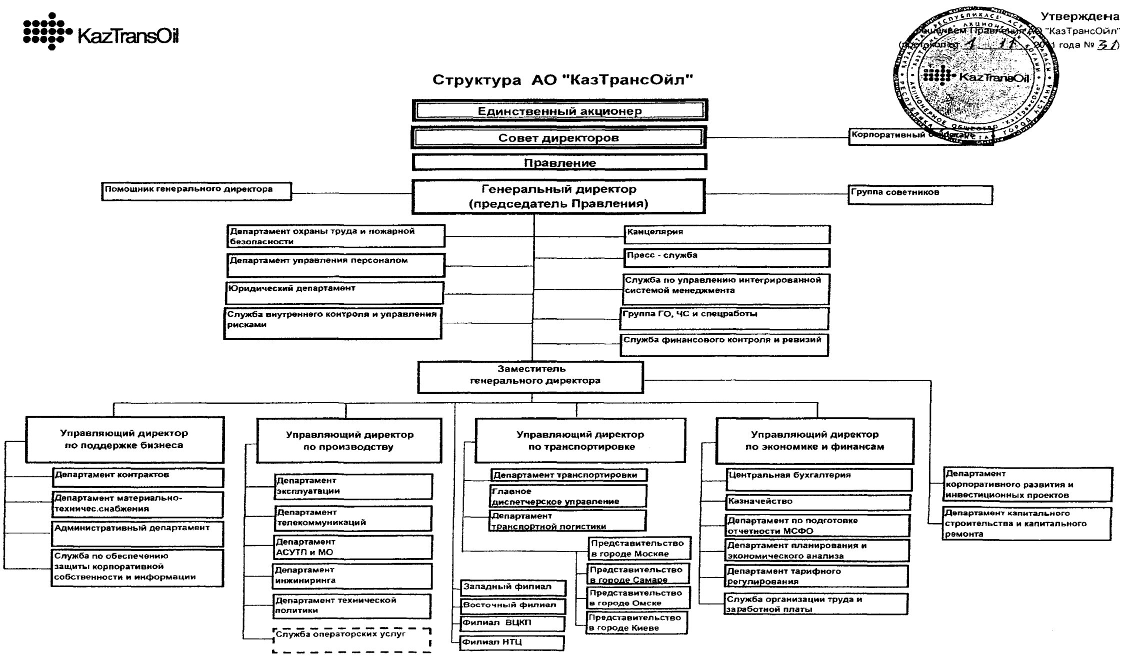
The subject of activities of the Company is provision of services on oil transportation (pumping, transshipment, unloading, loading, storage, blending) via main oil pipelines, transportation and transit of Kazakh oil via oil pipeline networks of other countries (operator activity on unified routing), operation and technical maintenance of main pipelines that belong to other legal entities, provision of services on water supply via main pipeline, provision of services on production, transfer and distribution of heating energy, transfer and distribution of electrical power, as well as other kinds of activity not prohibited by the legislation of the Republic of Kazakhstan.

2. Structure of JSC "KazTransOil", subsidiary, jointly controlled, and other organizations of the Company

The Company has four branches: The Western Branch (the city of Atyrau); The Eastern Branch (the city of Pavlodar); "Computing Center of Collective Use of JSC "KazTransOil" (the city of Astana); "Scientific-Technical Center of JSC "KazTransOil" (the city of Almaty).

The Company has three representations in the Russian Federation in the cities of Moscow, Samara, Omsk and one representation in the Ukraine in the city of Kiev.

Structure of the Company[1]



Structure of production assets

The Company operates the following operating facilities (as of December 31, 2011).

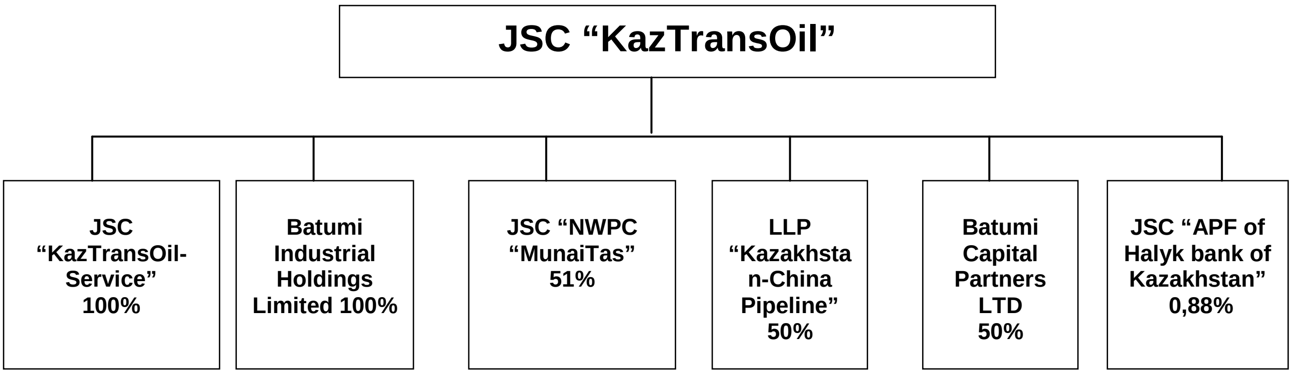
Main pipelines::	
extension	7 643,33 km
including	
Main oil pipelines	
extension	5 495.23 km

[1] Company's structure as of December 31, 2011.

Main water pipelines	
extension	2148.1 km
Tank farms	1415.3 thou.cub.m
including:	
For oil	1 259 thou.cub.m
For water	156.3 thou.cub.m
Oil pumping stations	39 units
Oil heating stations/points	7 units
Preheaters	64 units
Loading/unloading racks	4 units
Main disposal facilities	1 unit
Water pump stations	3 units
Water treatment installations	1 unit

The Company possesses shares (interest) in the following organizations:

Subsidiary, jointly controlled, and other organizations of the Company (“SJCO”)



Organization	Share of the Company, %	Subsidiary and jointly controlled organizations	Share, %
JSC “KazTransOil-Service”	100	LLP “MC “Meirim”	100
“Batumi Industrial Holdings Limited”	100	Batumi Services Limited	100
		Batumi Capital Partners Limited	50
		Batumi Terminals Limited	52.19
JSC “NWPC “MunaiTas”	51	-	-
LLP “Kazakhstan-China Pipeline”	50	KCP Finance B.V.	100
“Batumi Capital Partners LTD”	50	Batumi Terminals LTD	47.81
JSC “APF of Halyk Bank of Kazakhstan”	0,88	-	-

3. Key performance results as of the end of the year, as well as in dynamics for the last three years

Key consolidated operating results

Indicators	2009	2010	2011	2011 to 2010, %
Volume of transportation[2], thousand tons	64 187	65 825	66 873	1,6
Oil cargo turnover, mln.tons.km	38 709	41 351	42 244	2,2
Supply of water, thousand cubic meter	18 926	21 361	21 192	-0,8
Staff size as 31 December, persons	9 993	10 034	9 992	-0,4

Key consolidated financial results, (mln. tenge)

	2009	2010	2011	2011 to 2010, %
Revenue from products sold and services provided	126 181	138 241	140 478	1,6
Prime cost	71 443	82 407	96 299	16,8
Gross margin	54 739	55 834	44 179	-20,9
Income before CIT	28 395	26 082	32 673	25,2
Net income	15 538	19 618	25 945	32,2
Assets at the year end	325 333	418 715	450 029	7,5
Long term liabilities at the year end	38 899	44 214	45 206	2,2
Current liabilities at the year end	43 632	36 186	33 324	-7,9
Equity	242 803	338 315	371 498	9,8

Consolidated assets of the Company as of December 31, 2011 rose up to 450 billion tenge, which is for 7.5% higher than the indicator of 2010 (418.7 billion tenge). Consolidated Company's revenue from core activity in 2011 equals to 140.4 billion tenge, which is higher than the same indicator of 2010 (138.2 billion tenge) for 1.6% and higher than the same indicator of 2009 (126.1 billion tenge) for 11.3%. The main reasons for growth of Company's revenues are growth of oil transportation volumes in 2011.

Net income of the Company for 2011 is equal to 25.9 billion tenge, which is higher than the level of 2010 for 32.2% (19.6 billion tenge).

4. Key markets

Within the following years a significant growth due to increase of production of oil on Tengiz, Karachaganak, as well as beginning of production on new oil field of Kashagan and other sea shore structures of Kazakhstan sector of the Caspian Sea is forecasted. Meanwhile, on onshore oil deposits which represent basic resource base for the Company reduction of production level is forecasted from 2015.

Considering tight interactions of oil transport networks of the Republic of Kazakhstan with CIS countries, strengthening of cooperation of Company with oil

[2] Volume of oil transportation includes data on transfer of oil products of BIHL

transporting enterprises of Russia, Azerbaijan, Ukraine and Belarus, carrying out transit of Kazakh oil, plays important role in increase of oil transportation volume.

Oil pipeline networks of Russian Federation are one of the most prioritized directions of oil transportation, in which significant volumes of oil are directed for delivery of oil to Europe.

Kazakhstan-China oil pipeline occupies significant share in transported by the Company oil to prospective and rapidly developing market of China.

Moreover, important export direction for Kazakhstan oil companies is Aktau Sea port, where the Company transships oil from pipeline and railroad transport to tankers.

Apart from oil transportation for export, the Company provides for transportation of oil to oil refineries of Kazakhstan, which is important objective for ensuring the internal market with oil products.

II. Operating Activity

1. Oil transportation and water supply

In 2011, consolidated volume of oil transportation was equal to 66.9 mln.tons, having exceeded the indicator of 2010 for 1,6%. The raise of volumes of oil transportation via pipeline system of the Company is related to growth of oil delivery into the network of main oil pipelines from oil and gas extracting organizations.

Consolidated oil cargo via the network of main oil pipelines of the Company for 2011 equals to 42.2 billion тon.km, which is higher than the correspondent indicator of 2010 for 2.2%.

In 2011, the volume of oil transportation via “Atyrau – Samara” oil pipeline made up 15.4 mln. Tons (in 2010 – 15.3 mln.tons). Upon the results of 2011, the volume of oil throughput via "Atasu-Alashankou” oil pipeline was equal to 10,9 mln. tons, which is for 0.8 mln. tons more than in 2010 (10.1 mln.tons).

The Company carries out supply of Volga water to consumers in Atyrau and Mangistau oblasts of Kazakhstan via “Astrahan-Mangyshlak” waterline. In 2011 the volume of water supply was equal to 21.2 mln.m3, for 0.2 mln.m3 less than indicator of 2010.

2. Investment projects

The Company actively holds work on implementation of investment projects aimed at comprehensive and prospective development of own network of main pipelines in accordance with requirements of dispatchers.

In 2011 the work on restructuring of “Batumi Industrial Holdings Limited”[3] (hereinafter – BIHL) group of companies was continued to reduce intermediate managerial levels between the Company and key operating assets and liquidation of non-operating companies of BIHL company.

Within restructure of BIHL group of companies in 2011 the measures on merger of «Rodio Investments Ltd», «Dakino Investments Ltd», «Port Capital Partners Ltd» companies with «Batumi Terminals Ltd» company were accomplished .Also «Batumi Port Holdings Ltd» company was liquidated through merger with «Petrotrans Ltd» company.

Completion of restructure of BIHL group of companies is planned by 2015.

3. Tariff Policy

In accordance with the Law of the Republic of Kazakhstan “On natural monopolies and regulated markets”, the Company is included into the Republican Section of State Register of subjects of natural monopolies, confirmed by the order of the Chair of the

[3] 100% of BIHL was purchased by the Company in 2008

Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies (hereinafter – ARNM) No.16-OD dated January 24, 2005, in the following spheres of natural monopolies:

- service on transportation of oil and (or) oil products through main pipelines;
- services on water and (or) disposal systems;
- services on production, transfer, distribution and (or) provision of heating energy;
- services on transfer and (or) distribution of electricity.

Apart from that according to the order of Chair of ARNM dated march 24, 2011 No.98-OD the Company was included in Republican Section of State Register of subjects of natural monopolies on the following regulated services:

- water supply services via distribution networks;
- services on disposal of sewage.

Altogether the Company provides 53 regulated services.

In accordance with the Law of the Republic of Kazakhstan "On Natural Monopolies and Regulated Markets" the tariffs on regulated services of the subject of natural monopoly shall be not lower than the cost of expenditures, necessary for provision of the regulated services and take into consideration the possibility of receiving revenue, which would ensure efficient functioning of the subject. The tariffs on the regulated services are confirmed by the authorized body – ARNM.

The existing Methodology of calculation of tariffs on the services of oil transportation through main pipelines is confirmed by the order of the ARNM No.202-OD, dated July 27, 2007. In accordance with the given Methodology, the tariffs on pumping of oil through sections are calculated on the basis of tariff per unit, i.e. tariff on pumping of 1 ton of oil per 1000km. Apart from that by the order of the ARNM No.304-OD, dated July 5, 2004 the Instruction on calculation of the rate of income on regulated base of employed assets of subjects of natural monopolies, providing services on transportation of oil through main pipeline system was confirmed.

In 2011 new tariffs on the following Company's regulated services were confirmed in the established procedure:

- tariff on oil throughput on Kenkiyak LPDS at the amount of 83.03 tenge per 1 ton without VAT;
- tariff on oil throughput on Makat OPS into "Kenkiyak – Atyrau" oil pipeline at the amount of 1071.57 tenge per 1 ton without VAT;
- tariff on oil throughput on Atyrau OPS into Caspian Pipeline Consortium network without oil preheating at the amount of 84.50 tenge per 1 ton without VAT;
- tariff on oil throughput on Atyrau OPS into Caspian Pipeline Consortium network with oil preheating at the amount of 125.49 tenge per 1 ton without VAT;
- tariff on oil loading into tankers service on Aktau HOPS at the amount of 259.87 tenge per 1 ton without VAT;
- tariff on services on oil discharging from railroad cisterns on Atyrau OPS at the amount of 704.54 tenge per 1 ton without VAT;
- tariff on services on oil loading in railroad cisterns on atyrau OPS at the amount of 396.31 tenge per 1 ton without VAT. The term of entering into force of indicated tariffs – April 1, 2012.

Apart from that starting from July 1, 2011 new tariffs on Company's regulated services were introduced:

- the tariff on the service of water supply via distribution networks at the amount of 30.77 tenge per cubm exclusive of VAT;
- the tariff on the service on sewage disposal at the amount of 44.03 tenge per cub.m exclusive of VAT.

4. Illegal tie-ins to the oil pipelines liquidation measures

With enactment of Law of the Republic of Kazakhstan "on introduction of amendments and addenda in some legislative acts on the issues of enhancement of responsibility in the area of oil and certain oil products turnover" which was endorsed in October 2010 by head of the state, the work of law enforcement agencies activated, efficiency of interaction of staff of law enforcement agencies and security organization – "Semser Security" LLP on revelation and suppression of crimes increased. These steps bring positive results.

If 161 illegal tapping in Company's main oil pipelines was registered in 2010, including main oil pipelines of JSC NWPC "MunaiTas" and LLP "Kazakhstan – China Pipeline", than in 2011 this indicator reduced down to 46 tapings. Thus reduction of the number of tapings for 71.4% is evident.

Thus adopting of the above Law providing for enhancement of criminal responsibility for illegal tapings in pipelines, oil stealing and its illegal turnover (stealing from oil and gas pipeline, purchase or sale of oil and oil products knowingly received by illegal means, transportation, purchase, sale, storage or oil refinery without the documents confirming legality of its origin, intended damage or destruction of pipelines) allowed to significantly reduce the number of illegal invasion, while earlier the annual growth, reflected in the table, was observed.

Number of illegal tapings
In MOP of JSC "KazTransOil" and its SJCO in 2009-2011

Western branch	**2009**	**2010**	**2011 год**
Zhanazhol-Kenkiyak	10	4	0
Alimebmola - Kenkiyak	0	1	1
Kenkiyak - Orsk	47	32	0
Uzen - Zhetybai-Aktau	2	3	5
Uzen - Opornaya	0	0	0
NPS-3 - Koschagyl	2	0	1
Uzen - Atyrau - Samara	8	12	2
Kalamkas - Karazhanbas - Aktau	7	5	0
Kenkiyak – Atyrau, NWPC MT	*16*	*21*	*10*
Kenkiyak -Kumkol, (0-394 км), KCP LLP	*27*	*23*	*0*
Subtotal on Western branch	**119**	**101**	**19**
Eastern branch	**2009**	**2010**	**2011 год**
Kumkol - Karakoin	23	9	1
Pavlodar - Shymkent(Barsengir section)	6	3	2
Pavlodar - Shymkent (Zhuan-Tube section)	3	1	0
Pavlodar - Atasu- Karaganda	2	7	2
Shymkent - Chardzhou	1	0	0
Pavlodar -Sholakkurgan - Shymkent	21	8	4
Kenkiyak -Kumkol (394-794 км), KCP LLP	*5*	*32*	*13*
Atasu-Alashankou, KCP LLP	*0*	*0*	*5*
Subtotal on Eastern branch	**61**	**60**	**27**
Total	**180**	**161**	**46**

Apart from the physical guarding to improve the level of safety of linear part of Company's pipelines, located in the most criminal country's regions, works on introduction and operation of technical security systems have been continued. The system is based on the method of acoustic monitoring of illegal invasions in secured zone of oil pipeline and enables to monitor 24/7 in real time mode.

To prevent illegal tapings in 2009-2010 the security systems ensuring 24/7 monitoring of technological parameters of pipelines in part of detection of possible leaking and illegal actions of unauthorized persons in the secured zone of pipeline were introduced on main pipelines of the Company.

Overall 44% of all Company's pipelines are covered by oil pipelines security systems (243.1 km – systems of pipeline security, 2 091.1 km – systems of leakages detection).

5. The system of management of information security

As of today the Company has been certified for compliance with ISO/IEC 27001:2005 of international standard of information safety. The implication area of certificate of system of information safety management (hereinafter – SISM) are the processes of maintenance of financial documentation of the basis of FI module of SAP R/3 system. Presently SISM has been introduced only in the Central office of the Company and "CCCU of JSC "KazTransOil" branch.

Within improvement of SISM business-processes it is planned to introduce (expand implication area of) SISM in the Western and Eastern branches of the Company, as well as "STC of JSC "KazTransOil" branch in Almaty in 2012-2013.

Thus holding the conference in March of 2011 on SISM for senior management of the Company has become one of steps to improvement. The following companies participated in the conference: BSI (Moscow), "Jet Infosystems" (Moscow), "Inforprotection" (Moscow", Aladdin-Russia (Moscow), Symantec representation (Almaty).

Within May 30-June 2, 2011 the auditors of the central office and CCCU branch of JSC "KazTransOil" conducted internal audit of SISM.

On June 20-24, 2011 re-certified audit of SISM passed, during of which the Company confirmed the degree of compliance and performance of SISM, in this regard the term of certificate validity was prolonged till 2014.

Within SISM the following documents were developed in 2011:

- Rules on management and technical maintenance of integrated security system of administrative building of the central office of JSC "KazTransOil", confirmed by resolution of the Management Board dated July 25, 2011 (minutes No.24);
- Rules on organization of access and inside mode in the administrative building of the central office of JSC "KazTransOil", confirmed by resolution of the Management Board dated July 25, 2011 (minutes No.24).

Roving seminars were held to get the other structural divisions of the Company familiarized with SISM. Within these seminars determination of informational and technical resources subject to protection, detection of potential threats and data leak channels, examination of video monitoring system and controls system was envisaged.

In October 2011 actualization and testing of plan of uninterruptable performance of SISM was conducted.

6. Integrated Management System

In 2011 the Company successfully passed re-certification audit of integrated management system for compliance with provisions of ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007, upon the results of which compliance certificates for three-year period were issued by certifying body DNV (Det Norske Veritas).

Seminars-meetings on quality, ecology, health and safety management systems were held for 161 staff member of the Company (146 of the – operating staff).

III. CORPORATE SOCIAL RESPONSIBILITY

1. Social policy and responsibility

One of the motivating factors contributing to high-performance operation of the Company is its social policy which includes the following:

- sponsorship (charity) assistance;
- coordination of issues on social payments (material assistance to employees and retired employees);
- payments of compensational character;
- arrangement of work on medical insurance of employees of the Company;
- arrangement of sports activities (fitness club, ice skating rink, as well as holding sports contests).

In 2011, in the framework of sponsorship (charity) assistance, the Company provided assistance to socially vulnerable layers of population, veterans, public union of disabled and various public funds in the amount exceeding 1 284 mln. tenge. 1 000 mln tenge was allocated for construction of houses for flood affected population of Western Kazakhstan, more than 227 mln. tenge – for construction of 6 standard multifunctional sport sites within the Program confirmed by JSC NC “KazMunaiGas” in Ust-Kamenogorsk, Semei, Kokshetau, Kostanai, Karaganda and Petropavlovsk cities.

The Company pays special attention to culture and health activities which contribute to formation of corporate culture, maintenance and development of healthy life style.

An integral part of the social policy of the Company is care for health of the personnel working at sites with harmful work conditions.

The Company while recognizing social responsibility of businesses and for the purposes of ensuring maximal benefit to the nation of the Republic of Kazakhstan from its activities, undertakes voluntary obligations on socially responsible participation in the lives of employees of the Company and population as a whole. The Company highlights the following major principles of social responsibility:

- transparency
- initiative
- economic efficiency
- socially responsible regulation of labor, employment, and production relations issues
- quality of conditions of labor and life of employees and their families
- labor and environmental safety
- economics of the regions
- sports and culture
- sponsorship (charity) activity of the company
- implementation of constant control over social expenses
- improving efficiency of social services provision
- implementation of principles of joint financing
- socially responsible investment
- socially responsible relation with contractors and suppliers

The Company is convinced that the social aspect is getting more significant for business reputation. It supports dissemination of this tendency in the world and is one of the instruments which allows to:

- improve business reputation, establish effective and balanced relations with all interested parties – the government, the Sole Shareholder, consumers, personnel, partners, etc.;

- effectively manage non-production risks occurring in business process;
- ensure systematic development of business by means of quality implementation of contractual obligations with partners and suppliers of services.

2. Development of staff potential and corporate ethics

Development of staff potential

The Company pays special attention to the issues of personnel recruiting, selection, preparation and development.

In accordance with Personnel Policy of the Company confirmed by resolution of the Board of Directors on March 10, 2010 one of the key goals of Company is effective management of personnel and strengthening and development of human potential, increasing the value of the Company by means of creation competitive advantage in human capital.

The key priorities of the Personnel Policy of the Company are:

- attraction, development, and retention of highly qualified employees;
- integration of advanced methods of personnel management;
- management of the pull of high potential employees of the Company;
- support of innovation and changes in the Company;
- creation and development of joint values, social norms, settings, regulating behavior of the Company employees.

The main principles of Personnel Policy are:

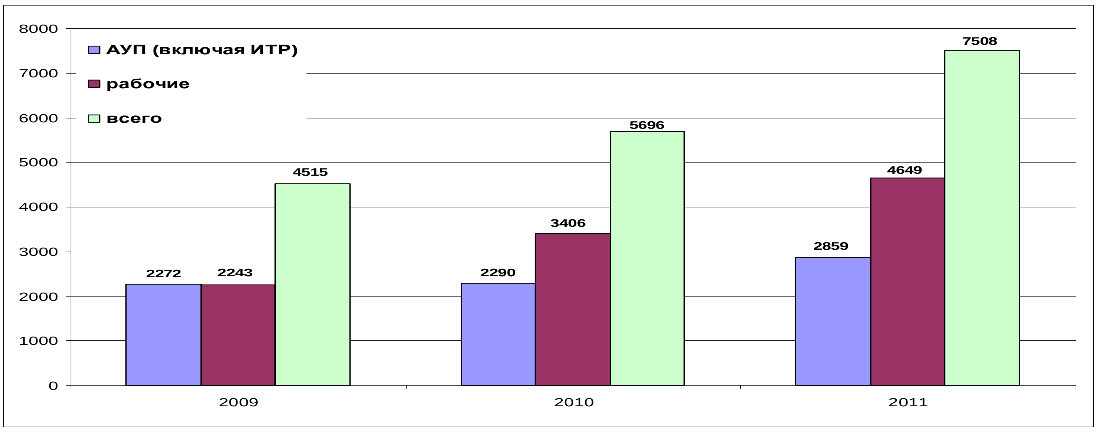
- long term character of relations;
- compliance of qualifications of employees with occupied positions;
- interconnection of interests and goals of the company and employees;
- continuity of knowledge and experience, emphasis on development and training of employees;
- remuneration and promotion based on merit and achieved performance results.

Preparation and development of personnel, as well as improvement of qualification level of employees is one of priority objectives of the Company.

The existing system of staff training – ensuring equal opportunities and support in professional development to every company's employee through regular qualification development courses for acquisition and development of necessary knowledge and skills, promoting more effective implementation of objectives set.

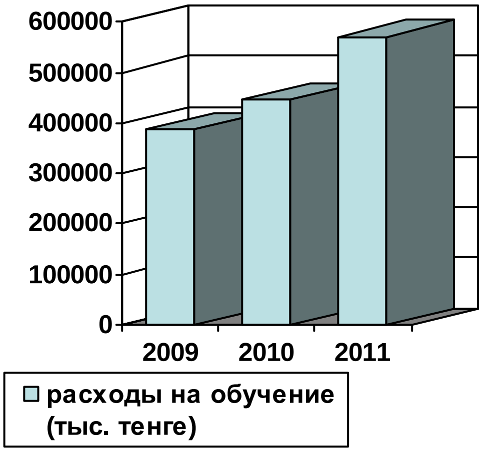
The strategic goal of improvement of staff training system in the Company is introduction of unified corporate approaches to training and staff development in accordance with strategic goals of the Company, enabling to actively react on needs in professional preparation of staff for qualitative implementation of business objectives.

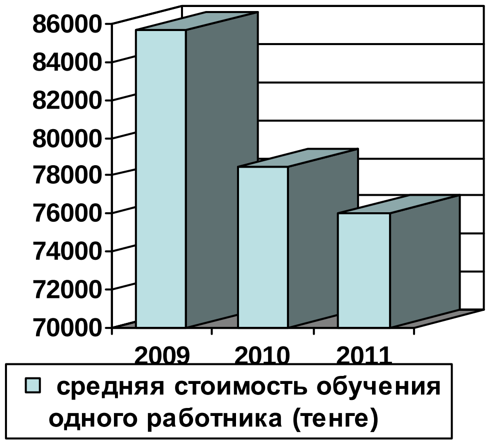
Dynamics of Company's employees, who passed training in 2009-2011



In 2011 285 trainings were held, where 7 508 Company's employees participated, including: 4 649 operating staff members and 2 859 administrative and managerial staff members.

Costs for staff training in 2009-2011





The average cost of training of one employee made up 75 998 tenge, while overall costs equaled to 570 606 th.tenge, demonstrating bigger economic performance of corporate training.

"Young specialist" program

Since 2002 the Company successfully runs "Young specialist" program. The program's goal is attraction of the best students of Universities and establishment of channel of preparation of future specialists, ensuring the needs of the Company in young specialists. Within this program the Company accepts more than 100 students for internship annually.

"Personnel pool" program

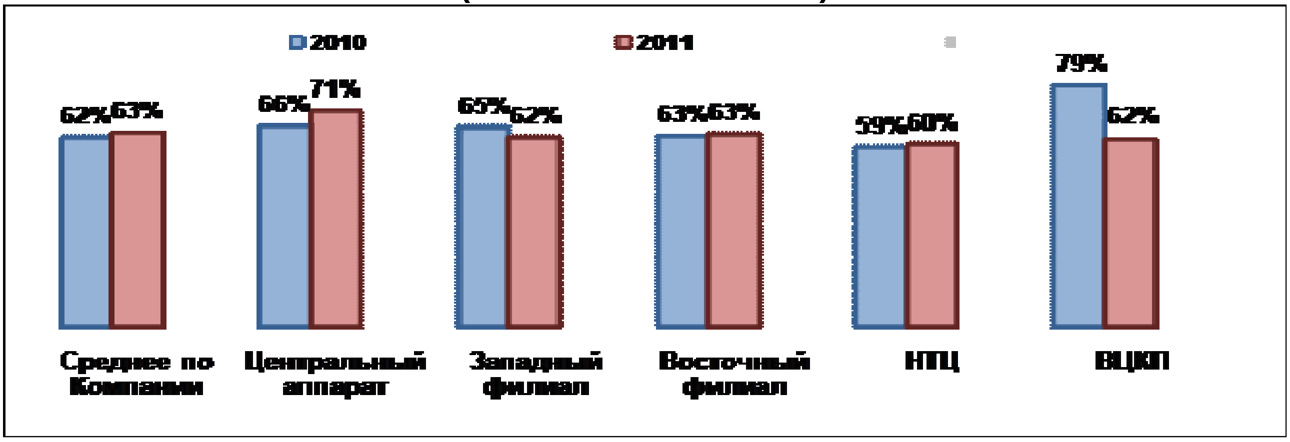
In 2011 the Company proceeded with implementation of "Personnel Pool" program, aimed at revelation of the strongest, potentially successful employees and search of correct application of their skills. The unified data base of internal candidates was formed – priority form of search of specialists, including for appointment (election) for managing positions, aimed at retaining of highly qualified and prospective employees through gradual career development in the Company, preservation of corporate knowledge, skills and abilities.

Company's vision in forming and development of personnel pool is presence on all levels of organization of prospective, highly qualified employees motivated for achievement of high results through constant accumulation of internal personnel potential and education of own managerial staff, able to ensure following and high performance in achievement of company's strategic goals, development of corporate culture, succession of best business-practices and corporate traditions.

In 2011 8 partici[ants of personnel pool were approved for education on master's programs at the epense of the Company.

In 2011 the Company held an event on assessment of the Company personnel satisfaction which allowed determining the level of awareness and understanding by employees of corporate goals and objectives of the Company, trust of the Company personnel to its management, identify material and psychological incentives which mostly influence the level of satisfaction and other. The index of satisfaction of Company's staff made up 63.5%[4]

Average satisfaction levels in 2010-2011 in the breakdown of subdivisions (mean levels of indexes)



Corporate ethics

In accordance with Company's Corporate Ethics Code, ethical norms of the Company govern the following major fields of business relations: relations with officials and employees of the Company, Sole Shareholder, state bodies, SJCO, business partners and the public.

The Company operates in accordance with the following principles of business ethics:

- honesty;
- fairness;
- good faith;
- transparency;
- responsibility.

3. Labor and environment safety

Activity of the Company in the field of labor and industrial safety is held in strict compliance with existing legislation of the Republic of Kazakhstan and correspondent technical documents regulating rules and instructions on safety and labor safety, industrial and fire safety.

Implementation of steps on improvement and enhancement of labor conditions and prevention of industrial traumatism, provided in plans of works in safety and labor protection for 2011 was held in the established terms.

To implement para.21 of Protocol of the meeting with Chair of the Management Board of JSC NC "KazMunaiGas" dated February 5, 2009 teleconferences on the issues of safety, labor and environment protection chaired by CEO or his Deputy are held on a constant basis.

In 2011 according to schedule of constant commission on Company's labor safety inspection of facilities of Mangistau oil Pipeline Department of Western branch of the Company was accomplished.

Starting from April 1, 2011 "Safety, Labor and Environment Protection Management System in JSC "KazTransOil" standard was enacted. In this regard the procedure of Company's internal control in the field of safety and labor protection was reconsidered.

[4] The reduction of average satisfaction index for 2011 in comparison with 2010 is connected with appliance of other approach of calculation of satisfaction level by "Corporate university Samruk-Kazyna" (difference between positive and negative answers).

Plan – schedule of internal control was developed and confirmed. According to it audit of the system of safety, labor and environment protection management for the reporting period on the facilities of Usharal, Karaganda, Pavlodar, North-Kazakhstan Oil Pipeline Departments of Eastern branch of the Company and Aktobe and AAtyrau Oil Pipeline Departments, LPDS Kigach and BPTOiKO Atyrau of Western branch of the Company was conducted. Upon the results of audit of above structural divisions of the Company the consolidated plan of adjusting and preventive steps, containing activities on elimination of the reasons of revealed discrepancies and observations was compiled.

In course of 2011 4 225 Company's employees passed trainings in education training center of the Company and on specialized courses on the topics of safety, labor and environment protection management, including 1 274 engineers, 2 951 workers.

In 20011 no casualties were registered in the Company.

Dynamics of casualties in 2009-2011

Indicators	2009	2010	2011
Total number of casualties	3	4	0

Meantime on October 11, 2011 there was a group accident on HOPS Aktau of Mangistau Oil Pipeline Department of Western branch where the employees of contracting organizations LLP "Zhayik Stroi Lux" and LLP "Kut Kurylys Bastau", performing works on cleaning of VSTP No.14 were injured.

To investigate the reasons of group casualty the Governmental Commission was established according to Decree of the Government of Republic of Kazakhstan dated October 14, 2011 No.1175. Upon the results of special investigation the Governmental Commission the act of special investigation with indication of reasons of the accident and list of activities on elimination of revealed reasons was compiled. According to the act the senior management and employees of LLP "Zhayik Stroi Lux" and LLP "Kut Kurylus bastau" were recognized guilty in the given group accident.

According to the instruction of the Prime Minister of the Republic of Kazakhstan Masimov K.K. dated November 3, 2011 No.20-8/6304 the Company addresses to the Ministry of Labor and Social Protection of Population of the Republic of Kazakhstan information about implementation of measures on elimination of reasons of group accident provided in the act of special investigation. Apart from that, this information was also forwarded to Department for Control and Social Protection in mangistau region, JSC FNW "Samruk-Kazyna" abd JSC NC "KazMunaiGas".

In 2011 work on labor safety management system reforming of the Company proceeded. In particular, regulations on labor protection and fire safety services of Company's branches were developed and confirmed, as well as terms of reference of employees of these services.

Factual costs on activities on labor safety made up^ in 2009 – 348.1 mln.tenge, in 2010 – 359.1 mln.tenge, in 2011 – 469.1 mln.tenge.

Environment protection

The environmental activity if the Company is accomplished according to the confirmed action plans coordinated with authorized bodies in the field of environment protection as well as with requirements of Environment Code of the Republic of Kazakhstan, existing regulating documents.

In 2011 environment allowances were received, plans of environmental activities and programs of environmental production control for 2012 and further for the facilities of the Company with expiring terms of allowances are coordinated in the Ministry of

Environment of the Republic of Kazakhstan and its structural divisions.

In the framework of implementation of the Comprehensive environmental program of JSC NC “KazMunaiGas” for 2009-2015, in 2011 the Company held a number of activities aimed at prevention of negative effects on the environment, stabilization and improvement of its condition:

- monitoring of air, subsoil, ground, and surface water and soil;
- utilization of wastes of equipment and technique (tires, accumulators, waste oils etc.) ;
- portioning of emissions (development of standards of maximally permitted emission, wastes, etc.).

In accordance with provisions of Law of Republic of Kazakhstan “On obligatory environmental insuring” the Company annually insures production facilities from emergency pollution of environment. Thus in May of reporting year the ordinary agreement of compulsory environment insurance of Company’s facilities was concluded.

In 2011 “STC of JSC “KazTransOil” branch also conducted inventory of resources of greenhouse gas emissions on the facilities of the Company.

Passports of inventory passed the registration in the authorized state bodies in the established procedure.

In the reporting period in accordance with Action plan on integrated management system on quality, environment, health and safety, provisions of international standards ISO 14001 and internal standards of the Company actualization and assessment of environmental aspects was conducted in the structural divisions of the Company. Register of substantial environmental aspects of the Company for 2011 was compiled and confirmed.

Methodologies in environment aspects and waste management were updated.

In accordance with agreements concluded in 2011 works on environmental control (air, water and soil) on the facilities, portioning of emissions, demercuration of worked out fluorescent lamps, utilization of production and consumption wastes, oil sludge and ground polluted by oil, as well as re-cultivation of polluted lands in the Western and Eastern branches, disposal of sewage were held in full volume and within established terms.

In 2002-2011 on 8 Company’s facilities variable speed drives were implemented. On Kalamkas OPS the annual economy of funds at the expense of power consumption reduction made up about 18 mln.tenge, on Bolshoi Chagan OPS – about 20 mln.tenge per year.

In the reporting period on facilities of VOS – 8 of Kulsary Oil Pipeline Department and LPDS Kigach of Western branch old boilers were replaced by upgraded ones with larger performance coefficient, enabling to reduce content of pollutants in emissions to the atmosphere.

2 pontoons on tanks No.15 and 16 were installed on HOPS Aktau of Mangistau Oil Pipeline Department of Western branch, allowing to reduce the emissions down to 80%.

On facilities of BPTOiKO Atyrau, Atyrau, Kulsary Oil Pipeline Departments of Western branch, Zhezkazgan Oil Pipeline Department green planting, and development of protected areas on facilities of Pavlodar Oil Pipeline Department of Eastern branch was accomplished.

On all facilities of the Company daily control of exhaust gas of transport for toxicity and smokiness was adjusted.

The dynamics of Company’s spending (not considering the environmental payments) on activities on article “Environment protection” comprised: in 2010 – 837 mln. tenge, in 2011 – 873 mln.tenge.

Table of indicators
on environment protection

№	Name	units	2010	2011
1	Emissions of pollutants	tons	23 588,932	25 601,703
2	Spillover of wastewaters	Thou. m3	688,642	589,375
3	Content of pollutants in wastes	tons	156,458	178,063
4	Wastes generation within the reporting period	tons	9 196	15 038,37
5	Disturbed soils in the reporting period	ha	5,594	2,145
6	Disturbed soils, total	ha	33	31
7	Re-cultivation of disturbed lands	ha	7,594	10,145
8	Environmental payments	Thou.tenge	60 945	75 265,4
9	Current expenses on environmental activities	Thou.tenge	823 811	873 195

Fire safety

The work of the Company in the sphere of fire safety ensuring is based on observance of provisions of Law of the Republic of Kazakhstan "On Fire Safety", technical regulations, and other regulating and technical documents, stipulating requirements in the field of fire safety.

All Company's facilities are provided with primary fire extinguishing means.

In the reporting period according to Company's plan and confirmed schedules the following activities were held:

– Fire-tactical exercises (30 activities);
– Fire-tactical trainings (816 activities);
– Checking of working efficiency of automatically fire extinguishing installations (241 activities);
– Inspection of technical condition of fire alarm (1 956 activities);
– 6 095 employees were trained on fire-technique minimum.

Expenses of the Company on fire safety comprised activities 1 219 mln. tenge in 2011.

IV. Corporate Governance

The Company considers corporate governance as a tool to improve performance of the Company, strengthen its reputation and reduce expenditures on fund raising.

The main goal of development of the corporate governance in the Company is ensuring sustainable growth of capitalization of the Company and realization of the interests of the Sole Shareholder.

1. The bodies of the corporate governance

The bodies of the corporate governance of the Company are:

1. The Sole shareholder – the supreme body.

2. The Board of Directors – managerial body which carries out general governance of the Company's operation and determines priority directions of activity. The Board of Directors of the Company consists of 5 members, 2 of them are independent.

3. The Management Board – collegial executive body, which manages day-to-day operation of the Company aiming at execution of goals and implementation of the strategy of the Company.

The Management Board of the Company consists of 7 persons.

2. Composition of the Board of Directors of the Company as of December 31, 2011

Nurtas Shmanov – Chair of the Board of Directors, representative of the interests of the Sole Shareholder

Mr. Shmanov graduated from Ufa Oil Institute with specialization 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 specialization in "Finance and Credit", and Massachusetts University (Boston, USA). For over 28 years he worked in pipeline transportation industry of the Republic of Kazakhstan. He occupied various responsible positions in companies like "Caspian Pipeline Consortium – Russia", "ChevronOil&Gas", "Chevron Overseas Petroleum Inc.".

In 2008 he was appointed to position of the General Director (Chair of the Management Board) of the Company.

Presently, he is a Deputy Chair of the management Board of JSC NC "KAzMunaiGas" for transportation infrastructure.

Arman Darbayev – representative of the interests of the Sole Shareholder

Mr. Darbayev graduated from the Academy of Management after S. Orjonikidze (Moscow, Russian Federation) with specialization in "Organization of management in construction". He has over 10 years of experience of work in the field 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. In the period from 2002 to 2004 he worked at different positions of JSC "KazTransOil". Later he became Deputy Director of the Department on Management of Projects on Pipeline Transport of Oil and Gas, and then Executive Director on Transportation of JSC NC "KazMunaiGas".

At present he is a Director of Department for Oil and Gas Transportation Projects Management of JSC NC "KazMunaiGas".

Daniel Mihalik – independent director

Mr. Mihalik has Master's degrees in chemical engineering and business administration, as well as a doctoral degree in law. He graduated from the Universities of Toledo (Ohio), Michigan, and Houston (Texas). He has over 30 years of work experience in oil, gas and chemical industry. He has large knowledge in technical, legal, and commercial areas, work experience in the USA, Central Asia, Europe and the Middle East. He worked as chief engineer-researcher in «Getty & later Texaco Research & Engineering», manager in «Gaviota Terminal Co.». He was a Chief Regional Vice-President of «Texaco Pipeline International», consultant in KNCP. Presently he is General Counsel at the Association of Oil Pipelines in Washington, DC.

Moustafa Habib – independent director

Mr. Habib has a bachelor degree in Natural Sciences, and Master degree in Physics. He graduated from the University of Caen (France). He has degrees in Electro-Technical and Petrochemical Engineering. He has extensive work experience in the USA, Central Asia, Europe, Africa and Middle East. For a long time he worked in such companies like Shell and Chevron. He coordinated marketing and crude oil and by-products transportation. He participated in designing and construction of demercaptanization plant at Tengiz, worked as the General Manager on marketing and development of alternative oil and gas transportation routes at Tengiz Chevroil, as a General Manager at Chevron Overseas Petroleum Inc. (COPI) in London, and as the vice president of Chevron International.

Kayrgeldy Kabyldin – General Director (Chair of the Management Board) of the Company

Graduated from Kazakh Polytechnic Institute named after V.I.Lenin with specialization in «computing machines», qualification – electrical engineer. For over 30 years has been working in petroleum industry. He started his work experience as a service engineer in the Ministry of Petroleum Industry of USSR. Hold responsible posts in the Ministry of oil and gas industry of the Republic of Kazakhstan, CJSC “NCOT “KazTransOil”, CJSC NC “Oil and Gas Transportation”. Since 2002 has been working as a Managing Director for Transport infrastructure and Service Projects, than as Vice-President of JSC NC “KazMunaiGas”. In 2007 was nominated as a Deputy Chair of the Management Board of JSC “Kazakhstan holding for state assets management “Samruk”. From 2008 till October 2011 was a Chair of the Management Board of JSC NC “KazMunaiGas”. Since October 2011 – General Director (Chair of the Management Board) of the Company.

3. Composition of the Management Board of the Company as of December 31, 2011

Kayrgeldy Kabyldin – General Director (Chair of the Management Board)

Talgat Taubaldiyev – Deputy General Director

In 1991, Mr. Taubaldiev graduated from Moscow Institute of Oil and Gas Industry after I. M. Gubkin with specialization in “Drilling of oil and gas wells” with qualification of “Mining Engineer”. Candidate of Technical Sciences.

He has been working in the oil and gas industry since 1980. He worked at Caspian oil exploration expedition of the Ministry of Geology of USSR, at Production Union “Yuzhnefteprovod”, “Tengizchevroil”, Mangistau Oil Pipeline Department of the Western branch of the Company. From 2004 till 2009, he occupied positions of the First Deputy General Director, Director of the Western branch, First Deputy General Director of the Company. From June 15, 2009 due to change of structure of the Company was appointed as a Deputy General Director.

Assem Nussupova – Managing Director on Economics and Finance

In 1996, Mrs. Nussupova graduated from Kazakh State National University after Al-Farabi with Bachelor degree in Economics and Management. In 1998, she received her Master degree in Economics in Kazakh State National University after Al-Farabi. During 2003-2004, she passed academic-scientific traineeship at Economic Department of Moscow State University after M.V. Lomonosov. She worked in the Security Council of the Republic of Kazakhstan, Center of Systemic Research at the Administration of the President of the Republic of Kazakhstan. From 2003 to 2005, she occupied position of advisor of the Minister of Finance of the Republic of Kazakhstan, from 2005 to 2007 she was a head of Coordination and Analytical Unit at the Chancellery of the Prime Minister of the Republic of Kazakhstan. In the period from 2007 to 2008, she was a vice minister of Heath Care of the Republic of Kazakhstan. On December 31, 2008, she was admitted to the position of the Deputy General Director of the Company on Economics and Finance. From June 15, 2009 due to change of structure of the Company was appointed as a Managing Director for Economy and Finance.

Bolat Otarov – Managing Director on Transportation

In 1988, Mr. Otarov graduated from Kazakh Polytechnic Institute after V.I.Lenin with specialization in "Technology of machine-building, metal-cutting machines and instruments", with qualification of engineering mechanic.

He has been working in the oil and gas industry since 1988. He worked at Oil and Gas Production Departments of "Karazhanbastermneft", "Komsomolskneft", "KalamkasMunaiGas", and "Yuzhnefteprovod". In February 1998, he was appointed as Deputy General Director of the Western branch of the Company on Transportation, head of Goods Transportation Department, and then worked in the capacity of the Director of the Transportation Department, Executive Director on goods transportation operations, Executive Director of Transportation Department and Deputy General Director of the Company on Transportation. From June 15, 2009 due to change of structure of the Company was appointed as a Managing Director for Transportation.

Alexey Pirogov – Managing Director on Production

In 1980, Mr. Pirogov graduated from Groznyi Oil Institute. In 1992 he graduated from Kazakh Polytechnic Institute after V.I.Lenin, Doctor of Technical Sciences.

In the period from 1997-2004 he worked in the capacity of the Head of the Unit on oil pipeline operation of the Western branch of the Company, as advisor of the General Director on Production, Technical Director, and as the First Deputy General Director. From 2004 to 2006, he also held positions of the Deputy Director of Oil Industry Department and Director of Gas Industry at the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan. From 26 March 2006, he was admitted to the work in the Company in the capacity of the Deputy General Director of the Company on Production. In February 2009, he was appointed as a Technical Director. From June 15, 2009 due to change of structure of the Company was appointed as a Managing Director for Production.

Ruslan Mestoyev – Managing Director for Business Support

Graduated from Almaty State University named after Abai, with specialization in "Informatics and computerization manager". He started to work as operator of PC of state in State foreign trade company «Kazakhintorg» under Ministry of Foreign Trade Links of the Republic of Kazakhstan, than worked in «GLENCORE INTERNATIONAL AG», "Vneshinvest" company, CJSC Open Accumulative Pension Fund «Ular»; Akimat of Atyrau region, OJSC "Halyk Bank of Kazakhstan", CJSC "NC "Oil and Gas Transportation".

During 2003-2007 worked on position of Director of Contract Department of the Company, than head of Company's representation in Moscow. In 2007-2008 worked in JSC NC "Kazakhstan Temir Zholy" as Managing Director for Procurement. During 2009 - 2011 worked as Senior Contract Engineer, than Local Content Manager of KMG «Kashagan B.V». On November 4, 2011 was appointed on position of managing Director for Business Support.

Zhaidarman Isakov – Director of Legal Department

In 1989, Mr. Isakov graduated from Kazakh State University after S.V. Kirov with specialization on "Jurisprudence" and qualification of the "Lawyer".

He started his work experience as a lawyer at Trade base No.456 of the Trade Department of Ministry of Defense of USSR, then worked in law firms, Kazakhstan Joint Stock Company "Turanbank" and the Ministry of Finance of the Republic of Kazakhstan. He started working in the oil and gas industry from December 2000 as a Deputy Director of the Legal Department of CJSC "KazTransGas", General Lawyer of the Legal Department of CJSC "NC "Transport of Oil and Gas" and the Department of legal provision of CJSC NC "KazMunaiGas". From October 1, 2002 he has been working as the Director of the Legal Department of the Company.

4. Criterions of selection of members of the Board of Directors and the Management Board, determination of their independence

The process of selection and election of members of the Board of Directors, including Independent Directors, is conducted in the procedure established by the legislation of the Republic of Kazakhstan and Charter of the Company in accordance with established internal procedures on the basis of sufficient data about the candidate, interactions of candidate with the Company (affiliation, cooperation etc.), independence criterions, information on correspondent work experience, knowledge, qualification, positive achievements, and impeccable reputation.

The candidate for membership in the Board of Directors and member of the Board of Directors shall be individuals, have the trust of the Sole Shareholder and other members of the Board of Directors, have impeccable reputation, professional skills and qualifications, experience of managerial work of not less than 3 three years, preferable in the field corresponding to core activity of the Company, positive achievements and stainless reputation in business and industry circles.

Independent Director of the Board of Directors shall be a member of the Board of Directors, who is not affiliated entity of the Company and has not been the one during three years, preceding to his election in the Board of Directors (except for the case of occupying position of Independent Director of the Company), is not affiliated entity pursuing to affiliated entities of the Company, is not connected by subordination with officials of the Company or organizations – affiliated entities of the Company, and has not been connected by subordination with given entities for three years, preceding to his election to the Board of Directors; is not a state servant; is not an auditor of the Company and has not been the one during three years, preceding to his election in the Board of Directors; does not participate in audit of the Company as an auditor, working in auditing organization, and has not participated in such audit during three years, preceding to his election in the Board of Directors.

Determination of quantitative composition, term of powers of the Management Board, election (appointment) of members, early termination of the powers, except for General Director (Chair of the Board) is carried out upon the decision of the Board of Directors of the Company in accordance with legislation of the Republic of Kazakhstan and Charter of the Company. Election (appointment) of General Director (Chair of the Board) and early termination of the powers is attributed to exceptional competence of the Sole Shareholder of the Company.

Member of the Management Board must possess relevant work experience, knowledge, qualification, and business reputation.

5. Interaction with subsidiary and jointly controlled organizations

The Company strives to balanced development of SJCO, based on efficient mechanisms of corporate governance. For the purposes of realization of its rights as of shareholder (participant), the Company carries out interactions with SJCO in accordance with the requirements of the legislation, the Charter and internal documents of the Company, and Charters of SJCO.

The main goals of interactions of the Company with SJCO are:

- Ensuring stable financial development, returns from operation, improving investment attractiveness of the Company and SJCO;
- Ensuring protection of rights and legally protected interests of the Sole Shareholder and shareholders (participants) of SJCO;
- Harmonization of relations between shareholders, officials, and employees of the Company and SJCO, taking systemic measures on prevention of conflicts between them and within the mentioned groups;

- Development and implementation of coordinated and effective strategy and investment policy of the Company and SJCO.

The founding principles of the corporate governance of the Company are:

1) the principle of protection of rights and interest of the Sole Shareholder;
2) the principle of efficient management of the Company by the Board of Directors and the Management Board;
3) the principle of independent operation of the Company;
4) the principles of transparency and objectivity of disclosure of information about activities of the Company;
5) the principles of legality and ethics;
6) the principles of efficient dividend policy;
7) the principles of efficient human resource policy;
8) the principle of protection of environment;
9) the policy on regulation of Corporate conflicts and conflict of interests;
10) the principle of responsibility.

The Company introduced complex system of the policy of corporate governance, corresponding to the best global practices and ensuring compliance with requirements.

The given system sets accountability in ensuring compliance and includes guidance and rules on corporate governance. For the purposes of improvement of the system of corporate governance, the Company conducts internal and external audit on compliance with requirement of the legislation of the Republic of Kazakhstan internal procedures of the Company.

For the purposes of building the efficient corporate management system, responding to requirements of international standards, the Company annually develops and implements action plan on improvement of corporate governance.

In the framework of improving management efficiency of the Company, the Company holds activities on improvement of internal corporate governance system of the Company aimed at:

- ensuring clear division of responsibilities and functions between structural divisions of the Central Office of the Company, between the Central Office and the branches and SJCO of the Company;
- holding re-engineering of business processes at all levels of management to ensure the its integrity and personalization of responsibility for inappropriate implementation;
- graduate automation of business processes.

V. ANALUSES OF FINANCIAL POSITION AND RESULTS OF FINANCIAL AND ECONOMIC ACTIVITY

Company's performance

Implementation of key performance indicators on the basis of audited consolidated financial statements of the Company (according t the Accounting policy of Company's group of companies, i.e. on revaluated cost of fixed assets):

indicator	units	2010	2011
(EVA gross)	Mln KZT	- 14 329	- 14 809
(ROACE)	%	7%	7%
EBIT	Mln KZT	48 720	37 449
EBITDA	Mln KZT	70 778	65 165
Current liquidity		2	2
Coverage coefficient		99,7	468
EBITDA/Margin	%	50%	45%
Labor productivity	Th. KZT	13 777	14 059
Net income	Mln KZT	19 618	25 945
Staff size	person	10 034	9 992
Unit prime cost	Th. KZT/th. km	1 095	1 221
Capex*	Mln KZT	29 334	41 66

**proportional approach*

All key performance indicators in comparison with 2010 have improved except for исключением EVA, EBITDA, EBITDA/Margin, associated with growth rate of employed assets was higher than growth rate of revenue.

Growth of unit prime cost in 2011 in comparison with 2010 was caused by increase of costs on operating prime cost.

Labor productivity has increased and made up 14 059 th.tenge/per. associated with reduction of staff size due to restructuring of BIHL and JSC “KazTransOil-Service” companies and impacted by growth of revenues from core activity.

Company’s standalone indicators

Company’s revenues for 2011 made up 126 522 381 th. KZT, which is for 1% higher comparing to 2010. Growth of revenues from core activity is caused by increase of oil transportation volumes.

Financial revenues comparing to 2010 level increased by 28% or for 619 693 th.KZT, caused by allocation of funds on deposits if second-tier banks (2 637 961 th. KZT). In 2011 upon the results of 2010 the dividends at the amount of 17 608 th. KZT from JSC “APF of Halyk Bank of Kazakhstan” were received.

Other revenues from non-core activity are conditioned by revenues from fines and penalties (782 388 th.KZT), depreciation of future revenues (312 365 th.KZT), depreciation of financial guarantee (136 070 th. KZT) and other revenues from activities.

Indicators	fact 2010	fact 2011	Deviation to fact 2010	
			% exe.	Th.tenge
Gross revenues, incl.:	125 544 597	126 522 381	101%	977 784
Revenue from core activity	121 138 542	122 258 114	101%	1 119 572
Financial revenues	2 190 455	2 810 148	128%	619 693
Other revenues*	2 215 600	1 454 119	66%	-761 481
Expenditures, incl.:	88 740 236	89 189 869	101%	449 633
Operating prime cost	68 322 050	80 330 110	118%	12 008 060
General and administrative costs	5 287 515	4 725 247	89%	-562 268
Financial costs	779 179	237 832	31%	-541 347
Other expenses from non-core activity*	14 351 492	3 896 680	27%	-10 454 812
Corporate income tax	7 853 109	7 869 141	100%	16 032
Net income	28 951 252	29 463 371	102%	512 119

**XR was balanced*

Gross expenses of the Company for 2011 made up 89 189 869 th. KZT, higher for 1% in comparison with 2010. The growth was impacted by increase of expenses for operating prime cost for 18% or 12 008 060 th. KZT.

The growth is observed on the following items:

- “Labor wage pool”, associated with increase of wage of operating staff for inflation coefficient;
- “Depreciation”, “Taxes” due to increase of book value of fixed assets, in result of revaluation of fixed assets and increase of taxable base on property tax. Apart from that, in 2011 the Kazakhstan section of “Tuimazy-Omsk-Novossibirsk2” pipeline with concurrent infrastructure facilities and land lots was accepted on book sheet at the expense of payment forplaced shares of the Company for the amount of 1 701 149 th. KZT;
- “Guard” due to growth of tariffs for security services: - extra department guard (1 hour from 316 793.8 tenge to 426 320 tenge, 1 mobile group from 950 527 tenge to 1 315 000 tenge);
- “Air services” due to growth of cost of services with the same number of flight hours as in 2010.

General and administrative expenses made up 89% of level of 2010, caused by:

- Reversal of reserve for taxes in the reporting period for the amount of 3 718 848 th. KZT, created upon the claims of Tax committee of the Republic of Kazakhstan, which were successfully challenged in court;
- Reduction of costs on business trip expenses, communication services, personnel preparation, informational services, bank services.

Financial costs reduced in 2011 in comparison with the level of 2010 for 69%. This deviation is caused by early repayment of 5 year club loan in 2010.

Other costs on non-core activity in 2011 made up 27% of level of 2010 and are caused by: actuarial losses at the amount of 1 540 000 th. KZT, losses from impairment of investments in subsidiaries – 1 804 355 th. KZT, negative exchange rate 9balanced) – 348 759 th. KZT. I nother costs of 2010 losses from assets impairment are reflected 13 435 254 th. KZT due to revaluation of fixed assets.

Net income for the reporting period is higher for 2% in comparison with 2010 level.

Standalone performance of JSC “KazTransOil”

The table contains Company’s performance indicators:

indicator	units	2010	2011
(EVA gross)	Mln KZT	-3 982	-9 220
(ROACE)	%	10%	9%
EBIT	Mln KZT	47 529	37 203
EBITDA	Mln KZT	67 730	62 711
Current liquidity		2,1	2,3
Coverage coefficient		86,9	263,7
EBITDA/Margin	%	56%	51%
Labor productivity	Th. KZT	15 639	15 779
Net income	Mln KZT	28 951	29 463
Staff size	person	7 746	7 748
Unit prime cost	Th. KZT/th. km	1 095	1 221
Capex	Mln KZT	23 705	29 670

Comparing to 2010 key performance indicators reduced and are caused by:

- EVA due to higher growth rate of employed assets than growth rate of income;
- ROACE, due to growth of equity in result of revaluation of fixed assets, leading to increase of cost of fixed assets.

Given growth of expenses on the following items: “Labor wage pool”, “Air services”. “Extra department guard”, “Power”, “Environment protection” and current repair and commissioning works the values of the following indicators deteriorated:

- Unit prime cost of oil transportation;
- EBITDA margin.

Capital expenditures in 2011 made up 29 670 mln KZT, higher than level of 2010 for 5 965 mln. KZT.

Dividends

In 2011 the Company paid out dividends to the Sole Shareholder upon the results of 2010 at the amount of 19 330 798 th. KZT, which is for 263% higher comparing to the dividends paid out upon the results of 2009.

Indicators	fact 2010	fact 2011	Deviation, %	Deviation, th. KZT
Dividends	7 340 280	19 330 798	263%	11 990 518

VI. Risk Management System

To promote efficiency of operation, maximize its value, and ensure a sustainable development JSC "KazTransOil" performs a methodical and consistent work on introduction and improvement of the corporate risk management system.

The following key measures were taken on introduction and improvement of the corporate risk management system in 2011:

– Board of Directors of JSC "KazTransOil" approved the Risk Management Policy of JSC "KazTransOil" that specifies goals, objectives, basic principles of risk management, powers and liability od participants of the risk management process as well as the Plan of measures on introduction and improvement of the corporate risk management and internal control systems of JSC "KazTransOil" for 2012-2014;

– the Management Board of JSC "KazTransOil" approved the Regulation on Internal Control and Risk Management Service of JSC "KazTransOil" and approved of the Risk Management Program of JSC "KazTransOil" for 2012–2014;

– new editions of the following documents have been developed and approved: the Rules on arrangement of risk management process of JSC "KazTransOil" and the Methods of risk identification and assessment, and choice of risk management techniques of JSC "KazTransOil";

– within the framework of the corporate insurance program of JSC "NC "KazMunaiGas" the work has been performed on concluding and monitoring of the Voluntary KOT's Property Insurance Agreement for 2011;

– to promote the risk culture JSC "KazTransOil" held the following seminars and presentations:

1) Corporate seminar for managers and employees of structural subdivisions of the Corporate Center on "Formation of Risk and Business Continuity Management in the company";

2) presentation "Risk Management Techniques and Challenges in Their Introduction in JSC "KazTransOil" which provided for a discussion of the major approaches to management of production risks and risks related to investment projects;

3) presentation "Production Risk Management" with a detailed description of the fundamental principles of transition to the business management system based on production risk assessment.

VII. Material Events of the year of 2011

1. In line with the instruction of the Head of the Republic of Kazakhstan given on February 11, 2011 at XIII Convention of Nur-Otan People's Democratic Party, JSC "KazTransOil" began preparations to offering its shares at the Kazakhstan securities

market under the People's IPO Program. Shares of JSC "KazTransOil" shall be offered in 2012.

2. The Management Board of JSC "Samruk-Kazyna" terminated powers of General Director (Chairman of the Management Board) of KTO N.S.Sultan ahead of schedule and elected Mr.K.M.Kabyldin as the General Director (Chairman of the Management Board) of JSC "KazTransOil" by its resolution dated of October 10, 2011 (Minutes No.43/11)

Therefore on October 12, 2011 Sole Shareholder of JSC "KazTransOil" resolved to terminate powers of a member of Board of Directors of JSC "KazTransOil" N.S.Sultan since October 10, 2012; the same resolution provided for election of K.M.Kabyldin as a member of Board of Directors of JSC "KazTransOil" for the term of powers of Board of Directors of JSC "KazTransOil" as a whole.

3. JSC "KazTransOil" received to its balance sheet the Kazakhstani section of the Tuimazy-Omsk-Novosibirsk 2 oil pipeline with all relevant infrastructure facilities and land lots in payment for KTO's declared shares for the amount of 1 701 149 thous.Tenge.

4. International rating agency Moody's confirmed JSC "KazTransOil" rating of Baa3. In its report Moody's noted that the basic evaluation of borrowing capacities of JSC "KazTransOil" is supported by a strong financial profile proven by its low leverage, regular revenue source, historically risk-free profitability; and comparatively low operational and financial risks.

5. Fitch International Rating Agency confirmed JSC "KazTransOil" rating at the level of BBB-, the forecast is "Stable".

6. Standard&Poor's International Rating Agency upgraded JSC "KazTransOil" credit rating from BB+ up to BBB-. The forecast is "Stable".

7. JSC "KazTransOil" successfully passes the re-certification audit for compliance with requirements of ISO 9001, 14001 and OHSAS 18001 for the next three-year period. JSC "KazTransOil" began introducing a new system of HSE and environment protection in line with the international principles specified in JSC "KazTransOil" standard 38440351-2.001-2010. The audits were carried out in line with the new control system.

8. JSC "KazTransOil" developed its Cost Management Program for 2012-2016. Implementation of this Program shall allow ensuring optimization of operational expenses, general and administrative expenses, increasing labour efficiency and profitability.

9. 4 companies of the BIHL group have been liquidated: "Batumi Port Holdings Ltd", "Rodio Investments Ltd", "Dakino Investments Ltd" and "Port Capital Partners Ltd".

10. The system was introduced on security of "Alibekmola HOPS – 20th km of Zhanazhol-Kenkiyak" oil pipeline with the integration of an additional section into the current "QinetiQ Optasense" security system of "Zhanazhol-Kenkiyak oil pipeline".

11. Introduction of Phase 2 of SCADA system was completed in December 2011 with commissioning of SCADA system and security system on Ekibastuz OPS and Martyshi OPS. The project provided for reconstruction of the systems of automation, automatic fire fighting, and fire alarm, installation of new measuring tools, introduction of emergency shutdown system.

12. In line with Order №98-ОД of the Chairman of the ARNM dated of March 24, 2011 KTO was included in the Republic Section of the State Register of Natural Monopolies субъектов естественной монополии on the following types of regulated services:

– services on water supply via distribution networks;
– sewage services.

13. In line with the State Program of Forced Industrial-Innovative Development of the RoK for 2010 - 2014 approved by Decree #958 of the RoK President of March 19, 2010 and within the framework of implementation of the Program of Innovative and Technological Development of JSC "KazTransOil" KTO's Eastern Branch commissioned the Pavlodar central dispatcher board. The main goal of such commissioning is a gradual

reorganization of the hierarchic oil pipeline management structure inclusive of dispatcher services.

ATTACHMENT
To the Annual report of JSC “KazTransOil”
for 2011, confirmed by resolution of the Sole Shareholder of JSC “KazTransOil” (minutes of the meeting of the Management Board of JSC NC “KazMunaiGas”
dated «2» August 2012, No.92)

1. The list of interested party deals concluded by JSC “KazTransOil” in 2011

№	Name of organization and deal	Resolution of Body of the Company
LLP «Tengizchevroil»:		
1	- Product sales and purchase (FCA terms - dry gas by pipeline);	resolution of the Board of Directors of the Company dated April 29, 2011 (minutes № 4/2011)
2	- freight forwarding agreement;	resolution of the Board of Directors of the Company dated December 22, 2011 (minutes № 15/2011)
3	- agreement on provision of services on oil transportation;	
4	- agreement on provision of services on water supply via main pipelines (services on technical water supply via “Astrakhan – Mangyshlak” oil pipeline at the amount of 1 312 500 m^3 and potable water via “Kulsary – Prorva – Sargamys” waterline at the amount of 1 935 112 m^3).	
JSC “Pavlodar Oil Chemistry Refinery”		
5	- disposal of construction-in-progress - housing residence for 100 flats in Pavlodar city by direct address sale to JSC “Pavlodar Oil Chemistry Refinery”;	resolution of the Board of Directors of the Company dated June 3, 2011 (minutes № 6/2011)
6	- pledge contract of construction-in-progress of housing for 100 flats, located at: Pavlodar city, Usolsk microdistrict.	resolution of the Board of Directors of the Company dated October 20, 2011 (minutes № 12/2011)
LLP “Kazakhoil –Aktobe”		
7	- provision of services on water supply to HOPS “Alibekmola” via Kumzhargan – rotation village Munaishi waterline.	resolution of the Board of Directors of the Company dated July 19, 2011 (minutes № 8/2011)
JSC «Kazkommerts Securities» (subsidiary of JSC «Kazkommertsbank»)		
8	- agreement on procurement of advisory services on listing of JSC “KazTransOil” on KASE	resolution of the Board of Directors of the Company dated November 29, 2011 (minutes № 13/2011)
JSC «Caspian Pipeline Consortium - K»		
9	- agreement on provision of services on water supply via main pipelines (services on technical water supply via “Astrakhan – Mangyshlak” oil	resolution of the Board of Directors of the Company dated December 22,

	pipeline at the amount of 11 000 m^3 and potable water via “Kulsary – Prorva – Sargamys” waterline at the amount of 11 000 m^3).	2011 (minutes № 15/2010)
JSC “Mangistaumunaigas”		
10	- delivery (consumption) of heating energy in hot water for HOPS “Kalamkas” of Mangistau oil pipeline department of Western branch of the Company;	resolution of the Board of Directors of the Company dated June 3, 2011 (minutes № 6/2011)
11	- provision of services on water supply to HOPS “Kalamkas” and OPS “Karazhanbas” of Mangistau oil pipeline department of the Western branch of the Company;	
12	- delivery and acceptance of natural gas for the needs of OPS “Karazhanbas” of Mangistau oil pipeline department of the Western branch of the Company;	
13	- freight forwarding agreement;	resolution of the Board of Directors of the Company dated December 22, 2011 (minutes № 15/2011)
14	- agreement on provision of services on water supply via main pipelines (services on technical water supply via “Astrakhan – Mangyshlak” oil pipeline at the amount of 2 284 056 m^3).	
JSC “Karazhanbasmunai”		
15	- freight forwarding agreement;	resolution of the Board of Directors of the Company dated December 22, 2011 (minutes № 15/2011)
16	- agreement on provision of services on water supply via main pipelines (services on technical water supply via “Astrakhan – Mangyshlak” oil pipeline at the amount of 5 477 982 m^3).	
JSC “PetroKazakhstan Kumkol Resources”		
17	- agreement on provision of services on oil transportation.	resolution of the Board of Directors of the Company dated December 22, 2011 (minutes № 15/2011)
LLP «Agency for Investigation of Investments Profitability»		
18	- agreement on procurement of services on informational analytical provision of activity of JSC “KazTransOil”.	resolution of the Board of Directors of the Company dated December 9, 2011 (minutes № 14/2011)
PE «Corporate University «Samruk-Kazyna»		
19	- agreement on provision of services on HR– consulting to JSC “KazTransOil”	resolution of the Board of Directors of the Company dated December 22, 2011 (minutes № 15/2011)
LLP “Kazakhstan – China Pipeline”		
20	- agreement on operation and technical maintenance of Kenkiyak-Kumkol oil pipeline;	resolution of the Board of Directors of the Company dated December 9, 2011 (minutes № 14/2011)
21	- agreement on operation and technical maintenance of Atasu-Alashankou oil pipeline.	

JSC “Kazakhtelecom”		
22	- procurement of services on provision of city numbers (telephone communication and other telecommunication services) for the needs of the Central Office of the Company ;	resolution of the Board of Directors of the Company dated June 3, 2011 (minutes № 6/2011)
22	- procurement of services on provision of channels in telephone channeling ;	
24	- procurement of services on provision of city numbers (telephone communication and other telecommunication services) for the needs of CCCU branch of JSC “KazTransOil”;	
25	- procurement of services of local, intercity, and international communication for the needs of CCCU branch of JSC “KazTransOil”;	
26	- commercial property lease agreement for installation of telecommunication equipment;	
27	- agreement on procurement of services of local, intercity, and international communication, ADSL for the needs of the Central Office of the Company;	
28	- procurement of services on organizations data transfer channels Aktobe-Astana ;	
29	- procurement of services on organizations data transfer channels Astana – Moscow and internet access;	
30	- procurement of services on organizations data transfer channels Almaty – Astana;	
31	- services on connection to telecommunications network of common use of Aktobe oil pipeline board;	
32	- provision of services of telecommunications AMS of Western branch and AOPB;	
33	- provision of services of telecommunications UOPB;	
34	- provision of services of telecommunications for MOPB	
35	- commercial property lease agreement for equipment of radio relay line RRL on the section of Aktobe oil pipeline department of western branch of the Company;	
36	- provision of services of telecommunications for POPB;	
37	- provision of services of telecommunications for KOPB;	
38	- provision of services of telecommunications for ZhOPB;	
39	- provision of services of telecommunications for ShOPB;	
40	- provision of services of telecommunications for OPS Suzak	

41	- provision of services of telecommunications for HOPS Atasu;	
42	- rent of channels (or part of channel) of cable canalization for POPB;	
43	- rent of channels (or part of channel) of cable canalization for KOPB;	
44	- rent of channels (or part of channel) of cable canalization for ZhOPB;	
45	- rent of channels (or part of channel) of cable canalization for KOPB;	
46	- provision of services of telecommunications to the call recipients, not owning the premises for OPS Peterfeld NKOPB;	
47	- provision of services of telecommunications to the call recipients, not owning the premises for OPS Bulaevo NKOPB;	
48	- commercial property lease agreement for installation of telecommunication equipment for the needs of POPD;	
49	- commercial property lease agreement (for technological facilities) for installation of telecommunication equipment for the needs of KOPD;	
50	- commercial property lease agreement (for technological facilities) for installation of telecommunication equipment for the needs of ZhOPD;	
51	- provision of services of telecommunications for the needs of UshOPD;	
52	- provision of services of telecommunications to the call recipients, not owning the premises for the needs of NKOPD;	
53	- provision of network recourses during connecting of the owner of corporate network to the network of JSC “Kazakhtelecom” on local level for the needs of ZhOPD.	
LLP “GSM Kazakhstan” OJSC “Kazakhtelecom”		
54	- provision of services of cellular communication (Kcell);	resolution of the Board of Directors of the Company dated March 12, 2011 (minutes № 3/2011)
55	- provision of services of cellular communication of GSM standard of «Kcell» network for the needs of Eastern branch. .	resolution of the Board of Directors of the Company dated June 3, 2011 (minutes № 6/2011)
JSC «Air company «Euro-Asia Air»		
56	- provision of air services on aircrafts - helicopters MI-8 for flight execution in the areas of location of facilities of the Western and Eastern branches of JSC “KazTransOil”;	resolution of the Management Board of the Company dated January 24, 2011 (minutes № 2)
57	- provision of air services on aircrafts – planes for	

	flight execution in the areas of location of facilities of the Western and Eastern branches of JSC “KazTransOil” on the territory of the Republic of Kazakhstan and abroad;	
58	- provision by JSC «Eurasia Air company» of air services on helicopters MI-8;	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
59	- provision by JSC «Eurasia Air company» of air services on planes.	
JSC «Kazpost»		
60	- acquisition of periodic print publications for the needs of administrative staff of the Western branch of JSC “KazTransOil”, Atyrau and Kulsary oil pipeline departments, BPT&KO « Atyrau », LPDS «Kigach» Western branch of JSC “KazTransOil”;	resolution of the Management Board of the Company dated January 24, 2011 (minutes № 2)
61	- acquisition of periodic print publications for the needs of Mangistau oil pipeline department, educational center, design bureau of Western branch of JSC “KazTransOil”;	
62	- acquisition of periodic print publications for the needs of Aktobe oil pipeline department of Western branch of JSC “KazTransOil”;	
63	- acquisition of periodic print publications for the needs of Uralsk oil pipeline department and LPDS “KPO” of Western branch of JSC “KazTransOil”;	
64	- supply of periodic print publications for the needs of the branch «STC of JSC «KazTransOil»;	
65	- acquisition of periodic print publications via subscription for the needs of the branch «CCCU of JSC «KazTransOil»;	
66	- acquisition of periodic print publications for the needs of managerial staff of the Eastern branch of JSC «KazTransOil», Pavlodar, Karaganda, Zhezkazgan and Shymkent oil pipeline departments, BPTO&KO of the Eastern branch of JSC «KazTransOil»;	
67	- acquisition of periodic print publications for the needs of LPDS «Aralsk» of the Eastern branch of JSC «KazTransOil»;	
68	- acquisition of periodic print publications for the needs of North-Kazakhstan oil pipeline department of the Eastern branch of JSC «KazTransOil»;	
69	- acquisition of periodic print publications for the needs of Usharal oil pipeline department of the Eastern branch of JSC «KazTransOil»;	
70	- sale and purchase of post services for the needs of Karaganda and Zhezkazgan oil pipeline departments of Eastern branch of JSC “KazTransOil”;resolution of the Management Board of the Company dated March 4, 2011 (minutes № 5)	

71	- sale and purchase of post services for the needs of managerial staff, Pavlodar oil pipeline department and BPTO&KO of Eastern branch of JSC “KazTransOil”;	
72	- provision of services on rent of POB the needs of managerial staff, Pavlodar oil pipeline department and BPTO&KO of Eastern branch of JSC “KazTransOil”;	
73	- provision of services on special communication (other) for the needs of North-Kazakhstan oil pipeline department of the Eastern branch of JSC «KazTransOil»;	
74	- provision of basic services of special communication for the needs of Usharal oil pipeline department of the Eastern branch of JSC «KazTransOil»;	
75	- provision of basic services of special communication for the needs of managerial staff of Eastern branch of JSC «KazTransOil»;	
76	- agreement on provision of services on special communication (performance of joint secret works) for the needs of the Central office of JSC “KazTransOil”;	
77	- agreement on provision of services on special communication (performance of joint secret works) for the needs of the Central office of JSC “KazTransOil”;Resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)	
78	- agreement on provision of services on special communication for the needs of Western branch of JSC “KazTransOil”.	
JSC “Intergas Central Asia”		
79	- contract on procurement of services on gas transportation for the needs of OHS 112km, OPS “Zhetybai”, OHS “Sai Utes”, OPS “Beineu”, OHS “Opornyi”, OPS “663 km”, OPS “Atyrau”, OPS “Inder”, LPDS “Kigach” of Western branch of JSC “KazTransOil”;	resolution of the Management Board of the Company dated January 27, 2011 (minutes № 3)
80	- additional agreement No.1 to the Contract on provision of services on transportation of natural gas dated December 28, 2010 No. DG 15/2011//003-01-10D (introduction from August 1, 2011 of new tariff on natural gas transportation);	resolution of the Management Board of the Company dated August 1, 2011 (minutes № 25)
81	- agreement on provision of services on water supply via main pipelines (services on technical water supply via “Astrakhan – Mangyshlak” oil pipeline at the amount of 91 656 м³);	resolution of the Management Board of the Company dated November 22, 2011

82	- agreement on provision of services on water supply via main pipelines (services on technical water supply via “Astrakhan – Mangyshlak” oil pipeline at the amount of 80 952 м³ and potable water via “Kulsary – Prorva – Sargamys” waterline at the amount of 25 799 м³);	(minutes № 35)
83	- agreement on provision of services on transportation of natural gas.	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
LLP “Semser Security”		
84	- agreement on provision of security services of Usharal Oil Pipeline Department of Eastern branch of JSC “KazTransOil”;	resolution of the Management Board of the Company dated January 27, 2011 (minutes № 3)
85	- additional agreement No.1 to agreement on provision of security services dated December 30, 2010 № US 30/2011 (change of dislocation of security posts);	resolution of the Management Board of the Company dated August 1, 2011 (minutes № 25)
86	- agreement on provision of security services of Central office of JSC “KazTransOil” and CCCU branch of JSC “KazTransOil”;	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
87	- agreement on provision of security services of Western branch of JSC “KazTransOil”;	
88	- agreement on provision of security services of Eastern branch of JSC “KazTransOil”;	
89	- agreement on provision of security services of Usharal Oil Pipeline Department of Eastern branch of JSC “KazTransOil”.	
JSC NC “KazMunaiGas”		
90	- transfer in trust management of JSC “KazTransOil” of Kazakhstani section of Tuimazy-Omsk-Novossibirsk 2 (TON-2) oil pipeline with concurrent infrastructure facilities and land lots, devoted for allocation of given infrastructure facilities.	resolution of the Management Board of the Company dated March 4, 2011 (minutes № 5)
JSC NC “KazMunaiGas” presented by LLP “Urichtau Operating”		
91	- agreement on provision of services on oil transportation.	resolution of the Management Board of the Company dated July 11, 2011 (minutes № 23)
JSC “Mangistau distribution electricity grid company”		
92	- agreement on provision of services on transfer and distribution of electric energy for facilities of Mangistau oil pipeline department of Western branch of JSC “KazTransOil”;	resolution of the Management Board of the Company dated March 10, 2011 (minutes № 6)
93	- agreement on provision of services on transfer and distribution of electric power for the needs of piers	

	№ 9 and № 10 of Mangistau oil pipeline department of Western branch of JSC “KazTransOil” through network of JSC “Mangistau Distribution Power Company”;	
94	- agreement on provision of services on transfer and distribution of electric power for the needs of oil pumping station “Severnye Buzachi” of Mangistau oil pipeline department of Western branch of JSC “KazTransOil” through network of JSC “Mangistau Distribution Power Company”;	resolution of the Management Board of the Company dated March 10, 2011 (minutes № 6)
95	- agreement on provision of services on transfer and distribution of electric power for the needs of Mangistau oil pipeline department of Western branch of JSC “KazTransOil”.	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
JSC “Exploration Production “KazMunayGas”		
96	- agreement on provision of services on water supply via main pipelines by JSC “KazTransOil”.	resolution of the Management Board of the Company dated April 15, 2011 (minutes № 10)
LLP “Semser - Ort sondirushi”		
97	- repayment of mutual debt between JSC “KazTransOil” and LLP “Semser - Ort sondirushi”;	resolution of the Management Board of the Company dated April 15, 2011 (minutes № 10)
98	- agreement on provision of fire security services on facilities of Western branches of JSC “KazTransOil”;	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
99	- agreement on provision of fire security services on facilities of Eastern branches of JSC “KazTransOil”.	
JSC “NWPC MunaiTas”		
100	- agreement on provision by JSC “KazTransOil” of services on operation and technical maintenance of main oil pipeline «Kenkiyak-Atyrau»	resolution of the Management Board of the Company dated May 6, 2011 (minutes № 14)
JSC “Offshore Oil Company “KazMunaiTeniz”		
101	- additional agreement No.1 to agreement on provision of services on water supply via main pipelines dated December 28, 2010 № WDW 260/2010;	resolution of the Management Board of the Company dated May 31, 2011 (minutes № 19)
102	- agreement on provision of services on water supply via main pipelines (services on technical water supply via “Astrakhan – Mangyshlak” oil pipeline at the amount of 165 000 м³);	resolution of the Management Board of the Company dated November 22, 2011 (minutes № 35)
103	- freight forwarding contract;	resolution of the Management Board of the Company dated
	- agreement on provision of services on oil	

	transportation.	December 6, 2011 (minutes № 36)
LLP “KMG EP-Catering”		
104	- additional agreement No.1 to agreement on provision of services on water supply via main pipelines dated November 24, 2010 № WDW 249/2010;	resolution of the Management Board of the Company dated May 31, 2011 (minutes № 19)
105	- agreement on provision of services on water supply via main pipelines (services on technical water supply via “Astrakhan – Mangyshlak” oil pipeline at the amount of 280 000 м³).	resolution of the Management Board of the Company dated November 22, 2011 (minutes № 35)
JSC “Exploration Production “KazMunayGas”		
106	- additional agreement №2 to agreement on provision of services on water supply via main pipelines dated November 24, 2010 №WDW 250/2010 (increase of water volumes);	resolution of the Management Board of the Company dated October 18, 2011 (minutes № 29)
107	- agreement on provision of services on water supply via main pipelines (services on technical water supply via “Astrakhan – Mangyshlak” oil pipeline at the amount of 148 875 м³ and potable water via “Kulsary – Prorva – Sargamys” waterline at the amount of 180 492 м³);	resolution of the Management Board of the Company dated November 22, 2011 (minutes № 35)
	- freight forwarding contract.	resolution of the Management Board of the Company dated December 6, 2011 (minutes № 36)
JSC “KazMunaiGas Production Exploration” and LLP “Department for water production and transportation”		
108	- agreement on provision of on transportation and collection of waste water from HOPS “Aktau” of Mangistau Oil Pipeline Department of Western branch of JSC “KazTransOil”.	resolution of the Management Board of the Company dated December 6, 2011 (minutes № 36)
JSC “Kazakh – British Technical University”		
109	- sponsorship assistance at the amount of 100 copies of tutorial “Магистральды құбырлар”.	resolution of the Management Board of the Company dated November 1, 2011 (minutes № 31)
JSC “Kazakhstan Electricity Grid Operating Company “KEGOC”		
110	- agreement on provision of services on water supply via main pipelines (services on technical water supply via “Astrakhan – Mangyshlak” oil pipeline at the amount of 1 260 м and potable water via “Kulsary – Prorva – Sargamys” waterline at the amount of 2 150 м³);	resolution of the Management Board of the Company dated November 22, 2011 (minutes № 35)
111	- agreement on provision of services on technical	resolution of the

	maintenance of equipment and installations on SS “Inder-220” JSC “KEGOC”.	Management Board of the Company dated December 27, 2011 (minutes № 38)
JSC “KazMunaiGas – processing and marketing”		
112	- agreement on provision of services on oil transportation.	resolution of the Management Board of the Company dated December 6, 2011 (minutes № 36)
LLP ”KAZAKHTURKMUNAI”		
113	- freight forwarding contract.	resolution of the Management Board of the Company dated December 6, 2011 (minutes № 36)
JSC “KazTransGas Aimak”		
114	- agreement on (Natural gas) gas supply by JSC “KazTransGas Aimak” for needs of Base of production maintenance of Uralsk Oil Pipeline Department of Western branch of JSC “KazTransOil”;	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
115	- agreement on provision by JSC “KazTransGas Aimak” of natural gas transportation services for needs of Base of production maintenance of Uralsk Oil Pipeline Department of Western branch of JSC “KazTransOil”;	
116	- agreement on (Natural gas) gas supply by JSC “KazTransGas Aimak” for needs of Base of production maintenance of Aktubinsk Oil Pipeline Department of Western branch of JSC “KazTransOil”;	
117	- agreement on provision by JSC “KazTransGas Aimak” of natural gas transportation services for needs of Base of production maintenance of Aktubinsk Oil Pipeline Department of Western branch of JSC “KazTransOil”;	
118	- agreement on sale and purchase of natural gas for needs of HOPS “Uzen” of Mangistau Oil Pipeline Department of Western branch of JSC “KazTransOil”;	
119	- agreement on transportation by JSC “KazTransGas Aimak” of natural gas for needs of OPS “Beineu”, OPS “Zhetybai” and OHS 112 km of Mangistau Oil Pipeline Department of Western branch of JSC “KazTransOil”.	
LLP “MAEC – Kazatomprom”		

120	- potable water delivery own collection to HOPS «Aktau», BPTO&KO «Aktau», OHS «112 km», of administrative building (canteen) of Mangistau Oil Pipeline Department of Western branch of JSC “KazTransOil”;	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
121	- heating energy and hot water delivery to HOPS «Aktau» of Mangistau Oil Pipeline Department of Western branch of JSC “KazTransOil” ;	
122	- delivery (consumption) of heating energy in vapor and non return of condensate for HOPS “Aktau” of Mangistau oil pipeline department of Western branch of JSC “KazTransOil”;	
123	- delivery of distillate for HOPS “Aktau” of Mangistau oil pipeline department of Western branch of JSC “KazTransOil”;	
124	- power supply to facilities of Mangistau oil pipeline department of Western branch of JSC “KazTransOil”.	
LLP «MAEC – Kazatomprom» and SCE «Heating, water pipeline networks and water disposal» of Department of energy and communal services of Mangistau region of Akimat of Mangistau region		
125	- delivery of potable and technical water for needs of administrative building and hostel of Mangistau oil pipeline department and Training center of Western branch of JSC “KazTransOil”;	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
126	- provision of heating services of for administrative building of Mangistau oil pipeline department and Training center of Western branch of JSC “KazTransOil”.	
LLP «MAEC – Kazatomprom» and SCE «Aktau department of electricity grid»		
127	- power supply of facilities of Mangistau oil pipeline department (administrative building, social sphere, hostel) and Training center of Western branch of JSC “KazTransOil”	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
LLP «MAEC – Kazatomprom» and LLP «Energy supply department»		
128	- power supply of facilities of Mangistau oil pipeline department of Western branch of JSC “KazTransOil” (warehouses)	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
LLP «MAEC – Kazatomprom» and SCE «Aktau international sea trade port »		
129	- power supply to facilities of Mangistau oil pipeline department of Western branch of JSC “KazTransOil” (piers №№ 4, 5, 8, 9, 10).	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
LLP «MAEC – Kazatomprom» and «Buzachi Operating Ltd»		
130	- delivery of electric energy for OPS «Severnye Buzachi» of Mangistau oil pipeline department of Western branch of JSC “KazTransOil”.	resolution of the Management Board of the Company dated

		December 27, 2011 (minutes № 38)
JSC «Energoinform»		
131	- provision of telecommunication services to ASKUE SS «Inder-220» JSC«KEGOC».	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
Private company with limited liability «KMG Kashagan B.V.»		
132	- provision by JSC “KazTransOil” of freight forwarding services;	resolution of the Management Board of the Company dated December 27, 2011 (minutes № 38)
133	- provision by JSC “KazTransOil” of oil transportation services.	

2. Information about the auditor

	Name of the auditing company	Services provided to the Company	Period of service provision
1	LLP “Ernst and Young”	auditing services	2008 – 2012 2002 – 2006
2	LLP “PricewaterhouseCoopers”	auditing services	2007

3.Report of independent auditors and consolidated financial statement as of December 31, 2011

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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.

A member firm of Ernst & Young Global Limited

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.*

KazTransOil

CONSOLIDATED STATEMENT OF CASH FLOWS

		For the years ended 31 December		
In thousands of Tenge	**Note**	**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	For the years ended 31 December 2011	2010	2009
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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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*).

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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**

36. SEGMENT INFORMATION (continued)

In thousands Tenge	31 December 2009					
	Oil Transportation and related services	Oil transshipment	Other	Total segments	Adjustments and eliminations	Consolidated
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

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**	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.