

KazTransOil JSC

Separate Financial Statements

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of KazTransOil JSC:

We have audited the accompanying separate financial statements of KazTransOil JSC ("the Company"), which comprise the separate balance sheet as of 31 December 2009 and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ernst and Young LLP

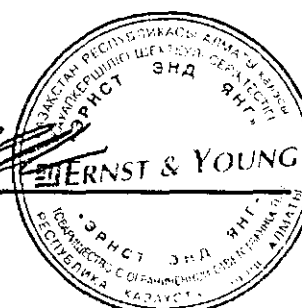

Gulmira Turmagambetova
Auditor



Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

5 March 2010


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

SEPARATE BALANCE SHEET

<i>In thousands of Tenge</i>	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	207,428,959	199,365,729
Intangible assets	7	1,155,570	1,359,672
Investments in subsidiaries	8	33,810,382	33,798,615
Investments in joint ventures	9	7,404,945	7,404,945
Long-term portion of interest-free loans to related parties	10	121,806	–
Advances to suppliers for non-current assets	11	1,854,261	1,427,575
Other non-current assets	12	194,829	1,083,626
		251,970,752	244,440,162
Current assets			
Inventories	13	2,415,931	2,198,624
Trade and other accounts receivable	14	6,002,379	3,972,798
Current portion of interest-free loans to related parties	10	493,506	4,433,599
Advances to suppliers	15	534,744	262,512
Prepayment for corporate income tax	35	1,780,885	977,007
VAT recoverable and other taxes prepaid	16	3,977,062	3,725,119
Other current assets	17	1,088,462	1,433,230
Bank deposits	18	24,596,351	19,135,799
Cash and cash equivalents	19	14,307,399	16,384,440
		55,196,719	52,523,128
TOTAL ASSETS		307,167,471	296,963,290

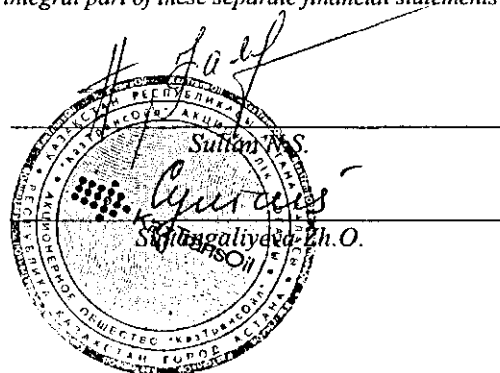
SEPARATE BALANCE SHEET (continued)

<i>In thousands of Tenge</i>	Note	31 December 2009	31 December 2008
EQUITY AND LIABILITIES			
Equity			
Share capital	20	32,916,055	32,916,055
Revaluation reserve	20	45,031,683	49,581,467
Other reserves	20	17,169	17,169
Retained earnings		158,178,492	134,859,620
Total equity		236,143,399	217,374,311
Non-current liabilities			
Long-term portion of interest-bearing loans and borrowings	21	9,753,472	32,700,116
Financial guarantee issued to related party		614,573	612,516
Long-term portion of employee benefits	22	2,337,120	1,883,532
Deferred income tax liabilities	35	16,673,324	11,722,494
Deferred income	36	1,509,766	182,715
Other non-current liabilities		7,731	–
		30,895,986	47,101,373
Current liabilities			
Current portion of interest-bearing loans and borrowings	21	10,238,757	3,992,258
Current portion of employee benefits	22	131,880	114,000
Trade and other accounts payable	23	12,466,003	12,627,188
Advances received	24	9,676,531	8,060,007
Taxes payable	25	276,439	630,009
Provisions	26	3,718,848	3,718,848
Other current liabilities	27	3,619,628	3,345,296
		40,128,086	32,487,606
TOTAL EQUITY AND LIABILITIES		307,167,471	296,963,290

The accounting policy and explanatory notes on pages 7 through 45 form an integral part of these separate financial statements

General Director

Chief Accountant



SEPARATE STATEMENT OF CASH FLOWS

In thousands of Tenge

For the years ended 31 December

	Note	2009	2008
Cash flows from operating activities:			
Profit before income tax		36,661,629	14,177,611
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	29,30	15,314,745	16,292,446
Allowance for doubtful debts	30	358,450	1,907,190
Finance costs	34	1,931,687	824,603
Finance income	33	(2,231,585)	(2,712,452)
Impairment of investments in subsidiaries		1,582,180	22,605,013
Actuarial gains and losses	31,32	276,474	(211,000)
Employee benefits		191,000	163,000
Provisions	26	–	3,718,848
(Gain) / loss on disposal of property, plant and equipment and intangible assets, net	31,32	(12,378)	223,514
Dividend income from joint ventures		(765,020)	(627,210)
Impairment of property plant and equipment		337,253	428,512
Income from write-off of payables	31	(8,100)	(9,607)
Inventory adjustment	31	(1,572)	(14,050)
Amortization of deferred income	31	(356,232)	(55,474)
Amortization of financial guarantee issued to related party	31	(137,083)	(114,591)
Write-off of VAT recoverable	30	341,258	418,193
Unrealized foreign exchange loss		7,238,015	305,377
(Reversal) / allowance for obsolete inventory	30	(121,009)	13,174
Operating cash flows before working capital changes		60,599,712	57,333,106
Changes in inventories		(79,562)	365,213
Changes in trade and other accounts receivable		(2,029,372)	(989,822)
Changes in advances to suppliers		(273,319)	(143,487)
Changes in taxes recoverable and other current assets		(42,488)	(611,957)
Changes in trade and other accounts payable		(153,085)	2,927,662
Changes in advances received		1,616,524	(511,276)
Changes in taxes payable		(353,570)	98,362
Changes in other current and non-current liabilities		(26,853)	175,796
Cash generated from operations		59,257,987	58,643,588
Income tax paid		(8,200,583)	(11,643,231)
Interest received		3,230,306	1,287,629
Interest paid		(2,100,778)	(66,354)
Dividends received		1,214,930	706,546
Net cash flow from operating activities		53,401,862	48,928,178

SEPARATE STATEMENT OF CASH FLOWS (continued)*In thousands of Tenge***For the years ended 31 December**

	Note	2009	2008
Cash flows from investing activities:			
Withdrawal of term deposits		44,921,427	–
Placement of term deposits		(49,790,376)	(18,000,000)
Repayment of interest-free loans provided to related parties		3,880,941	–
Interest-free loans provided to related parties		–	(359,361)
Purchase of property, plant and equipment		(23,512,022)	(31,899,879)
Change in advances paid for non-current assets		391,170	14,615
Proceeds from disposal of property, plant and equipment and intangible assets		841,872	450,819
Purchase of intangible assets		(84,884)	(296,653)
Purchase of investments in subsidiaries		–	(232,915)
Decrease in other non-current financial assets		21,507	62,287
Acquisition of Batumi Industrial Holding Limited		–	(39,061,750)
Net cash flow used in investing activities		(24,112,705)	(89,322,837)
Cash flows from financing activities:			
Repayment of interest bearing loans and borrowings		(25,342,560)	–
Proceeds from interest bearing loans and borrowings		–	35,885,279
Dividends paid		(6,023,638)	(3,268,788)
Net cash flow from / (used in) financing activities		(31,366,198)	32,616,491
Net change in cash and cash equivalents		(2,077,041)	(7,778,168)
Cash and cash equivalents at the beginning of the year	19	16,384,440	24,162,608
Cash and cash equivalents at the end of the year	19	14,307,399	16,384,440

NONCASH TRANSACTIONS

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

Depreciation included in cost of inventory

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

Contribution of property, plant and equipment to the charter capital of KTO - Service

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

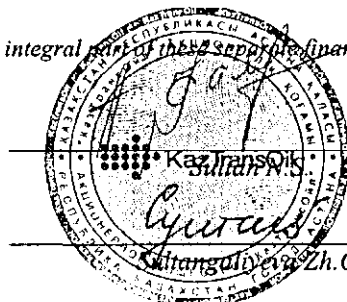
Deferred income

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

The accounting policy and explanatory notes on pages 7 through 45 form an integral part of the separate financial statements

General Director

Chief Accountant



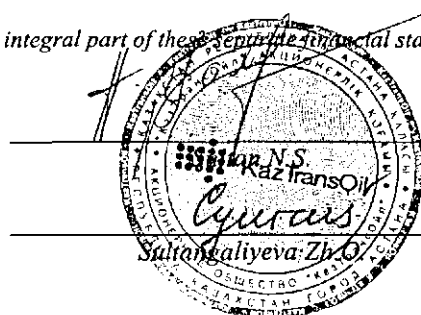
SEPARATE STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Share capital	Revaluation reserve	Other reserves	Retained earnings	Total
Note	20	20	20		
As at 31 December 2007	32,916,055	66,141,064	17,169	115,870,142	214,944,430
Net profit for the year	–	–	–	14,771,116	14,771,116
Impairment of property, plant and equipment	–	(9,297,358)	–	–	(9,297,358)
Revaluation of property, plant and equipment	–	224,911	–	–	224,911
Total comprehensive income for the year	–	(9,072,447)	–	14,771,116	5,698,669
Amortisation of revaluation reserve	–	(7,487,150)	–	7,487,150	–
Dividends (Note 20)	–	–	–	(3,268,788)	(3,268,788)
As at 31 December 2008	32,916,055	49,581,467	17,169	134,859,620	217,374,311
Net profit for the year	–	–	–	24,409,820	24,409,820
Impairment of property, plant and equipment	–	(191,756)	–	–	(191,756)
Revaluation of property, plant and equipment	–	574,662	–	–	574,662
Total comprehensive income for the year	–	382,906	–	24,409,820	24,792,726
Amortisation of revaluation reserve	–	(4,932,690)	–	4,932,690	–
Dividends (Note 20)	–	–	–	(6,023,638)	(6,023,638)
As at 31 December 2009	32,916,055	45,031,683	17,169	158,178,492	236,143,399

The accounting policy and explanatory notes on pages 7 through 45 form an integral part of these separate financial statements

General Director

Chief Accountant



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. GENERAL

On 2 May 2001, the Government issued a resolution to create a new closed joint stock company National Company "Transportation of Oil and Gas" ("TNG") owned by the Government. Based on that resolution, the Committee for State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan transferred the KazTransOil NOTC CJSC shares to TNG, and, as a result, KazTransOil NOTC CJSC was re-registered and renamed KazTransOil Closed Joint Stock Company

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

The Company is wholly owned by National Company "KazMunayGas" JSC ("KMG"). KMG is wholly owned by the Government as represented by JSC "National Welfare Fund "Samruk-Kazyna".

As at 31 December 2009 and 31 December 2008, the Company had interest ownership in the following companies:

	Place of incorporation	Principal activities	Interest ownership	
			31 December 2009	31 December 2008
KTO-Service LLP ("KTO-Service")	Kazakhstan	Management of non-production assets	100%	100%
SZTK MunayTas JSC ("MunayTas")	Kazakhstan	Oil transportation	51%	51%
Kazakhstan-China Pipeline LLP ("KCP")	Kazakhstan	Oil transportation	50%	50%
Batumi Capital Partners Limited ("BCPL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products	50%*	50%*
«Batumi Industrial Holdings Limited» («BIHL»)	Cyprus*	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	100%*	100%*

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

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

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

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

2. POLITICAL AND ECONOMIC ENVIRONMENT**Operating environment**

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

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

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

3. BASIS OF PREPARATION

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

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

Statement of Compliance

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

Foreign currency translation*Functional and presentation currency*

The separate financial statements are presented in Tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction.

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

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company entities at their respective functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevailing at the reporting date. All differences are taken to the separate statement of comprehensive income. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 fair value is determined.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**3. BASIS OF PREPARATION (continued)****Foreign currency translation (continued)***Exchange rates*

The currency exchange rate of KASE as of 31 December 2009 and 31 December 2008 was 148.36 Tenge to 1 US dollar and 120.77 Tenge to 1 US dollar, respectively. This rate was used to translate monetary assets and liabilities denominated in US dollars as of 31 December 2009. The currency exchange rate of KASE as of 5 March 2010 was 147.28 Tenge to 1 US dollar.

Changes in Accounting Policies

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

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

- IFRS 2 - Share-based Payment (Revised): Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 7 Financial Instruments: Disclosures (Revised): Improvements of financial instruments disclosure, effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 1 Presentation of Financial Statements effective 1 January 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008.

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

IFRS 7 – Financial Instruments: Disclosures (Revised)

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in *Note 38*. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in *Note 38*.

IAS 1 – Revised Presentation of Financial Statements

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**3. BASIS OF PREPARATION (continued)****Changes in Accounting Policies (continued)***IFRS and Interpretations issued but not yet effective*

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

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

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

Improvements to IFRSs

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

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

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

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

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

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

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (amended)
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Error*
- IAS 10 *Events after the Reporting Period*
- IAS 18 *Revenue*

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**3. BASIS OF PREPARATION (continued)****Changes in Accounting Policies (continued)***Improvements to IFRSs (continued)*

- IAS 19 *Employee Benefits*
- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance (amended)*
- IAS 28 *Investments in Associates*
- IAS 31 *Interest in Joint Ventures*
- IAS 34 *Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 40 *Investment Properties*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Revaluation of property, plant and equipment

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

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

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

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

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)***Revaluation of technological oil*

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

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

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

As of 31 December 2009 the market prices observed from sales of local producers for export were in the range of USD 250 (37,090 Tenge) and USD 390 (57,860 Tenge) per tonne (2008: USD 225 (27,173 Tenge) and USD 337.5 (40,759 Tenge) per tonne). As of 31 December 2009 the amount of oil in the pipeline included as part of property, plant and equipment was 2,101 thousand tons (2008: 2,086 thousand tons).

Asset retirement obligation

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

Impairment of property, plant and equipment

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)*Impairment of property, plant and equipment (continued)*

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

In 2009 the Company recognized an impairment of 576,948 thousand Tenge (2008: 12,048,841 thousand Tenge), where the impairment of 337,253 thousand Tenge (2008: 428,511 thousand Tenge) was recognized in the separate statement of comprehensive income and 239,695 thousand Tenge (191,756 thousand Tenge, net of tax) was recognized directly in equity (2008: 11,620,330 thousand Tenge) (*Note 6*).

Useful lives of items of property, plant and equipment

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

Allowances

The Company makes allowances for doubtful accounts receivable. Significant judgments are used in estimating doubtful accounts, advances paid and other assets. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the separate financial statements. As of 31 December 2009 and 2008 allowances for doubtful accounts have been created for the amount of 2,588,276 thousand Tenge and 2,336,617 thousand Tenge, respectively (*Notes 11, 12, 14 and 15*).

Deferred tax assets

Deferred tax assets are recognized for all provisions for doubtful debts, allowances for slow-moving inventories and accruals to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The amount of recognized deferred tax assets as of 31 December 2009 was 2,269,916 thousand Tenge (2008: 1,568,238 thousand Tenge) (*Note 35*).

Tax provisions

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

In 2008 additional accrual of withholding tax and corporate income tax were proposed by the Tax Committee of Astana city ("Tax Authority") related to the tax audit results. The Company disputes tax audit results and made an appeal to the Ministry of Finance Tax Committee of the Republic of Kazakhstan. In connection with the above appeal, in 2009 the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan arranged an additional tax audit and sent additional requests to tax bodies of other countries, and to the government bodies of the Republic of Kazakhstan. On 23 February 2010, the Company received a reply from the Tax Committee, which satisfied the appeal only partially (*Note 26*). The Company plans to file a claim with the Specialized Regional Economic court of Astana city to appeal the decision of the Tax Committee. Significant management judgment is required to estimate the amount the Company may be liable for and the amount is subject to change depending on the outcome of the legal proceedings. In 2008 the management recorded a provision in the separate financial statements in the amount of 3,718,848 thousand Tenge, what it believes to be the best estimate of the amount the Company may be required to pay if the legal proceedings are found to be not in the claimants favour. The assessment of the provision was not changed in 2009 (*Note 26*).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Investments in subsidiaries**

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

The Company assesses at each balance sheet date whether there is any objective evidence that an investment in a subsidiary may be impaired. If any such indication exists, the Company makes an estimate of the investment's recoverable amount. Where the cost of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

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

Share in joint ventures

Investments in joint ventures are accounted for in these separate financial statements at initial cost less impairment. As discussed in *Note 1*, the Company participates in three jointly controlled entities, BCPL, KCP and MunayTas; however, due to the fact that the Company directly and indirectly owns 100% of BCPL shares, investments in BCPL were included in investments in BIHL subsidiaries (*Note 9*).

Property, plant and equipment

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

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

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

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

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

Revaluation of property, plant and equipment

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Revaluation of property, plant and equipment (continued)**

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

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

Intangible assets

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

Impairment of non-financial assets

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

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

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

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

Financial assets*Initial recognition and measurement*

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

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Subsequent measurement*

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

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

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

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

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

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

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

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

Derecognition

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

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of financial assets**

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

Financial assets carried at amortised cost

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

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

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

Financial liabilities***Initial recognition and measurement***

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)***Subsequent measurement*

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

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

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

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

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

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

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

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

Derecognition

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

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

Cash and cash equivalents

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

Inventories

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

Value added tax (VAT)

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Loans and borrowings**

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

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

Trade and other payables

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

Employee benefits

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

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

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

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

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

Provisions

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

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

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

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

Rendering of transportation services

Revenue from rendering of transportation services, is recognized based on actual volumes of oil and water transported in the reporting period.

Rendering of other services

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

Expense recognition

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

Income tax

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

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

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

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

Other Taxes

The Company pays social tax to the budget of the Republic of Kazakhstan at the fixed rate of 11%.

The Company also withholds up to 10%, limited to 102,878 Tenge in 2009 (2008: 78,863 Tenge), from the salary of its employees as the employees' contribution to their designated pension fund. Under the legislation, employees are responsible for their retirement benefits and the Company has no present or future obligation to pay its employees upon their retirement.

Equity*Share capital*

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

Dividends

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

Subsequent events

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

Reclassifications

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

<i>In thousands of Tenge</i>	Amount
Reclassification to cost of sales from general and administrative expenses	3,662,874
Reclassification to general and administrative expenses from cost of sales	210,657
Reclassification to other operating expenses from other operating income	128,918
Reclassification to general and administrative expenses from other operating income	190,090
Reclassification to other operating expenses from other operating income	47,702

The Company also reclassified investments in BCPL of 8,012,800 thousand Tenge and respective impairment of 2,457,439 thousand Tenge previously included in investments in joint ventures to investments in subsidiaries.

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

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

<i>In thousands of Tenge</i>	As originally presented	As adjusted
Separate balance sheet as of 31 December 2008		
Investments in subsidiaries	28,243,254	33,798,615
Investments in joint ventures	12,960,306	7,404,945
	41,203,560	41,203,560
Separate statement of comprehensive income for 2008		
Cost of sales	(51,322,227)	(54,774,444)
General and administrative expenses	(16,152,199)	(12,890,072)
Other operating income	1,559,439	1,926,149
Other operating expenses	(223,514)	(400,134)
	(66,138,501)	(66,138,501)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
Net book value as at 1 January 2008	404,141	47,769,776	3,723,596	23,363,481	59,028,151	49,815,720	6,824,741	7,117,526	198,047,132
Additions	51,146	40,529	1,896,423	705,099	1,314,768	66,525	893,916	27,679,541	32,647,947
Disposals	(6,613)	(121,264)	(31,602)	(2,541,336)	(648,839)	(43,820)	(600,078)	(54,750)	(4,048,302)
Depreciation	-	(6,154,634)	(560,950)	(1,308,135)	(6,726,043)	-	(1,175,033)	-	(15,924,795)
Accumulated depreciation on disposals	-	105,340	10,760	129,887	185,921	-	130,586	-	562,404
Impairment (current period expenses)	-	(215,610)	-	(349)	(365)	(123,901)	-	(88,286)	(428,511)
Impairment (revaluation reserve)	-	(5,435)	(14)	-	(21)	(11,614,860)	-	-	(11,620,330)
Increase on account of revaluation reserve	-	-	-	-	-	220,258	4,653	-	224,911
Transfer to intangible assets (Note 7)	-	-	-	-	-	-	-	(94,817)	(94,817)
Transfers and reclassifications	2,187	11,203,714	(398,953)	3,480,396	10,180,395	-	2,439,270	(26,907,659)	-
Net book value as at 1 January 2009	450,861	52,622,416	4,639,260	23,829,043	63,333,967	38,319,922	8,518,055	7,652,205	199,365,729
Additions	58,110	25,595	1,589,151	77,326	1,454,591	297,200	476,964	21,407,276	25,386,213
Disposals	(10,852)	(298,364)	(33,443)	(51,647)	(831,671)	(150,879)	(1,613,088)	(275,538)	(3,265,482)
Depreciation	-	(4,399,467)	(643,508)	(1,337,850)	(7,129,224)	-	(1,357,258)	-	(14,867,307)
Accumulated depreciation on disposals	-	265,771	26,633	10,912	376,525	-	162,522	-	842,363
Impairment (current period expenses)	-	(129,751)	-	(18,237)	(24,056)	(140,549)	(10,814)	(31,125)	(354,592)
Impairment (revaluation reserve)	-	(206,903)	-	(13,961)	(18,457)	-	(374)	-	(239,695)
Increase on account of revaluation reserve	-	-	-	-	-	718,327	-	-	718,327
Recovery of impairment reserve (statement of comprehensive income)	-	-	-	-	897	4,393	49	12,000	17,339
Transferred from construction-in-progress	469	4,617,660	30,024	4,322,553	9,094,599	-	1,269,012	(19,334,317)	-
Transferred to intangible assets (Note 7)	-	-	-	-	-	-	-	(173,926)	(173,926)
Transfers and reclassifications	-	2,074,273	(532,915)	135,691	(1,737,071)	-	60,022	-	-
Net book value as at 31 December 2009	498,588	54,571,230	5,075,202	26,953,830	64,520,100	39,048,414	7,505,090	9,256,505	207,428,959
As at 31 December 2009									
At revalued cost	498,588	70,974,890	6,480,266	30,190,860	81,177,141	50,923,331	10,261,475	9,363,976	259,870,527
Impairment	-	(704,400)	-	(32,547)	(43,581)	(11,874,917)	(11,128)	(167,471)	(12,774,104)
Accumulated depreciation	-	(15,699,260)	(1,405,064)	(3,204,483)	(16,613,460)	-	(2,745,197)	-	(39,667,464)
Net book value	498,588	54,571,230	5,075,202	26,953,830	64,520,100	39,048,414	7,505,090	9,256,505	207,428,959
As at 31 December 2008									
At revalued cost	450,861	64,475,592	5,433,262	25,670,957	73,303,752	50,058,683	10,071,897	7,745,451	237,205,403
Impairment	-	(367,746)	-	(349)	(1,965)	(11,738,761)	(49)	(88,286)	(12,197,156)
Accumulated depreciation	-	(11,485,430)	(794,002)	(1,841,565)	(9,967,820)	-	(1,553,793)	-	(25,642,520)
Net book value	450,861	52,622,416	4,639,260	23,829,043	63,333,967	38,319,922	8,518,055	7,652,205	199,365,729

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**6. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

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

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

As of 31 December 2009 and 2008 construction-in-progress includes inventories in the amounts of 1,174,163 thousand Tenge and 283,647 thousand Tenge, respectively, which were purchased for construction purposes.

As of 31 December 2009 and 2008 the cost of fully depreciated but still in use property, plant and equipment was 9,580,944 thousand Tenge and 2,820,534 thousand Tenge, respectively.

As of 31 December 2009 and 2008 the cost of property, plant and equipment which temporarily are not in use was 879,841 thousand Tenge and 460,791 thousand Tenge, respectively.

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

	Land	Buildings	Machinery and equipment	Pipelines	Transportat ion assets	Techno- logical oil	Other	Construc- tion in progress	Total
At 31 December 2008	450,861	16,999,896	42,870,159	35,647,114	3,099,749	698,602	7,133,094	7,652,205	114,551,680
At 31 December 2009	498,588	20,551,285	46,081,138	39,067,769	3,716,469	1,147,561	5,588,314	9,256,505	125,907,629

7. INTANGIBLE ASSETS

<i>In thousands of Tenge</i>	Licenses	Software	Other	Total
Net book value at 1 January 2008	31,735	1,272,025	42,036	1,345,796
Additions	11,692	284,961	—	296,653
Disposals	—	(70,468)	(15)	(70,483)
Amortisation	(10,779)	(352,792)	(14,007)	(377,578)
Accumulated amortisation on disposals	—	70,467	—	70,467
Transfer from construction-in-progress (Note 6)	—	94,817	—	94,817
Reclassification	23,679	(23,679)	—	—
Net book value at 1 January 2009	56,327	1,275,331	28,014	1,359,672
Additions	2,894	61,795	20,195	84,884
Disposals	—	(5,364)	—	(5,364)
Amortisation	(16,912)	(431,344)	(14,344)	(462,600)
Accumulated amortisation on disposals	—	5,042	—	5,042
Transfer from construction-in-progress (Note 6)	—	173,936	—	173,936
Net book value at 31 December 2009	42,309	1,079,396	33,865	1,155,570
As at 31 December 2009				
At cost	82,745	2,839,696	62,216	2,984,657
Accumulated amortisation	(40,436)	(1,760,300)	(28,351)	(1,829,087)
Net book value	42,309	1,079,396	33,865	1,155,570
As at 31 December 2008				
At cost	79,851	2,609,329	42,021	2,731,201
Accumulated amortisation	(23,524)	(1,333,998)	(14,007)	(1,371,529)
Net book value	56,327	1,275,331	28,014	1,359,672

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

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
KTO-Service	16,435,919	14,841,972
BIHL	39,061,750	39,061,750
BCPL	8,012,800	8,012,800
Less: impairment of investments in subsidiaries	(29,700,087)	(28,117,907)
	33,810,382	33,798,615

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

<i>In thousands of Tenge</i>	2009	2008
As at 1 January	28,117,907	5,512,894
Change for the year	1,582,180	22,605,013
As at 31 December	29,700,087	28,117,907

On 5 February 2008 the Company acquired 100% of the shares of BIHL for USD 325 million (equivalent of 39,061,750 thousand Tenge).

Since the Company owns directly and indirectly 100% of BCPL shares (50% directly and 50% through BIHL), investments in BCPL purchased in 2007 in the amount of 8,012,800 thousand Tenge were included in investments in subsidiaries.

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

As of December 2009 impairment loss of 29,700,087 thousand Tenge represented the write-off of investments in subsidiaries to the recoverable amount, whereby the amount of impairment for BIHL was 15,095,694 thousand Tenge, BCPL – 2,457,439 thousand Tenge, KTO-Service – 12,146,954 thousand Tenge. Impairment has been recognized in the separate statement of comprehensive income. The recoverable amount was based on the value in use and was determined at the level of the cash generating units. In determining value in use for the cash-generating unit, the cash flows for KTO-Service, BIHL and BCPL were discounted on a pre-tax basis at a rate of 15.51% (2008: 16.22%), 22.04% - 23.71% (2008: 20.36-20.97%) on the basis of two cash generating units, respectively.

9. INVESTMENTS IN JOINT VENTURES

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
KCP	6,500,000	6,500,000
MunayTas	904,945	904,945
	7,404,945	7,404,945

10. INTEREST-FREE LOANS TO RELATED PARTIES

As at 31 December 2009 and 2008 interest free loans to related parties represent financing provided to KazMunaiGas-Service LLP, subsidiary of KMG, and KazTransOil-Service JSC, subsidiary of the Company, amounting to 615,312 thousand Tenge and 4,433,599 thousand Tenge, respectively (*Note 36*). KazMunaiGas-Service LLP has repaid its loan in full at the end of 2009. At initial recognition amounts due from KazMunaiGas-Service LLP and KazTransOil-Service JSC were recorded at the fair values using 9 % discount rate, and thereafter carried at amortized cost.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**11. ADVANCES TO SUPPLIERS FOR NON-CURRENT ASSETS**

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Advances to third parties for non-current assets	1,953,591	1,562,421
Less: allowance for non-performance	(99,330)	(134,846)
	1,854,261	1,427,575

Movement in allowance for doubtful debts was as follows:

<i>In thousands of Tenge</i>	2009	2008
As at 1 January	134,846	85,960
Charge for the year	4,490	48,886
Reversal of allowance	(40,006)	-
As at 31 December	99,330	134,846

12. OTHER NON-CURRENT ASSETS

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
VAT recoverable	2,175,840	2,175,840
Deferred expenses	-	474,202
Other non-current financial assets	194,829	234,438
Less: allowance for VAT unrecoverable	(2,175,840)	(1,800,854)
	194,829	1,083,626

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

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

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

13. INVENTORIES

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Spare parts	1,558,613	1,684,648
Fuel	771,458	654,272
Construction materials	37,692	33,285
Other	253,633	153,951
Less: provision for slow-moving and obsolete inventory	(205,465)	(327,532)
	2,415,931	2,198,624

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**13. INVENTORIES (continued)**

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

<i>In thousands of Tenge</i>	2009	2008
As at 1 January	327,532	316,593
Charge for the year	151,099	13,174
Write-off of inventories	(1,058)	(2,235)
Reversal of provision	(272,108)	-
As at 31 December	205,465	327,532

14. TRADE AND OTHER ACCOUNTS RECEIVABLE

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Accounts receivable for oil transportation coordination	4,722,309	2,494,725
Trade accounts receivable from third parties	140,669	380,908
Other accounts receivable from third parties	492,148	640,070
Trade accounts receivable from related parties (Note 36)	912,789	776,343
Other accounts receivable from related parties (Note 36)	46,267	81,453
Less: allowance for impairment of trade and other accounts receivable	(311,803)	(400,701)
	6,002,379	3,972,798

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

<i>In thousands of Tenge</i>	2009	2008
As at 1 January	400,701	370,739
Charge for the year	76,120	102,876
Write-off of receivable	(88,689)	(38,995)
Reversal of allowance	(63,250)	(33,919)
Reclassifications	(13,079)	-
As at 31 December	311,803	400,701

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

		Past due but not impaired					
<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
2008	3,972,798	3,869,585	-	68,414	6,321	28,478	-
2009	6,002,379	5,631,639	-	56,102	5,263	9,987	299,388

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

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Tenge	1,284,183	1,478,073
Foreign currencies	4,718,196	2,494,725
	6,002,379	3,972,798

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**15. ADVANCES PAID TO SUPPLIERS**

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Advances to third parties	280,458	224,293
Advances to related parties (<i>Note 36</i>)	255,589	38,435
Less: provision for non-performance	(1,303)	(216)
	534,744	262,512

Movements in allowance for doubtful debts were as follows:

<i>In thousands of Tenge</i>	2009	2008
As at 1 January	216	9
Charge for the year	1,393	207
Reversal of provision	(306)	–
As at 31 December	1,303	216

Advances, paid to suppliers, were mainly denominated in Tenge.

16. VAT RECOVERABLE AND OTHER TAXES PREPAID

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
VAT recoverable	2,285,410	3,267,667
Withholding tax	1,592,382	352,928
Other taxes prepaid	99,270	104,524
	3,977,062	3,725,119

17. OTHER CURRENT ASSETS

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Dividends receivable	489,826	758,083
Deferred expenses	552,139	501,468
Due from employees	43,423	168,767
Prepaid insurance	3,074	4,912
	1,088,462	1,433,230

18. BANK DEPOSITS

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Short-term bank deposits	24,576,303	18,000,000
Interest on deposits	20,048	1,135,799
	24,596,351	19,135,799

At 31 December 2009 short-term bank deposits comprised Tenge denominated time deposits with Kazakhstani banks with maturity from 3 to 12 months, which earn interest of 5% to 6% per annum (2008: 10.5% – 11%) and repayable in May 2010 (2008: June 2009) (*Note 38*).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**19. CASH AND CASH EQUIVALENTS**

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Current accounts with banks – Tenge	10,590,562	1,930,229
Current accounts with banks – Russian Rouble	3,646,702	79
Current accounts with banks – US Dollars	68,333	433,455
Current accounts with banks – Euro	–	240
Time deposits with banks – Tenge	–	13,939,000
Cash on hand and in transit	1,619	2,949
Other current accounts with banks	183	78,488
	14,307,399	16,384,440

At 31 December 2009 and 31 December 2008 most current accounts with Kazakhstani banks carried interest ranging from 1% and 1.5% per annum. At 31 December 2008 time deposits included deposits in Kazakhstani banks with interest rates ranging from 9% to 11% per annum and maturing in January 2009.

20. EQUITY**Share capital**

Company's share capital comprises common shares with par value of 1,000 Tenge. As at 31 December 2009 and 2008 all Company's common shares were authorized, issued and fully paid.

Payments to the shareholder*Dividends*

During 2009, the Company declared and paid dividends for 2008, totalling 6,023,638 thousand Tenge from income for 2008 (2008: 3,268,788 thousand Tenge from income for 2007). The dividend per share amount was 183 Tenge per common stock (2008: 99.31 Tenge).

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

Revaluation reserve

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

Other reserves

At 31 December 2009 and 2008, the reserve capital was 17,169 thousand Tenge, which comprised the social objects contributed by the Government of the Republic of Kazakhstan to the Company in 1997. These social objects were recorded as property, plant and equipment in 1997. The right for disposal of these assets requires approval of the Government represented by State Property and Privatisation of the Republic of Kazakhstan.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**21. INTEREST-BEARING LOANS AND BORROWINGS**

<i>In thousands of Tenge</i>	Currency	Maturity	Effective Interest rate	31 December 2009	31 December 2008
Natixis Company	US dollars	10 September 2011	Libor+1.70%	20,503,864	33,712,401
RBS Bank Kazakhstan	US dollars	15 June 2009	Libor+1.65%	–	3,631,144
Less: unamortised transaction costs				(511,635)	(651,171)
Total interest-bearing loans and borrowings				19,992,229	36,692,374
Less: amounts due for settlement within 12 months				10,238,757	3,992,258
Long-term portion of interest-bearing loans and borrowings				9,753,472	32,700,116

Natixis Company

In accordance with syndicate loan agreement dated August 28, 2008 the Company received a loan from BTMU (Europe) Limited, ING Bank N.V. and Natixis totalling to USD 275 million. Interest rate of the loan is LIBOR+1.70%. The loan will be repaid in eight equal semi-annual payments starting from March 10, 2010. The loan was obtained to refinance short-term interest-free loan obtained from KazMunayGas in amount of 36,300,000 thousand Tenge to finance acquisition of 100% of the shares of Batumi Industrial Holding Limited. As at September 10, 2009 the Company made early repayment in the amount of USD 138 million. As at 31 December 2009 and 2008 the Company complies with all requirements of the credit line agreement (*Note 37*).

RBS Bank Kazakhstan JSC

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

22. EMPLOYEE BENEFITS

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

Changes in defined benefit obligations are as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Present value of defined benefits obligation at the beginning of the year	1,997,532	2,031,000
Current services cost	191,000	163,000
Unwinding of discount (<i>Note 34</i>)	122,000	124,000
Actuarial losses / (gains) (<i>Notes 31, 32</i>)	276,474	(211,000)
Benefits paid	(118,006)	(109,468)
Present value of defined benefit obligation at the end of the year	2,469,000	1,997,532
Less: current portion of present value of defined benefit obligation	(131,880)	(114,000)
Non-current portion of present value of defined benefit obligation	2,337,120	1,883,532

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**22. EMPLOYEE BENEFITS (continued)**

Amounts recognized in the separate balance sheet and current period profits and losses are as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Present value of defined benefit obligation at end of the year	2,469,000	1,997,532
Net liability	2,469,000	1,997,532
Current service expense	191,000	163,000
Actuarial losses / (gains) (Note 31,32)	276,474	(211,000)
Unwinding of discount (Note 34)	122,000	124,000
Expense recognized in separate current period	589,474	76,000

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

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

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

23. TRADE AND OTHER ACCOUNTS PAYABLE

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Accounts payable to third parties for goods and services	5,456,555	5,352,549
Accounts payable for oil transportation coordination for third parties	2,484,364	5,313,381
Accounts payable for oil transportation coordination for related parties (Note 36)	3,751,450	1,511,745
Accounts payable to related parties for goods and services (Note 36)	479,423	331,307
Other payables	294,211	118,206
	12,466,003	12,627,188

As at 31 December 2009 and 2008 trade and other accounts payables were non-interest bearing.

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

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Tenge	12,428,302	12,250,747
Foreign currencies	37,701	376,441
	12,466,003	12,627,188

24. ADVANCES RECEIVED

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Advances received from third parties	3,222,031	5,123,196
Advances received from related parties (Note 36)	6,454,500	2,936,811
	9,676,531	8,060,007

The current amounts of the Company's advances received are denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Tenge	9,586,791	7,904,314
Foreign currencies	89,740	155,693
	9,676,531	8,060,007

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**25. OTHER TAXES PAYABLE**

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Personal Income Tax	122,789	294,933
Social Tax	111,331	217,685
Property tax	7,138	11,539
Other taxes	35,181	105,852
	276,439	630,009

26. PROVISIONS

According to the tax audit results related to the period 2003-2006 the Tax Committee of Astana city ("Tax Authority") proposed additional accrual of withholding tax payable in the amount of 3,221,780 thousand Tenge and corporate income tax in the amount of 1,267,101 thousand Tenge. On 13 February 2009 the Company made an appeal to the Ministry of Finance and the Tax Committee of the Republic of Kazakhstan. On 23 February 2010 the Company received a reply from the Tax Committee, which satisfied an appeal only partially (*Note 39*). As of the date these separate financial statements were signed the Company plans to defend its position in the court and is in process of preparation to the legal proceedings (*Note 39*). The management of the Company believes that the Company might be found liable to the Tax Authority. In 2008 the management has therefore made a provision in the separate financial statements in the amount of 3,718,848 thousand Tenge, which it believes to be the best estimate of the amount the Company may be required to pay if the legal proceeding are found to be not in the claimants favour.

27. OTHER CURRENT LIABILITIES

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Salaries and wages	3,098,446	3,087,999
Current portion of deferred income from related parties (<i>Note 36</i>)	312,366	40,418
Accounts payable to pension fund	206,772	216,879
Current portion of deferred income from third parties	2,044	-
	3,619,628	3,345,296

28. REVENUE

<i>In thousands of Tenge</i>	2009	2008
Crude oil transportation	97,682,797	92,047,970
Water transportation	4,893,092	5,207,439
Pipeline operation services	3,319,662	2,597,682
Oil transportation coordination services	883,095	864,307
Oil storage services	77,058	109,950
Other	245,687	301,425
	107,101,391	101,128,773

Oil transportation coordination services represent an agency fee for cooperation with foreign pipelines operators with respect of oil transportation coordination outside of Kazakhstan (*Note 14, 23*).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**29. COST OF SALES**

<i>In thousands of Tenge</i>	2009	2008
Personnel cost	18,415,864	17,195,426
Depreciation and amortization	14,828,593	15,866,088
Materials and fuel	4,972,857	4,697,850
Electric energy	3,904,715	3,155,419
Repair and maintenance costs	3,517,948	3,910,317
Taxes other than corporate income tax	2,360,303	1,841,000
Gas expense	1,926,169	1,238,457
Security services	1,777,257	1,626,212
Air services	808,792	1,721,888
Business trip expenses	690,804	591,818
Environmental protection	489,834	774,500
Insurance	264,202	331,057
Diagnostics	229,742	234,678
Communication services	152,002	192,717
Other	1,901,561	1,337,556
	56,240,643	54,714,983

30. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of Tenge</i>	2009	2008
Personnel costs	3,281,215	3,183,145
Depreciation and amortization	486,152	486,105
Allowance for doubtful debt	358,450	1,907,190
VAT expenses	341,258	418,193
Office maintenance	307,561	295,948
Taxes other than corporate income tax and VAT	278,763	298,203
Business trip expenses	189,872	217,921
Insurance and security	188,021	194,167
Consulting	139,149	460,964
Bank costs	130,860	169,262
Social sphere expenses	130,278	313,884
Communication services	121,166	95,007
Operational lease expenses	90,859	100,424
Advertising expense	83,630	156,260
Training	67,513	70,644
Materials and fuel	56,185	86,405
Charity expenses	46,424	190,277
Provisions for taxes	–	3,718,848
(Reversal of) / Provision for allowance for obsolete and slow-moving inventories	(121,009)	13,174
Other	532,480	573,512
	6,708,827	12,949,533

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**31. OTHER OPERATING INCOME**

<i>In thousands of Tenge</i>	2009	2008
Income from fines and penalties under oil transportation contracts	136,583	1,010,650
Income on disposal of property, plant and equipment and intangible assets	12,378	–
Actuarial gains	–	211,000
Amortization of financial guarantee issued to related party	137,083	114,591
Income from payables written-off	8,100	9,607
Inventory adjustment	1,572	14,050
Income from sale of inventory	–	34,552
Amortization of deferred income	356,232	55,474
Other income	417,317	476,225
	1,069,265	1,926,149

32. OTHER OPERATING EXPENSES

<i>In thousands of Tenge</i>	2009	2008
Actuarial loss	276,474	–
Loss on disposal of property, plant and equipment and intangible assets	–	223,514
Loss from sale of inventory	55,517	–
Other expenses	329,918	176,620
	661,909	400,134

33. FINANCE INCOME

<i>In thousands of Tenge</i>	2009	2008
Interest income on bank deposits	2,114,555	2,354,882
Employees and related parties loans: unwinding of discount	117,030	278,234
Dividend income	–	79,336
	2,231,585	2,712,452

34. FINANCE COSTS

<i>In thousands of Tenge</i>	2009	2008
Interest on loans and borrowings	1,755,311	619,270
Employee benefits: unwinding of discount	122,000	124,000
Loss on initial recognition of loans to employees and related parties	54,376	81,333
	1,931,687	824,603

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**35. INCOME TAX EXPENSES**

As at 31 December 2009 income tax prepayment in the amount of 1,780,885 thousand Tenge (2008: 977,007 thousand Tenge) represents corporate income tax.

Income tax expenses for the years ended 31 December comprise:

<i>In thousands of Tenge</i>	2009	2008
Current Income tax expense	7,396,705	9,838,885
Deferred Income tax expense / (benefit)	4,855,104	(10,432,390)
Income tax	12,251,809	(593,505)

In accordance with the Tax Code effective from 1 January 2009 the following income tax rate shall be applied in current and future periods: 20% in 2009, 17.5% in 2010 and 15% in 2011 and onwards. Reduction in future income tax rates resulted in decrease in deferred income tax liabilities in the amount of 8,346,175 thousand Tenge in 2008.

During 2009, the Tax Code was amended, according to which income tax rate shall remain at 20% in 2010 and 2011. Changes in future income tax rates resulted in increase in deferred income tax liabilities in the amount of 2,264,773 thousand Tenge in 2009.

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

<i>In thousands of Tenge</i>	2009	2008
Profit before income tax	36,661,629	14,177,611
Statutory rate	20%	30%
Income tax expense on accounting profit	7,332,326	4,253,283
Tax effect of permanent differences		
Non-deductible employee benefits	66,926	15,300
Non-deductible interest expenses	22,301	163,461
Representative expenses	–	141,786
Charity and social sphere expenses	15,368	201,575
VAT recoverable	10,056	125,453
Fines and penalties	18,007	4,204
Effect of measuring tax rates in recognized tax assets and liabilities	2,264,773	(8,346,175)
Income from excess of inventories, not recognized in accounting	–	(4,215)
Change in unrecognized deferred income tax assets	1,722,333	2,563,816
Non-taxable dividends income from investments available-for-sale	(153,004)	(211,964)
Adjustment of tax return for prior years	60,424	(404,041)
Taxes other than VAT	–	94,357
Unrecognized income from transportation coordination	–	179,591
Tax provisions	–	1,115,654
Tax effect of items which are not deductible or assessable for taxation purposes	892,299	(485,590)
Corporate income tax expense reported in the statement of comprehensive income	12,251,809	(593,505)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**35. INCOME TAX EXPENSES (continued)**

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

<i>In thousands of Tenge</i>	31 December 2009	Charged to profit and loss	Credited to revaluation reserve	31 December 2008	Charged to profit and loss	Debited to revaluation reserve	31 December 2007
Tax effect of deductible temporary differences							
Bonuses and other employee compensation and related costs	413,607	(22,293)	-	435,900	(122,978)	-	558,878
Financial guarantee liability	122,915	22,967	-	99,948	(116,090)	-	216,038
Allowance for doubtful debts	519,160	34,090	-	485,070	317,923	-	167,147
Allowance for obsolete inventory	41,093	(24,413)	-	65,506	(29,472)	-	94,978
Taxes payable	34,751	32,121	-	2,630	(19,880)	-	22,510
Impairment of investments	5,940,018	1,722,333	-	4,217,685	2,563,816	-	1,653,869
Financial aid to related parties and loans to employees	35,803	24,374	-	11,429	(165,319)	-	176,748
Due to employees in the form of flats	-	(7,007)	-	7,007	(324,699)	-	331,706
Other temporary differences			-	-	(3,787)	-	3,787
Income of BIHL	738,161	277,413	-	460,748	460,748	-	-
Deferred income	364,426	364,426	-	-	-	-	-
Unrecognised deferred income tax assets	(5,940,018)	(1,722,333)	-	(4,217,685)	(2,563,816)	-	(1,653,869)
	2,269,916	701,678	-	1,568,238	(3,554)	-	1,571,792
Investments in joint ventures	(176,032)	(44,008)	-	(132,024)	132,024	-	(264,048)
Other temporary differences	(18,024)	(18,024)	-	-	-	-	-
Property, plant and equipment	(18,749,184)	(5,494,750)	(95,726)	(13,158,708)	10,303,920	2,322,972	(25,785,600)
Net deferred income tax liabilities	(16,673,324)	(4,855,104)	(95,726)	(11,722,494)	10,432,390	2,322,972	(24,477,856)

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

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

36. RELATED PARTY TRANSACTIONS

Related parties include key management personnel of the Company, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Company's key management personnel, KazMunayGas and Samruk-Kazyna entities and other entities controlled by the Government. Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following tables provides the total amount of transactions, which have been entered into with related parties during 2009 and 2008 and the related balances as at 31 December 2009 and 2008:

Interest free loans to related parties were as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Interest-free loans to related parties		
Interest-free loans to entities under common control of KazMunayGas	-	3,690,753
Interest-free loan to subsidiary	615,312	742,846
Total interest-free loans to related parties	615,312	4,433,599

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**36. RELATED PARTY TRANSACTIONS (continued)**

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

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Trade and other accounts receivable from related parties		
Trade accounts receivable from joint ventures	473,974	422,646
Trade accounts receivable from subsidiaries	483	–
Trade accounts receivable from entities under common control of KazMunayGas	436,772	353,602
Trade accounts receivable from entities of Samruk-Kazyna Group	1,560	95
	912,789	776,343
Other accounts receivables from entities under common control of KazMunayGas	46,267	81,453
Total trade and other accounts receivable	959,056	857,796

Advances provided to related parties were as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Advances to related parties		
Advances to entities under common control of KazMunayGas	230,264	–
Advances to entities of Samruk-Kazyna Group	25,325	38,435
Total advances issued to related parties	255,589	38,435

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

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

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

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Current accounts		
Halyk Bank	826,865	6,693,411
Total current accounts placed in banks which are related parties	826,865	6,693,411

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Bank deposits		
Halyk Bank	18,983,324	6,000,000
Total bank deposits placed in banks which are related parties	18,983,324	6,000,000

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Interest receivable from bank deposits		
Halyk Bank	12,078	370,070
Total interest receivable from bank deposits	12,078	370,070

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**36. RELATED PARTY TRANSACTIONS (continued)**

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

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Accounts payable for oil transportation coordination for related parties		
Accounts payable for oil transportation coordination for entities under common control of KazMunayGas	3,751,450	1,511,745
	3,751,450	1,511,745
Accounts payables to related parties for goods and services		
Accounts payables to entities under common control of KazMunayGas	299,550	278,717
Accounts payables to entities under control of Samruk-Kazyna Group	100,101	14,555
Accounts payables to subsidiary	79,772	38,035
	479,423	331,307
Total trade and other accounts payable to related parties	4,230,873	1,843,052

Advances received from related parties were as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Advances received from related parties		
Advances to entities under common control of KazMunayGas and under control of Samruk-Kazyna Group	6,454,500	2,936,811
Total advances received from related parties	6,454,500	2,936,811

Other current liabilities to related parties were as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Employee benefits		
Employee benefits of key management personnel	16,006	124,461
	16,006	124,461
Current portion of deferred income from related parties		
Current portion of deferred income from entities under common control of KazMunayGas	312,366	40,418
	312,366	40,418
Total other current liabilities to related parties	328,372	164,879

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**36. RELATED PARTY TRANSACTIONS (continued)**

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

<i>In thousands of Tenge</i>	2009	2008
Sales to related parties		
Transportation services to entities under common control of KazMunayGas	38,200,708	30,878,249
Transportation services to entities of Samruk-Kazyna Group	9,040,592	26,082
Transportation services to joint ventures	2,642,761	2,035,585
Income from other activities from entities under common control of KazMunayGas	680,747	1,245,428
Dividends income from joint ventures	765,020	627,210
Income from other activities from subsidiaries	27,310	18,618
Income from other activities from entities of Samruk-Kazyna Group	1,285	535
	51,358,423	34,831,707
Purchases from related parties		
Purchases of services from entities under common control of KazMunayGas	4,130,356	4,541,117
Purchases of services from entities of Samruk-Kazyna Group	1,596,353	644,338
Purchases of services from subsidiary	461,599	237,288
Purchases of inventory from entities of Samruk-Kazyna Group	—	1,911
	6,188,308	5,424,654
Interest income from bank deposits		
Halyk Bank	917,004	70,762

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

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

37. CONTINGENT LIABILITIES AND COMMITMENTS**Taxation**

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)**Taxation (continued)**

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

Tax preferences

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

Environmental matters

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

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

Asset retirement obligation

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

Insurance matters

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

Covenants*Guarantees*

At 31 December 2009 KazTransOil JSC ("the Guarantor") has guaranteed to EBRD in respect of the obligations of MunayTas JSC under the loan agreement with EBRD. According to the Guarantee Agreement concluded between the Company and EBRD, the Company has to comply with the following covenants:

- Current Ratio of not less than 1:1;
- Ratio of Earnings before interest, income tax, depreciation and amortization to Interest of not less than 2:1; and
- Ratio of Debt to Equity of not more than 2:1;

As of 31 December 2009 and 2008 the Company fully complied with covenants.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**37. 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 275,000 thousand US Dollars (*Note 21*). According to the Loan facility Agreement concluded between the Company and the Creditors, the Company has to comply with the following covenants:

- Current ratio of not less than 1:1;
- a ratio of Financial Debt to Earnings before interest, income tax, depreciation and amortization of not more than 3.5:1;
- a ratio of Financial Debt to Equity of not more than 2:1;
- a ratio of Earning before interest, income tax to total debt costs of not more than 2:1

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

Contractual commitments

As at 31 December 2009, the Company had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 10,081,162 thousand Tenge (2008: 8,986,740 thousand Tenge). In addition, as at 31 December 2009, the Company has committed to purchase inventory (materials and spare parts) and services for the amount of 2,254,590 thousand Tenge (2008: 44,889,439 thousand Tenge).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest Rate Risk

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Credit risk**

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

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

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

In thousand of Tenge

Bank	Location	Rating		2009	2008
		2009	2008		
ATF Bank JSC	Kazakhstan	Ba1/Negative	BB+/ Negative /B	50	4,018,849
Halyk Bank of Kazakhstan JSC	Kazakhstan	Ba2/ Negative	BB+/ Negative /B	19,822,272	13,063,479
CITI Bank Kazakhstan JSC	Kazakhstan	F1+	A+	12	698
KazKommerstBank	Kazakhstan	Ba3/ Negative	BB/ Negative /B	5,601,007	10,379,867
SberBank of Russia JSC	Kazakhstan	Ba2/ Negative	B	13,468,304	1,681,125
RBS Bank Kazakhstan JSC	Kazakhstan	Aa3/Stable	A-1	10,468	6,115
SlavInvest Bank JSC	Russia	Caa2/ Negative	BB-	11	79
Bank CenterCredit JSC	Kazakhstan	Ba1/ Negative	BB-	7	6,367,078
				38,902,131	35,517,290

Liquidity Risks

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

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

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

<i>In thousands of Tenge</i>	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	Total
As at 31 December 2009						
Interest-bearing loans and borrowings	–	10,590,242	10,145,314	–	–	20,735,556
Trade and other payable	–	12,466,003	–	–	–	12,466,003
Other current liabilities	–	3,305,218	–	–	–	3,305,218
	–	26,361,463	10,145,314	–	–	36,506,777
As at 31 December 2008						
Interest-bearing loans and borrowings	–	5,358,381	9,907,314	27,148,255	–	42,413,950
Trade and other payable	–	12,627,188	–	–	–	12,627,188
Other current liabilities	–	3,304,878	–	–	–	3,304,878
	–	21,290,447	9,907,314	27,148,255	–	58,346,016

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Currency Risk**

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

<i>In thousands of Tenge</i>	US dollar	Russian Rubble	Euro	Total
At 31 December 2009				
Assets	501,108	4,165,947	94,433	4,761,488
Liabilities	20,606,406	14,477	9,004	20,629,887
At 31 December 2008				
Assets	182,525	2,370,350	–	2,552,875
Liabilities	37,817,790	56,496	1,364	37,875,650

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

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

<i>In thousands of Tenge</i>	Increase / decrease in US dollar rate	Effect on profit before tax
2009		
US Dollar	+10%	2,060,641
	-15%	(3,090,961)
2008		
US Dollar	+40%	(15,127,116)
	+25%	(9,454,448)

Capital management

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

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

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio not higher than 20-35%. The Company includes within net debt, interest bearing loans and borrowings and trade and other payables, less cash and cash equivalents.

As at 31 December the gearing ratio is as follows:

<i>In thousands of Tenge</i>	31 December 2009	31 December 2008
Interest-bearing loans and borrowings	19,992,229	36,692,374
Trade and other payables	15,771,221	15,932,066
Less: cash and cash equivalents	(14,307,399)	(16,384,440)
Net debt	21,456,051	36,240,000
Capital	236,143,399	217,374,311
Capital and net debt	257,599,450	253,614,311
Gearing Ratio	0.08	0.14

NOTES TO THE SEPARATE FINANCIAL STATEMENTS**38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Fair value hierarchy**

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

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

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

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

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

<i>In thousand of Tenge</i>	31 December 2009	Level 1	Level 2	Level 3
Assets measured at fair value				
Investments available-for-sale	99,920	–	–	99,920
Liabilities measured at fair value				
Financial guarantee, issued to related party	614,573	–	–	614,573

<i>In thousand of Tenge</i>	31 December 2008	Level 1	Level 2	Level 3
Assets measured at fair value				
Investments available-for-sale	99,920	–	–	99,920
Liabilities measured at fair value				
Financial guarantee, issued to related party	612,516	–	–	612,516

Fair value of financial instruments

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

<i>In thousand of Tenge</i>	Carrying amount		Fair value	
	2009	2008	2009	2008
Financial assets				
Cash and cash equivalents	14,307,399	16,384,440	14,307,399	16,384,440
Bank deposits	24,596,351	19,135,799	24,596,351	19,135,799
Trade and other receivables	6,002,379	3,972,798	6,002,379	3,972,798
Other financial assets	728,078	1,161,288	728,078	1,161,288
Interest-free loans to related parties	615,312	4,433,599	615,312	4,433,599
Financial liabilities				
Floating rate borrowings	19,992,229	36,834,850	19,992,229	36,834,850
Trade and other payables	12,466,003	12,627,188	12,466,003	12,627,188
Other financial liabilities	3,305,218	3,304,878	3,305,218	3,304,878

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

35. SUBSEQUENT EVENTS

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

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

On 23 February 2010, the Company received a reply from Tax Committee, which partially addressed an appeal dated from 13 February 2009 (*Note 26*). The Company plans to appeal to the Specialized Regional Economic Court of Astana city the decision of the Tax Committee.

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