

KazTransOil JSC

Consolidated Financial Statements

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of KazTransOil JSC:

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young LLP



Nicholas Rytel
Audit Partner



Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

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

28 February 2011



Auditor Qualification Certificate No. 0000553
dated 24 December 2003

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In thousands of Tenge</i>	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	6	325,522,559	247,050,582
Intangible assets	7	7,189,956	9,805,960
Investments in joint ventures	8	9,118,148	5,262,464
Advances to suppliers for property, plant and equipment	9	417,522	1,886,728
Other non-current assets		170,410	194,918
		342,418,595	264,200,652
Current assets			
Inventories	10	3,191,088	3,192,705
Trade and other accounts receivable	11	6,552,547	7,035,257
Advances to suppliers	12	742,008	685,674
Prepayment for corporate income tax	34	1,337,084	1,946,748
VAT recoverable and other prepaid taxes	13	6,471,575	5,530,917
Other current assets	14	154,506	670,174
Short-term bank deposits	15	40,932,958	25,291,135
Cash and cash equivalents	16	16,914,394	16,401,503
		76,296,160	60,754,113
Assets classified as held for sale		—	378,378
		76,296,160	61,132,491
TOTAL ASSETS		418,714,755	325,333,143

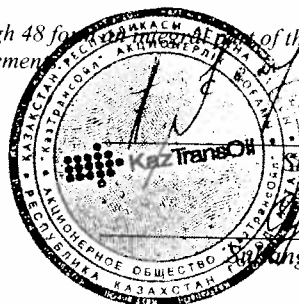
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

<i>In thousands of Tenge</i>	Note	31 December 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity			
Share capital	17	32,916,055	32,916,055
Revaluation reserve		124,828,954	48,783,757
Other reserves	17	17,104	17,104
Currency translation reserve		8,590,235	8,878,846
Retained earnings		171,962,450	152,206,983
Total equity		338,314,798	242,802,745
Non-current liabilities			
Loans and borrowings	18	294,800	10,346,912
Financial guarantee issued on behalf of related party		232,071	301,141
Employee benefit liability	19	2,580,804	2,337,120
Deferred tax liabilities	34	36,044,262	20,686,894
Deferred income	20	5,053,861	5,218,819
Other non-current accounts payable		8,465	7,731
		44,214,263	38,898,617
Current liabilities			
Loans and borrowings	18	296,864	10,345,517
Employee benefit liability	19	141,000	131,880
Income tax payable	34	908,131	476,041
Trade and other accounts payable	21	14,100,509	12,890,968
Advances received	22	10,886,410	10,096,754
Other taxes payable	23	1,449,103	917,594
Provisions	24	3,946,660	4,530,699
Other current liabilities	25	4,457,017	4,242,328
		36,185,694	43,631,781
Total liabilities		80,399,957	82,530,398
TOTAL EQUITY AND LIABILITIES		418,714,755	325,333,143

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director

Chief Accountant



Sultan N.S.

Zhangaliyeva Zh.O.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of Tenge</i>	Note	2010	2009
Revenue	26	138,240,940	126,181,133
Cost of sales	27	(82,406,630)	(71,442,500)
Gross profit		55,834,310	54,738,633
General and administrative expenses	28	(7,114,619)	(9,104,796)
Other operating income	29	2,055,088	1,092,860
Other operating expenses	30	(805,658)	(1,124,886)
Impairment of property, plant and equipment	6	(22,333,457)	(1,246,788)
Effect of recognizing of liabilities associated with acquisition in 2008		-	(5,017,821)
Impairment of goodwill	7	(2,370,792)	(1,306,548)
Operating profit		25,264,872	38,030,654
Net foreign exchange loss	31	(265,221)	(7,011,967)
Finance income	32	1,882,967	2,283,646
Finance costs	33	(863,112)	(1,995,645)
Share in income / (losses) of joint ventures	8	62,702	(2,912,125)
Profit before income tax		26,082,208	28,394,563
Income tax expense	34	(6,463,907)	(12,856,131)
Net profit for the year		19,618,301	15,538,432
Other comprehensive income, net of tax			
Foreign currency translation		(288,611)	8,956,622
Revaluation of property, plant and equipment		83,522,643	3,817,133
Total other comprehensive income, net of tax		83,234,032	12,773,755
Total comprehensive income for the year		102,852,333	28,312,187

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director

Chief Accountant



Sultan N.S.

Sultanyalyeva Zh.O.

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of Tenge</i>	Note	For the years ended 31 December	
		2010	2009
Cash flows from operating activities:		26,082,208	28,394,563
Profit before income tax			
Adjustments for:			
Depreciation and amortization	27, 28	22,058,358	17,204,943
(Reverse of) / allowance for doubtful debts	28	(2,117,636)	380,575
Share in (income) / losses of joint ventures	8	(62,702)	2,912,125
Finance costs	33	863,112	1,995,645
Finance income	32	(1,882,967)	(2,283,646)
Actuarial losses	30	27,000	276,474
Employee benefits	19	203,000	191,000
Provisions	24	–	564,522
Loss on disposal of property, plant and equipment and intangible assets, net	30	253,784	88,524
Gain from disposal of assets classified as held for sale		(186,219)	–
Effect of recognizing of liabilities associated with acquisition in 2008		–	5,017,821
Impairment of goodwill	7	2,370,792	1,306,548
Impairment of property plant and equipment		22,333,457	1,246,788
Income from write-off of payables	29	(30,692)	(25,038)
Amortization of deferred income	29	(312,366)	(519,071)
Write-off of VAT recoverable	28	346,922	341,258
Amortization of financial guarantee issued on behalf of related party	29	(67,098)	(67,171)
Unrealized foreign exchange loss		265,221	6,872,546
Write-off of loans given to employees		1,875	–
Reversal of provision for allowance for obsolete inventory	28	(2,984)	(118,181)
Operating cash flows before working capital changes:		70,143,065	63,780,225
Changes in inventories		2,710,616	15,947
Changes in trade and other accounts receivable		(86,719)	(1,401,006)
Changes in advances to suppliers		(56,125)	(412,331)
Changes in taxes recoverable and other current assets		1,189,384	(177,970)
Changes in trade and other accounts payable		1,239,500	(666,544)
Changes in advances received		789,656	2,025,276
Changes in taxes payable		531,509	113,753
Changes in other current and non-current liabilities and employee benefits		226,459	3,977,959
Cash generated from operations:		76,687,345	67,255,309
Income taxes paid		(10,005,630)	(8,295,068)
Interest received		1,371,197	3,308,075
Interest paid		(376,228)	(2,224,053)
Net cash flow from operating activities		67,676,684	60,044,263

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In thousands of Tenge</i>	Note	For the years ended 31 December	
		2010	2009
Cash flows from investing activities:			
Withdrawal of term deposits		51,143,178	45,292,327
Placement of term deposits		(66,486,370)	(50,852,310)
Repayment of loans provided to related parties		-	3,777,305
Purchase of property, plant and equipment		(25,637,918)	(29,260,128)
Purchase of intangible assets		(131,064)	(110,513)
Proceeds from disposal of property, plant and equipment and intangible assets		604,943	847,189
Proceeds from disposal of assets classified as held for sale		564,597	-
Dividends received		422,916	765,020
Net cash flow used in investing activities		(39,519,718)	(29,541,110)
Cash flows from financing activities:			
Proceeds from loans and borrowings		44,205	103,250
Repayment of loans and borrowings		(20,348,000)	(26,005,469)
Dividends paid		(7,340,280)	(6,023,638)
Net cash flow used in financing activities		(27,644,075)	(31,925,857)
Net change in cash and cash equivalents		512,891	(1,422,704)
Cash and cash equivalents at the beginning of the year	16	16,401,503	17,824,207
Cash and cash equivalents at the end of the year	16	16,914,394	16,401,503

NON-CASH TRANSACTIONS

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

Depreciation included in cost of inventory

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

Deferred income

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

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director

Chief Accountant



Sultan N.S.

Sultanaliyeva Zh. O.

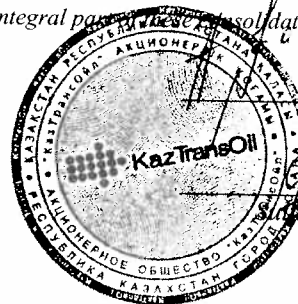
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Note	Share capital	Revaluation reserve	Other reserves	Currency translation reserve	Retained earnings	Total
As at 1 January 2009		32,916,055	49,917,152	17,104	(77,776)	137,741,661	220,514,196
Net profit for the year		-	-	-	-	15,538,432	15,538,432
Foreign currency translation		-	-	-	8,956,622	-	8,956,622
Impairment of property, plant and equipment		-	(193,833)	-	-	-	(193,833)
Revaluation of property, plant and equipment		-	4,010,966	-	-	-	4,010,966
Total comprehensive income for the year		-	3,817,133	-	8,956,622	15,538,432	28,312,187
Amortisation of revaluation reserve		-	(4,950,528)	-	-	4,950,528	-
Dividends	17	-	-	-	-	(6,023,638)	(6,023,638)
As at 31 December 2009		32,916,055	48,783,757	17,104	8,878,846	152,206,983	242,802,745
Net profit for the year		-	-	-	-	19,618,301	19,618,301
Foreign currency translation		-	-	-	(288,611)	-	(288,611)
Impairment of property, plant and equipment		-	(6,390,810)	-	-	-	(6,390,810)
Revaluation of property, plant and equipment		-	89,913,453	-	-	-	89,913,453
Total comprehensive income for the year		-	83,522,643	-	(288,611)	19,618,301	102,852,333
Amortisation of revaluation reserve		-	(7,477,446)	-	-	7,477,446	-
Dividends	17	-	-	-	-	(7,340,280)	(7,340,280)
As at 31 December 2010		32,916,055	124,828,954	17,104	8,590,235	171,962,450	338,314,798

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director

Chief Accountant



Sultan N.S.

Langaliyeva Zh.O.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

On 31 May 2004, in accordance with the requirements of Kazakhstani legislation the Company was reregistered as KazTransOil Joint Stock Company (the "Company").

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

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

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

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

The Company and its subsidiaries are hereafter referred to as the "Group".

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. POLITICAL AND ECONOMIC ENVIRONMENT

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

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

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

3. BASIS OF PREPARATION

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Revaluation of property, plant and equipment

Property, plant and equipment were revalued to fair value as of 30 June 2010 (previous revaluation was performed as of 30 June, 2007) except for the property, plant and equipment of BIHL, that were revalued as of 31 Decembet 2010. The revaluation was performed on the basis of an appraisal performed by an independent professional real estate appraisal company operating in the Republic of Kazakhstan under an appropriate license. The methods used to fair value property, plant and equipment were the cost (for specialised assets – depreciated replacement cost approach), the comparative (using comparative sales method) and the income approaches.

In applying the cost approach, key assumptions considered were:

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

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

Income approach procedures were performed for identification of economical deterioration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Revaluation of property, plant and equipment (continued)

The most significant assumptions affecting profitability test are:

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

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

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

Revaluation of technological oil

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

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

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

Taking into account all these factors, the management concluded that the most appropriate price to reflect fair value for the technological oil in pipeline that would be determined by informed market participant would be 143 US Dollars per tonne as of 30 September 2010 (21,111 Tenge) (2009: USD 125 (18,579 Tenge) per tonne). As a result of test on adequate profitability in terms of revaluation of technological oil by using income approach no economical deterioration was revealed.

As of 31 December 2010, the amount of oil in the pipeline included as part of property, plant and equipment was 2,136 thousand tons (2009: 2,101 thousand tons).

Asset retirement obligation

Current Kazakhstani legislation in respect to environmental obligations prescribes that companies operating in extracting industries to dismantle certain assets and reclaim the land upon ceasing operations. Management of the Group believes that environmental law relating to extractive industry is not applicable to the Group's operations. However, dismantling of pipeline and land reclamation upon retirement is required by land lease agreements with local authorities. The Group sells pipelines upon abandonment and all dismantling and land reclamation costs are covered by the buyer of the pipelines. As a result, no asset retirement obligation as of 31 December 2010 and 2009 were recognized in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of property, plant and equipment

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

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

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

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

In 2010 the Group recognized an impairment of 30,305,298 thousand Tenge (2009: impairment of 1,489,079 thousand Tenge was recognized in profit and loss) where the impairment of 22,333,457 thousand Tenge (2009: 1,246,788 thousand Tenge) was recognized in profit and losses and 7,971,841 thousand Tenge (2009: 242,291 thousand Tenge (193,833 thousand Tenge, net of tax)) was recognized in equity (*Note 6*).

Useful lives of items of property, plant and equipment

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

Allowances for doubtful debts

The Group accrues allowances for doubtful accounts receivable, advances to suppliers and other assets. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of 31 December 2010 and 2009, allowances for doubtful accounts have been created for the amount of 599,570 thousand Tenge and 2,632,193 thousand Tenge, respectively (*Notes 9, 11 and 12*).

Deferred tax assets

Deferred tax assets are recognized for all provisions for doubtful debts, allowances for slow-moving inventories and other liabilities to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The amount of recognized deferred tax assets as of 31 December 2010 was 2,541,633 thousand Tenge (2009: 2,377,665 thousand Tenge) (*Note 34*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Provisions

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

Significant management judgment is required to estimate the amount the Group may be liable for and the amount is subject to change depending on the outcome of the legal proceedings. As of 31 December 2010, tax provision amounted to 3,944,960 thousand Tenge (2009: 4,530,699 thousand Tenge), what the management of the Group believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour (*Note 24*).

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in Accounting Policies and disclosures

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

New and amended standards and interpretations

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

IFRS 2 Share-based Payment (Revised)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

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

IFRIC 17 Distribution of Non-cash Assets to Owners

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

Improvements to IFRSs

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

Issued in May 2008

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

Issued in April 2009

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

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

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

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

IFRS and Interpretations issued but not yet effective

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS and Interpretations issued but not yet effective (continued)

IAS 24 Related Party Disclosures (Amendment)

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

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

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

IFRS 9 Financial Instruments: Classification and Measurement

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

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

Improvements to IFRSs (issued in May 2010)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

Functional and presentation currency

Items included in these consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Tenge ("presentation currency") which is the Group's presentation currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined.

Subsidiaries

The results and financial position of all of the Group's subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

Exchange rates

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

As at 31 December 2010, the currency exchange rate of KASE was 147.40 Tenge to 1 USD, rate was used to translate monetary assets and liabilities denominated in US dollars as of 31 December 2010 (2009: 148.36 Tenge to 1 USD).

Principles of consolidation

Consolidated financial statements comprise the accounts of the Company and its subsidiaries; after all material intercompany transactions have been eliminated. Subsidiaries are consolidated from the date that the Group obtains control until such time as control ceases. The financial statements of subsidiaries are prepared for the same reporting period as for the Company, using consistent accounting policies. Adjustments are made to ensure that no dissimilar accounting policies exist.

As discussed in *Note 1*, the Company has control over two subsidiaries, KTO-Service and BIHL, which have been fully consolidated in these consolidated financial statements. The Company also owns directly and indirectly (through BIHL), 100% shares of BCPL. Accordingly, BCPL financial statements were also consolidated in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit and losses.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Business combinations achieved in stages are accounted as separate steps. Any additional acquired share of interest does not affect previously recognized goodwill.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Non-controlling interest represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholder's equity.

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Disposals of non-controlling interest are accounted for using entity method, whereby, the Group recognizes such disposals as transactions with shareholders, no gain or loss is recognized in profit and losses, nor is there any adjustment to goodwill.

Interest in joint ventures

The Group has an interest in joint ventures which are a jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of these entities. The Group's investment in its joint ventures are accounted for using the equity method.

Under the equity method, the investments in joint ventures are carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint ventures. Goodwill relating to joint ventures is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest in joint ventures (continued)

The statement of comprehensive income reflects the share of the results of operations of joint ventures. Where there has been a change recognised directly in the equity of the joint ventures, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and joint ventures are eliminated to the extent of the interest in the joint ventures.

The share of profit of joint ventures is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the joint ventures and therefore is profit after tax and non-controlling interests in the subsidiaries of the joint ventures.

The financial statements of joint ventures are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in a joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in profit or loss.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

Property, plant and equipment

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

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

	Years
Buildings and constructions	20 – 60
Machinery and equipment	5 – 40
Pipelines and other transportation assets (excluding technological oil)	10 – 50
Other	2 – 20

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

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

Assets classified as held for sale

Assets are classified as assets held for sale if they meet the following criteria:

- are available for immediate sale in their current condition;
- there is a firm intention to ensure their planned sale;
- actions have been taken to determine the purchaser and other necessary measures to execute the plan;
- there is a high possibility of making a sale, and it is expected that the sale will be made within one year from classification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets classified as held for sale (continued)

The Group measures an assets classified as held for sale at the lower of their carrying amount and fair value less costs to sell. Immediately before the initial classification of the asset as held for sale, the carrying amounts of the asset is measured in accordance with applicable IFRSs. Assets classified as held for sale have been presented separately in the consolidated financial statements within current assets category on the face of the consolidated statement of financial position.

Revaluation of property, plant and equipment

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

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

Revaluation reserve is amortised on the same basis as the property, plant and equipment through a charge directly to retaining earnings. Transfer from revaluation reserve to retained earnings is included in separate statement of changes in equity.

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

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

Intangible assets

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

Impairment of non-financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Financial assets

Initial recognition and measurement

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

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

Subsequent measurement

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, loans and borrowings and financial guarantee contract.

Subsequent measurement

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

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

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

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

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

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

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

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

Derecognition

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

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

Cash and cash equivalents and bank deposits

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

Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Value Added Tax (VAT)

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

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

Employee benefits

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

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

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

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

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

Provisions

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

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

Revenue recognition

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

Rendering of transportation services

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rendering of other services

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

Income tax

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

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

Current income tax relating to items recognised directly in equity is recognised in equity.

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future,

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognised directly in equity is recognised in equity.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity

Share capital

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

Dividends

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

Reclassifications

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

<i>In thousands of Tenge</i>	Amount
Reclassification to provisions from other current liabilities	247,329
Reclassification to deferred income from other non-current accounts payable	1,050,340

Following is the effect of reclassifications made on the consolidated statement of financial position:

<i>In thousands of Tenge</i>	As originally presented	As adjusted
Consolidated statement of financial position as of 31 December 2009		
Provisions	4,283,370	4,530,699
Other current liabilities	4,489,657	4,242,328
Other non-current accounts payable	1,058,071	7,731
Deferred income	4,168,479	5,218,819
	13,999,577	13,999,577

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

<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 2009	14,542,841	52,622,416	6,188,045	34,863,857	68,457,665	38,319,922	9,670,298	7,956,066	232,621,110
Foreign currency translation	3,654,013	—	(120,914)	1,008,952	1,950,991	—	406,709	(69,219)	6,830,532
Additions	153,097	25,595	1,590,503	1,490,801	1,645,618	297,200	577,267	23,537,160	29,317,241
Disposals	(192,992)	(298,364)	(67,733)	(1,022,387)	(936,838)	(150,879)	(1,748,840)	(275,538)	(4,693,571)
Depreciation charge	—	(4,399,467)	(697,079)	(1,750,277)	(7,896,781)	—	(1,706,592)	—	(16,450,196)
Accumulated depreciation on disposals	—	265,771	30,379	111,718	423,424	—	194,244	—	1,025,536
Impairment (included in net profit)	(30,150)	(129,751)	(849)	(815,675)	(83,148)	—	(31,874)	—	(1,246,788)
Impairment (revaluation reserve)	—	(206,903)	—	(13,961)	(20,508)	—	(919)	—	(242,291)
Revaluation (revaluation reserve)	3,114,747	—	46,615	—	—	—	894,718	—	4,809,478
Transfers from construction-in-progress	469	4,617,660	218,733	4,663,086	10,225,813	718,327	1,297,410	(21,023,171)	—
Transfers to Intangible assets	(4,746,533)	—	—	—	—	—	—	—	—
Transfers and reclassifications	3,792,311	2,074,273	(532,915)	(3,517,773)	(1,875,918)	—	60,022	(173,936)	(4,920,469)
Net book value as at 31 December 2009	20,287,803	54,571,230	6,654,785	35,018,341	71,890,318	39,048,414	9,612,443	9,967,248	247,050,582
Foreign currency translation	(129,203)	—	(10,262)	(30,526)	(43,282)	—	(12,292)	(3,171)	(228,736)
Additions	30,603	50,989	600,786	26,148	1,419,762	18,575	716,677	22,162,567	25,026,107
Disposals	(208,864)	(1,115,453)	(130,447)	(400,365)	(163,356)	(17,784)	(144,221)	(447,422)	(2,627,912)
Depreciation charge	—	(6,880,516)	(978,090)	(3,878,545)	(7,736,693)	—	(1,779,819)	—	(21,253,663)
Accumulated depreciation on disposal	—	1,090,917	41,903	69,651	81,054	—	105,224	—	1,388,749
Impairment (included in net profit)	(7,342,309)	(4,208,402)	(753,200)	(3,638,249)	(5,777,329)	—	(653,212)	—	(22,800,390)
Impairment (revaluation reserve)	(60,125)	(1,328,547)	(19,990)	(90,780)	(6,443,613)	—	(28,786)	—	(7,971,841)
Revaluation (revaluation reserve)	2,883,849	41,180,232	1,409,947	38,088,004	14,671,416	5,969,407	1,967,450	786,476	106,956,781
Recovery of impairment reserve (included in net profit)	466,933	—	—	—	—	—	—	—	466,933
Transfer from construction-in-progress	15,938	4,413,219	212,491	7,931,312	10,480,277	—	887,906	(23,941,143)	—
Transfer to Intangible assets	—	—	—	—	—	—	—	—	—
Transfers and reclassifications	—	3,163,996	(231,051)	(16,420)	(3,357,663)	—	414,302	(484,051)	(484,051)
Net book value as at 31 December 2010	15,944,625	90,937,665	6,796,872	73,078,571	75,020,891	45,090,713	11,085,672	7,567,550	325,522,559

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2010									
At cost	15,944,625	96,730,100	7,337,524	76,341,940	78,551,435	45,420,918	11,887,340	7,699,018	339,912,900
Impairment	-	(579,293)	(11,339)	(589,072)	(170,425)	(330,205)	(170,544)	(131,468)	(1,982,346)
Accumulated depreciation	-	(5,213,142)	(529,313)	(2,674,297)	(3,360,119)	-	(631,124)	-	(12,407,995)
Net book value	15,944,625	90,937,665	6,796,872	73,078,571	75,020,891	45,090,713	11,085,672	7,567,550	325,522,559
As at 31 December 2009									
At cost	20,317,953	70,974,890	8,312,791	43,041,837	90,967,934	50,923,331	13,046,342	10,074,719	307,659,797
Impairment	(30,150)	(704,400)	(12,191)	(2,981,000)	(556,809)	(11,874,917)	(154,836)	(107,471)	(16,421,774)
Accumulated depreciation	-	(15,699,260)	(1,645,815)	(5,042,496)	(18,520,807)	-	(3,279,063)	-	(44,187,441)
Net book value	20,287,803	54,571,230	6,654,785	35,018,341	71,890,318	39,048,414	9,612,443	9,967,248	247,050,582

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

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

As of 31 December 2010 and 2009 construction-in-progress ("CIP") mainly includes following oil transportation assets: pump stations, reservoirs, gas-trap and drain systems, pump overpasses, storm drainages, measuring systems on reservoirs, oil traps, oil sludge utilizations bases, towing ropes, production facilities; reconstruction and expansion of: industry safety systems of production facilities, oil pumping station "Kenkiyak", industrial process and production and technical communication automation system.

As of 31 December 2010 construction-in-progress includes inventories in the amount of 1,199,074 thousand Tenge (2009: 1,174,163 thousand Tenge), which were purchased for construction purposes.

As of 31 December 2010 the cost of fully depreciated but still in use property, plant and equipment was 726,349 thousand Tenge (2009: 9,484,936 thousand Tenge).

As of 31 December 2010 cost of property, plant and equipment which temporarily are not in use is 1,439,892 thousand Tenge (2009: 879,841 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

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

<i>In thousands of Tenge</i>	Land	Buildings	Machinery and equipment	Pipelines	Transportation assets	Technological oil	Other	Construction in progress	Total
At 31 December 2009	20,217,348	28,000,332	46,491,605	39,067,769	12,251,254	1,147,561	7,653,863	49,697,762	204,527,494
At 31 December 2010	19,998,618	34,157,493	56,020,495	43,015,633	5,084,114	1,165,650	8,254,102	7,280,949	174,977,054

7. INTANGIBLE ASSETS

<i>In thousands of Tenge</i>	Goodwill	Licenses	Software	Right for land use	Other	Total
Net book value at 1 January 2009	2,151,310	56,327	1,281,186	–	708,243	4,197,066
Additions	–	2,894	65,359	–	42,260	110,513
Disposals	–	–	(5,173)	–	(184,491)	(189,664)
Amortization charge	–	(16,912)	(432,907)	(170,388)	(149,704)	(769,911)
Accumulated depreciation on disposals	–	–	4,851	–	–	4,851
Impairment provision	(1,306,548)	–	–	–	–	(1,306,548)
Transfers from property, plant and equipment	–	–	173,936	4,746,533	–	4,920,469
Foreign currency translation	1,526,030	–	845	1,164,699	147,610	2,839,184
Net book value at 31 December 2009	2,370,792	42,309	1,088,097	5,740,844	563,918	9,805,960
Additions	–	4,489	115,293	–	11,284	131,066
Disposals	–	–	(25,433)	–	(1,986)	(27,419)
Amortization charge	–	(16,551)	(450,217)	(195,652)	(155,295)	(817,715)
Accumulated depreciation on disposals	–	–	25,289	–	82	25,371
Impairment provision	(2,370,792)	–	–	–	–	(2,370,792)
Transfers from property, plant and equipment	–	234,547	249,504	–	–	484,051
Foreign currency translation	–	(296)	(12)	(37,147)	(3,111)	(40,566)
Transfers and reclassifications	–	(4,273)	4,571	–	(298)	–
Net book value at 31 December 2010	–	260,225	1,007,092	5,508,045	414,594	7,189,956
As at 31 December 2010						
At cost	21,230,473	316,958	3,194,362	5,902,831	733,635	31,378,259
Impairment	(21,230,473)	–	–	–	–	(21,230,473)
Accumulated amortization	–	(56,733)	(2,187,270)	(394,786)	(319,041)	(2,957,830)
Net book value	–	260,225	1,007,092	5,508,045	414,594	7,189,956
As at 31 December 2009						
At cost	21,230,473	82,745	2,850,159	5,939,978	728,587	30,831,942
Impairment	(18,859,681)	–	–	–	–	(18,859,681)
Accumulated amortization	–	(40,436)	(1,762,062)	(199,134)	(164,669)	(2,166,301)
Net book value	2,370,792	42,309	1,088,097	5,740,844	563,918	9,805,960

Impairment Testing of Goodwill

BIHL includes the following divisions:

- Batumi Oil Terminal
- Batumi Sea Port

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INTANGIBLE ASSETS (continued)

Impairment Testing of Goodwill (continued)

As operations of divisions are interrelated they were considered as a single cash-generating unit for impairment testing purposes. The Group performed its annual impairment test as at 30 September 2010. The recoverable amount has been determined based on a value in use calculation using cash flow projections covering a ten-year period. The pre-tax discount rate applied to cash flow projections is 19.98 % (2009: 19.11%) that is weighted-average cost of capital of BIHL.

As a result of this analysis, in 2010 management has recognized an impairment charge of 1,628,217 thousand Tenge and remaining part in the amount of 742,575 thousand Tenge by decision of the management of the Group, against goodwill (2009: 1,306,548 thousand tenge) which is recorded in the current period profit and loss in 2010.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for both cash-generating units is most sensitive to the following assumptions:

- Discount rates;
- Tariffs during the budget period; and
- Oil and cargo shipment volumes.

Discount rates. Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rate was estimated as a weighted average cost of capital for BIHL.

Tariffs during the budget period. Port and Terminal set tariffs for shipment of cargo and oil individually for each customer based on volumes of shipment, relationships history and market trends at the date of conclusion of shipment contract.

Oil and cargo shipment volumes. These assumptions are important because, as well as using industry data for growth rates management assesses how future changes of oil and cargo shipment volumes through Black Sea ports will affect BIHL's operations.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use possible change in any of the above key assumptions would result in a further impairment loss. The implications of the key assumptions for the recoverable amount are discussed below:

Discount rate. Management has considered the possibility of greater than determined weighted-average cost of capital on the goodwill impairment. Any increase in discount rate would result in a further impairment.

Tariffs during the budget period. Increase of tariff projected by the management for the purposes of goodwill impairment testing are indexed to underlying costs. Should the Group be unable to keep tariffs at such a level that covers related costs, a further impairment may result.

8. INVESTMENTS IN JOINT VENTURES

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
MunayTas	9,118,148	5,262,464
	9,118,148	5,262,464

During 2010, the Group has recognized its share in income of MunayTas in the amount of 62,702 thousand Tenge (2009: income of 376,931 thousand Tenge) and share in other comprehensive income of MunayTas in the amount of 4,169,853 thousand Tenge; that resulted in increase of carrying amount of investments in MunayTas. Dividends received from MunayTas in 2010 amounted to 376,871 thousand Tenge (2009: 765,020 thousand Tenge) and resulted in corresponding decrease in carrying amount of investments in MunayTas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INVESTMENTS IN JOINT VENTURES (continued)

Amount of investment in KCP was reduced to nil in 2009 due to significant losses of this entity, which exceeded carrying amount of investments (share in the loss of KCP recognized by the Group in 2009 amounted to 3,289,056 thousand Tenge). The Group's share in the net liabilities of KCP amounted to 15,231,970 thousand Tenge as at 31 December 2009. During 2010, KCP generated net income of 14,347,123 thousand Tenge and other comprehensive income of 3,545 thousand Tenge. As at 31 December 2010, Group's share in the net liabilities of KCP totalled to 8,060,181 thousand Tenge. Accordingly, balance of investments in KCP in this consolidated financial statements remains as zero.

The tables below present generalized financial information relating to joint ventures (the Group's proportional share):

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Total assets and liabilities of joint ventures		
Current assets		
Non-current assets	6,731,501	20,527,984
Current liabilities	110,091,333	104,572,910
Non-current liabilities	(9,472,860)	(9,573,644)
	(106,292,007)	(125,496,752)
Net assets	1,057,967	(9,969,502)

<i>In thousands of Tenge</i>	2010	2009
Total revenue and net income of joint ventures for the year		
Revenue		
Net income	26,913,132	14,442,050
	7,236,263	(18,186,516)

9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Advances to third parties for property, plant and equipment	516,852	1,986,058
Less: allowance for non-performance	(99,330)	(99,330)
	417,522	1,886,728

Movement in allowance for non-performance was as follows:

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

Advances issued to suppliers for property, plant and equipment assets are denominated as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Tenge	402,782	1,854,261
US Dollars	11,498	19,589
Euro	3,095	2,532
Other currency	147	10,346
	417,522	1,886,728

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

10. INVENTORIES

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Spare parts	1,472,206	1,750,977
Fuel	898,192	873,526
Construction materials	93,146	104,651
Other	784,308	678,873
Less: provision for slow-moving and obsolete inventory	(56,764)	(215,322)
	3,191,088	3,192,705

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

<i>In thousands of Tenge</i>	2010	2009
As at 1 January	215,322	372,869
Charge for the year	3,131	158,083
Write-off of inventories	(155,315)	(42,683)
Reversal of provision	(6,115)	(276,264)
Currency translation difference	(259)	3,317
As at 31 December	56,764	215,322

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Accounts receivable for oil transportation coordination	4,034,085	4,722,309
Trade accounts receivable from related parties (Note 36)	1,294,220	913,623
Trade accounts receivable from third parties	1,043,959	836,130
Other accounts receivable from third parties	623,179	871,868
Other accounts receivable from related parties (Note 36)	55,281	46,267
Less: allowance for impairment of trade and other accounts receivable	(498,177)	(354,940)
	6,552,547	7,035,257

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

<i>In thousands of Tenge</i>	2010	2009
As at 1 January	354,940	427,269
Charge for the year	91,857	98,246
Write-off of receivable	(21,228)	(94,350)
Reversal of allowance	(33,444)	(63,250)
Currency translation	(604)	-
Reclassifications	106,656	(12,975)
As at 31 December	498,177	354,940

Trade and other accounts receivable are denominated as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Russian roubles	4,012,817	4,122,655
Tenge	1,947,382	1,347,197
US Dollars	535,157	1,356,399
Euro	-	97,768
Other currency	57,191	111,238
	6,552,547	7,035,257

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

11. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

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

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
2009	7,035,257	6,889,971	–	122,056	–	23,230	–
2010	6,552,547	5,426,427	892,046	112,752	72,576	16,603	32,143

12. ADVANCES TO SUPPLIERS

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Advances to third parties	465,798	432,148
Advances to related parties (Note 36)	278,273	255,609
Less: provision for non-performance	(2,063)	(2,083)
	742,008	685,674

Movements in allowance for non-performance were as follows:

<i>In thousands of Tenge</i>	2010	2009
As at 1 January	2,083	1,100
Charge for the year	1,097	1,393
Reclassifications	199	(104)
Write-off of advances	(10)	–
Reversal of provision	(1,306)	(306)
As at 31 December	2,063	2,083

13. VAT RECOVERABLE AND OTHER PREPAID TAXES

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
VAT recoverable	4,366,876	3,807,143
Withholding tax	1,594,170	1,592,382
Other taxes prepaid	510,529	131,392
	6,471,575	5,530,917

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

14. OTHER CURRENT ASSETS

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Due from employees	66,245	57,966
Deferred expenses	18,421	607,779
Prepaid insurance	10,168	4,429
Other	59,672	–
	154,506	670,174

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

15. SHORT-TERM BANK DEPOSITS

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Short-term bank deposits	40,486,425	25,267,338
Accrued interest on deposits	446,533	23,797
	40,932,958	25,291,135

At 31 December 2010 short-term bank deposits comprised Tenge denominated time deposits with Kazakhstani banks with maturity from 3 to 12 months, which earn interest of 5% to 6% per annum (2009: 5% – 6% per annum) and US Dollars with interest rate of 10%, repayable in December 2011 (2009: May 2010).

16. CASH AND CASH EQUIVALENTS

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Current accounts with banks – Tenge	9,731,884	10,692,022
Time deposits with banks – Tenge	4,452,309	–
Current accounts with banks – US Dollars	2,624,981	1,987,686
Current accounts with banks – Lari	52,180	35,620
Current accounts with banks – Euro	24,026	29,535
Current accounts with banks – Russian Rouble	11,844	3,646,702
Current accounts with banks – Other currencies	3,095	–
Cash on hand	6,666	8,023
Other current accounts with banks	7,409	1,915
	16,914,394	16,401,503

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

17. EQUITY

Share capital

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

Distributions to the shareholder

Dividends

During 2010, the Company declared and paid dividends for 2009, totalling 7,340,280 thousand Tenge from 2009 income (2009: 6,023,638 thousand Tenge from 2008 income). The dividend amounted to 223 Tenge per common share (2009: 183 Tenge).

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

Revaluation reserve

Revaluation reserve was formed based on a revaluation of property, plant and equipment performed by an independent appraiser for certain groups of assets as at 30 June 2010 (in relation to technological oil 30 September 2010), 20 June 2007, 31 December 2004 and 31 December 1999.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. EQUITY (continued)

Other reserves

At 31 December 2010 and 2009, the reserve capital was 17,104 thousand Tenge, which comprised the social objects contributed by the Government of the Republic of Kazakhstan to the Group in 1997. These social objects were recorded as property, plant and equipment in 1997. The disposal of these assets requires approval of the Government represented by State Committee on Property and Privatisation of the Republic of Kazakhstan.

18. LOANS AND BORROWINGS

	Currency	Maturity	Effective Interest rate	31 December 2010	31 December 2009
Natixis Company	US dollars	28 August 2013	Libor+1.70%	-	20,503,864
TBC Bank	US dollars	21 September 2012	12-16%	591,664	700,200
Less: unamortised transaction costs				-	(511,635)
Less: amounts due for settlement within 12 months				591,664	20,692,429
Total long-term portion of interest bearing loans and borrowings				296,864	10,345,517
				294,800	10,346,912

Natixis Company

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

TBC Bank

TBC Bank finances operations of certain Georgian entities of the Group. The loan of US Dollars 10,000 thousand was provided to Batumi Port Holdings and secured by Exclusive Rights of Disposal of 100% share of government stake in Batumi Sea Port Limited, a subsidiary of BIHL. The loan will be repaid on 21 September 2012. The loans bear interest at rate of 12-16%.

Amounts after 12 months are repayable as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
1 to 2 years	294,800	9,753,472
2 to 5 years	-	593,440
	294,800	10,346,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

19. EMPLOYEE BENEFIT LIABILITY

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

Changes in defined benefit obligations are as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Present value of defined benefits obligation at the beginning of the year		
Current services cost	2,469,000	1,997,532
Unwinding of discount (Note 33)	203,000	191,000
Actuarial losses (Note 30)	150,000	122,000
Benefits paid	27,000	276,474
	(127,196)	(118,006)
Present value of defined benefit obligation at the end of the year	2,721,804	2,469,000
Less: current portion of present value of defined benefit obligation	(141,000)	(131,880)
Non-current portion of present value of defined benefit obligation	2,580,804	2,337,120

Amounts recognized in the consolidated statement of financial position and profit and loss for the current year are as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Present value of defined benefit obligation at end of the year	2,721,804	2,469,000
Net liability	2,721,804	2,469,000
Current service cost	203,000	191,000
Actuarial losses (Note 30)	27,000	276,474
Unwinding of discount (Note 33)	150,000	122,000
Expenses recognized in the current period	380,000	589,474

Current services costs are included in the consolidated statement of comprehensive income as part of 'cost of sales' and 'general and administrative expenses'.

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

Discount rate	6,0%	6,0%
Future salary increases	4,0%	4,0%
Mortality rate	12,0%	12,0%

20. DEFERRED INCOME

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Deferred income from related parties (Note 35)	1,197,401	1,509,766
Deferred income from third parties	3,856,460	3,709,053
	5,053,861	5,218,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. TRADE AND OTHER ACCOUNTS PAYABLE

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Accounts payable to third parties for goods and services	5,212,771	5,800,368
Accounts payable for oil transportation coordination for related parties (Note 35)	4,273,240	3,751,450
Accounts payable for oil transportation coordination for third parties	3,857,236	2,484,364
Accounts payable to related parties for goods and services (Note 35)	417,271	401,870
Other payables	339,991	452,916
	14,100,509	12,890,968

Trade and other accounts payables are denominated as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Tenge	13,240,885	12,391,576
US Dollars	722,860	223,469
Euro	12,592	110,372
Russian roubles	7,299	14,477
Other currency	116,873	151,074
	14,100,509	12,890,968

22. ADVANCES RECEIVED

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Advances received from related parties (Note 35)	7,008,869	6,454,500
Advances received from third parties	3,877,541	3,642,254
	10,886,410	10,096,754

23. OTHER TAXES PAYABLE

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Personal Income Tax	818,171	469,609
Social Tax	266,014	198,319
Property tax	174,143	74,159
Other taxes	190,775	175,507
	1,449,103	917,594

24. PROVISIONS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. PROVISIONS (continued)

In order to avoid the fine accrual on claimed amount, the Group paid 1,572,705 thousand Tenge to tax authorities in 2009.

As of 31 December 2009, the Group was also, involved in tax disputes with Georgian Tax Authorities in respect of additional accruals of corporate income tax of US Dollars 3,864,862 (equivalent of 573,391 thousand Tenge) and withholding tax of US Dollars 1,534,000 (equivalent of 227,584 thousand Tenge). As of the end of 2009, management of the Group believed that the Group might be found liable to Georgian Tax Authorities. Therefore, in 2009 the management has made a provision in the consolidated financial statements in the amount of 800,975 thousand Tenge, which it believes to be the best estimate of the amount the Group may be required to pay if the legal proceeding are found to be not in the claimants favour. As of 31 December 2010, in respect of additional accrual of corporate income tax of US Dollars 3,864,862 (equivalent of 596,681 thousand Tenge), the Group, in accordance with the court decision, was found liable to the Georgian Tax Authorities and this amount was reclassified from provisions to the income tax payables during 2010.

As of 31 December 2010, the amount of provision for tax claim of Georgian Tax authorities in respect of withholding tax amounted to US 1,534,000 (equivalent to 226,112 thousand Tenge).

25. OTHER CURRENT LIABILITIES

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Salaries and wages	3,569,461	3,232,425
Current portion of deferred income from related parties (Note 35)	312,366	312,366
Accounts payable to pension fund	272,891	214,116
Current portion of deferred income from third parties	171,849	483,421
Other accruals	130,450	–
	4,457,017	4,242,328

26. REVENUE

<i>In thousands of Tenge</i>	2010	2009
Crude oil transportation	109,395,974	97,682,797
Oil reloading and railway shipment	13,227,167	14,518,571
Water transportation	5,892,098	4,893,092
Pipeline operation services	4,530,016	3,319,662
Oil transportation coordination services	3,299,799	2,746,629
Oil storage services	356,998	77,058
Other	1,538,888	2,943,324
	138,240,940	126,181,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. COST OF SALES

<i>In thousands of Tenge</i>	2010	2009
Personnel cost	22,993,347	20,220,513
Depreciation and amortization	21,315,868	16,352,902
Railway services	6,962,179	7,654,352
Repair and maintenance costs	4,651,005	3,973,515
Materials and fuel	4,549,553	5,763,973
Electric energy	4,547,801	4,052,541
Taxes other than corporate income tax	3,857,427	2,745,165
Security services	2,404,371	1,817,222
Gas expense	2,016,140	1,926,169
Air services	1,790,035	808,792
Rent expenses	910,240	817,691
Environmental protection	884,614	489,834
Diagnostics of pipelines	713,129	229,742
Business trip expenses	533,296	683,894
Insurance	463,584	264,289
Communication services	196,002	156,099
Other	3,618,039	3,485,807
	82,406,630	71,442,500

28. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of Tenge</i>	2010	2009
Personnel costs	4,855,275	4,323,549
Depreciation and amortization	742,490	852,041
Consulting	401,735	389,007
Write-off of VAT recoverable	346,922	341,258
Charity expenses	334,548	99,066
Social sphere expenses	309,080	158,922
Insurance and security	277,533	188,455
Taxes other than corporate income tax	226,592	303,553
Business trip expenses	207,946	281,977
Operational lease expenses	206,577	242,537
Repair and technical maintenance	196,780	152,029
Materials and fuel	150,500	60,592
Training	126,272	73,211
Communication services	113,491	153,319
Bank costs	109,420	147,902
Transportation expenses	107,941	53,180
Advertising expense	96,320	83,881
Information expenses	74,336	103,930
Office maintenance	59,950	12,185
Provisions for taxes	-	564,522
Reversal of allowance for obsolete and slow-moving inventories	(2,984)	(118,181)
(Reversal of) / provision for allowance for doubtful debt	(2,117,636)	380,575
Other	291,531	257,286
	7,114,619	9,104,796

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. OTHER OPERATING INCOME

<i>In thousands of Tenge</i>	2010	2009
Income from fines and penalties	938,816	136,583
Amortization of deferred income	312,366	519,071
Amortization of financial guarantee issued to related party	67,098	67,171
Income from write-off of payables	30,692	25,038
Other income	706,116	344,997
	2,055,088	1,092,860

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

30. OTHER OPERATING EXPENSES

<i>In thousands of Tenge</i>	2010	2009
Loss on disposal of property, plant and equipment and intangible assets	253,784	88,524
Actuarial losses	27,000	276,474
Loss on disposal of inventory	-	56,061
Other expenses	524,874	703,827
	805,658	1,124,886

31. NET FOREIGN EXCHANGE LOSS

On 4 February 2009 the Tenge devalued against the US dollar and other major currencies. The exchange rates before and after devaluation were 120 Tenge / US dollar and 150 Tenge / US dollar, respectively. Devaluation of the Tenge significantly affected the results of the Group for the year ended 31 December 2009, as the Group has significant bank loans denominated in US dollar.

32. FINANCE INCOME

<i>In thousands of Tenge</i>	2010	2009
Interest income on bank deposits	1,786,270	2,192,499
Dividends income	46,046	-
Employees and related parties loans: unwinding of discount	30,317	91,147
Income from guarantees	15,177	-
Finance rent income	5,157	-
	1,882,967	2,283,646

33. FINANCE COSTS

<i>In thousands of Tenge</i>	2010	2009
Interest on loans and borrowings	709,579	1,869,050
Employee benefits: unwinding of discount	150,000	122,000
Loss on initial recognition of loans to employees and related parties	-	4,595
Other	3,533	-
	863,112	1,995,645

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

34. INCOME TAX EXPENSE

As at 31 December 2010 prepayment for income tax in the amount of 1,337,084 thousand Tenge (2009: 1,946,748 thousand Tenge) represents corporate income tax.

As at 31 December 2010 income tax liabilities in the amount of 908,131 thousand Tenge (2009: 476,041 thousand Tenge) represents corporate income tax.

Income tax expenses for the years ended 31 December comprise:

<i>In thousands of Tenge</i>	2010	2009
Current Income tax expense	10,683,626	7,681,285
Deferred Income tax (benefit) / expense	(4,219,719)	5,174,846
Income tax	6,463,907	12,856,131

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

<i>In thousands of Tenge</i>	2010	2009
Profit before income tax	26,082,208	28,394,563
Statutory rate	20%	20%
Income tax expense on accounting profit	5,216,441	5,678,913
Tax effect of permanent differences		
Non-deductible employee benefits	50,561	66,926
Non-deductible interest expenses	19,398	22,301
Adjustment of tax return for prior years	604,797	60,424
Representative expenses	6,176	–
Non-deductible finance aid and sponsorship	60,693	15,368
VAT recoverable	90,384	10,056
Fines and penalties	11,592	18,007
Effect of changing tax rates in recognized tax assets and liabilities (Income) / loss from joint ventures recognized according to equity method	–	3,426,938
Effect of difference in tax rates	(12,540)	582,425
Tax provisions	(108,037)	121,866
Impairment of goodwill	–	112,250
Other permanent differences	474,158	261,310
Corporate income tax expense reported in the statement of comprehensive income	6,463,907	12,856,131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. INCOME TAX EXPENSE (continued)

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

<i>In thousands of Tenge</i>	31 December 2010	Charged to profit and loss	Foreign currency translation	Charged to revaluation reserve	31 December 2009	Charged to profit and loss	Effect of PPE uplift on acquisition in 2008	Foreign currency translation	Charged to revaluation reserve	1 January 2009
Deferred tax assets										
Property, plant and equipment	-	(182,860)	-	-	182,860	182,860	-	-	-	-
Unrecognised deferred income tax assets	-	182,860	-	-	(182,860)	(182,860)	-	-	-	-
Bonuses and other employee compensation and related costs	1,004,403	590,796	-	-	413,607	(22,293)	-	-	-	-
Financial guarantee liability	46,413	(13,815)	-	-	60,228	11,253	-	-	-	435,900
Allowance for doubtful debts	111,998	(407,162)	-	-	519,160	34,090	-	-	-	48,975
Bad debt allowances	11,023	(30,070)	-	-	41,093	(24,413)	-	-	-	485,070
Taxes payable	21,269	(13,482)	-	-	34,751	32,121	-	-	-	65,506
Financial aid to related parties and loans to employees	14,057	(21,746)	-	-	35,803	24,374	-	-	-	2,630
Due to employees	-	-	-	-	-	(7,007)	-	-	-	11,429
Other temporary differences	-	(170,436)	-	-	170,436	(99,076)	-	-	-	7,007
Deferred income	301,953	(62,473)	-	-	364,426	364,426	-	-	-	269,512
Income of BIHL	1,030,547	292,386	-	-	738,161	278,731	-	-	-	-
	2,541,663	163,998	-	-	2,377,665	592,206	-	-	-	459,430
Deferred tax liabilities										
Investments in joint ventures	(176,032)	-	-	-	(176,032)	(44,008)	-	-	-	(132,024)
Other temporary differences	-	18,024	-	-	(18,024)	(18,024)	-	-	-	-
Property, plant and equipment	(38,409,893)	4,037,697	55,071	(19,632,158)	(22,870,503)	(5,705,020)	(1,695,455)	(164,919)	(1,751,322)	(13,553,787)
	(38,585,925)	4,055,721	55,071	(19,632,158)	(23,064,559)	(5,767,052)	(1,695,455)	(164,919)	(1,751,322)	(13,685,811)
Net deferred income tax liabilities	(36,044,262)	4,219,719	55,071	(19,632,158)	(20,686,894)	(5,174,846)	(1,695,455)	(164,919)	(1,751,322)	(11,900,352)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

35. RELATED PARTY TRANSACTIONS

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

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

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

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

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Trade and other accounts receivable from related parties		
Trade accounts receivable from joint ventures	739,121	473,974
Trade accounts receivable from entities under common control of KazMunayGas	555,058	437,221
Trade accounts receivable from entities of Samruk-Kazyna Group	41	2,428
	1,294,220	913,623
Other accounts receivables from entities under common control of KazMunayGas and Samruk-Kazyna Group	55,281	46,267
Total trade and other accounts receivable	1,349,501	959,890

Advances provided to related parties are as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Advances to related parties		
Advances to entities under common control of KazMunayGas	215,867	230,264
Advances to entities of Samruk-Kazyna Group	62,406	25,345
Total advances paid to related parties	278,273	255,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RELATED PARTY TRANSACTIONS (continued)

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

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Current accounts		
Halyk Bank JSC – other affiliate	1,124,104	927,098
Total current accounts placed in banks which are related parties	1,124,104	927,098

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Bank deposits		
Halyk Bank JSC – other affiliate	23,000,209	18,983,418
Total bank deposits placed in banks which are related parties	23,000,209	18,983,418

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

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

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Accounts payable for oil transportation coordination for related parties		
Accounts payable for oil transportation coordination for entities under common control of KazMunayGas	4,273,240	3,751,450
	4,273,240	3,751,450
Accounts payables to related parties for goods and services		
Accounts payables to entities under common control of KazMunayGas	307,048	300,106
Accounts payables to entities under control of Samruk-Kazyna Group	114,498	101,764
	421,546	401,870
Total trade and other accounts payable to related parties	4,694,786	4,153,320

Advances received from related parties are as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Advances received from related parties		
Advances from entities under common control of KazMunayGas	5,982,993	5,459,071
Advances from entities under control of Samruk-Kazyna Group	1,025,876	995,429
Total advances received from related parties	7,008,869	6,454,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

35. RELATED PARTY TRANSACTIONS (continued)

Other current liabilities to related parties are as follows:

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

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

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

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

<i>In thousands of Tenge</i>	2010	2009
Sales to related parties:		
Transportation services to entities under common control of KazMunayGas	66,753,417	38,200,708
Transportation services to entities of Samruk-Kazyna Group	10,395,311	9,040,592
Transportation services to joint ventures	3,789,049	2,642,761
Dividends income from joint ventures	376,871	765,020
Income from other activities from entities under common control of KazMunayGas	205,700	689,278
Income from other activities from joint ventures	4,721	–
Income from other activities from entities of Samruk-Kazyna Group	4,583	3,049
Other income from dividends	46,046	–
	81,575,698	51,341,408
Purchases from related parties:		
Purchases of services from entities under common control of KazMunayGas	6,002,203	4,174,928
Purchases of services from entities of Samruk-Kazyna Group	1,878,821	1,624,990
Purchases of inventory from Samruk-Kazyna Group	12,000	–
Purchases of property, plant and equipment from entities of Samruk-Kazyna Group	23,121	–
	7,916,145	5,799,918
Interest income on bank deposits		
Halyk Bank JSC – other affiliate	1,059,096	918,431
	1,059,096	918,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RELATED PARTY TRANSACTIONS (continued)

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

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

36. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe.

Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2010. As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Groups's tax positions will be sustained.

Tax commitments of Georgian entities

According to the Tax Code of Georgia ("TCG"), tax administration is authorized to make motivated written decision on use of market prices for taxation purposes if transaction takes place between related parties. Although TCG contains certain guidance on the determination of market prices of goods and services, the mechanism is not sophisticated and there is no separate transfer pricing legislation in Georgia. Existence of such ambiguity creates uncertainties as related to the position that tax authorities might take when considering taxation of transactions between related parties.

The Georgian subsidiaries of the Group have significant transactions with off-shore subsidiaries of the Group as well as amongst each other. These transactions fall within the definition of transactions between related parties and may be challenged by tax authorities of Georgia. Management believes that it has sufficient arguments to assert that pricing of transactions between entities of the Group is at arm's length, however due to absent legislative basis for determination of market prices tax authorities might take position different from that of the Group.

Environmental matters

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

Insurance matters

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Covenants

Guarantees

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

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

As of 31 December 2010 and 2009, the Company fully complied with covenants.

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

Borrowings

On August 28, 2008 the Company concluded a syndicate loan facility agreement with BTMU (Europe) Limited, ING Bank N.V. and Natixis (the "Creditors") for amount of 275 million US Dollars (*Note 18*). According to the Loan facility Agreement concluded between the Company and the Creditors, the Company has to comply with the following covenants:

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

As of repayment date (4 March 2010) and 31 December 2009 the Company fully complied with the covenants.

Contractual commitments

As at 31 December 2010, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 16,646,055 thousand Tenge (2009: 10,355,911 thousand Tenge). In addition, as at 31 December 2010, the Group has committed to purchase inventory (materials and spare parts) and services for the amount of 5,225,741 thousand Tenge (2009: 4,491,628 thousand Tenge).

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest Rate Risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest Rate Risk (continued)

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

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

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

Credit risk

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

The Group places deposits with Kazakhstani banks (*Notes 15, 16*). The Group's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Group's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits is required.

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

Bank	Location	Rating		2010	2009
		2010	2009		
Halyk Bank of Kazakhstan JSC	Kazakhstan	B3/ Stable	Ba2/ Negative	24,353,203	19,922,505
KazKommerstBank JSC	Kazakhstan	Ba3/ Negative	Ba3/ Negative	17,635,887	5,601,012
SberBank of Russia JSC	Kazakhstan	Ba2/ Stable	Ba2/ Negative	12,737,261	13,468,304
Berenberg Bank	Cyprus	not available	not available	956,769	828,668
Cartu Bank	Georgia	not available	not available	951,360	739,400
BNP Paribas	Cyprus	AA	AA	906,119	1,016,037
Bank of Cyprus	Georgia	A3 (negative outlook)	BBB+	203,658	36,780
RBS Bank Kazakhstan JSC	Kazakhstan	A1/ Stable	Aa3/Stable	33,756	10,468
TBC Bank	Georgia	B+	B+	31,656	47,939
BOG Bank	Georgia	B+	not available	7,947	329
Procredit Bank	Georgia	BB-	not available	16,069	2,208
Basis Bank	Georgia	B-	not available	6,732	5,882
VTB Bank	Georgia	BB-	not available	400	3,771
ATF Bank JSC	Kazakhstan	Ba2/ Stable	Ba1/ Negative	54	77
Bank CenterCredit JSC	Kazakhstan	Ba3/ Negative	Ba1/ Negative	12	7
CITI Bank Kazakhstan JSC	Kazakhstan	A3	F1+	7	12
Slavinvestbank LLC	Russia	-	Caa2/ Negative	-	10
Alliance Bank JSC	Kazakhstan	-	Not available	-	1,199
Popular Bank	Cyprus	-	not available	-	7
				57,840,890	41,684,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risks

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

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

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted payments.

<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						
Loans and borrowings	–	296,864	–	294,800	–	591,664
Trade and other payable	–	14,100,509	–	–	–	14,100,509
Other liabilities	–	3,842,352	–	–	–	3,842,352
	–	18,239,725	–	294,800	–	18,534,525
As at 31 December 2009						
Interest-bearing loans and borrowings	–	10,857,152	10,858,547	–	–	21,715,699
Trade and other payable	–	12,890,968	–	–	–	12,890,968
Other liabilities	–	3,446,541	–	–	–	3,446,541
	–	27,194,661	10,858,547	–	–	38,053,208

Currency Risk

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

<i>In thousands of Tenge</i>	US Dollar	Russian Ruble	Euro	Georgian Lari	Ukrainian Grivna	Great Britian Pound	Other currencies	Total
At 31 December 2010								
Assets	731,789	4,026,722	31,543	52,108	–	–	71,006	4,913,168
Liabilities	1,529,729	28,588	98,231	–	–	–	233,299	1,889,847
At 31 December 2009								
Assets	1,416,724	4,166,428	119,949	176,477	1,592	3,249	–	5,884,419
Liabilities	21,897,849	14,477	110,372	143,721	5	7,348	–	22,173,772

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The Group also has transactional currency exposures. Such exposure arises from revenues in US Dollars. Approximately 9% (2009: 14%) of the Group's revenue is denominated in the US Dollars, whilst about 15% (2009: 19%) of cost of sales is denominated in US Dollars.

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

<i>In thousands of Tenge</i>	Increase / decrease in US dollar rate	Effect on profit before tax
2010		
US Dollar	+12%	176,837
	-12%	(176,837)
2009		
US Dollar	+10%	3,424,630
	-15%	(5,136,944)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

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

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

As at 31 December the gearing ratio is as follows:

<i>In thousands of Tenge</i>	31 December 2010	31 December 2009
Loans and borrowings	591,664	20,692,429
Trade and other payables	17,942,851	16,337,509
Less: cash and cash equivalents and deposits	(57,847,352)	(41,692,638)
Net debt	(39,312,837)	(4,662,700)
Capital	338,314,798	242,802,745
Capital and net debt	377,627,635	238,140,045
Gearing Ratio	(0.12)	(0.02)

Fair value hierarchy

As at 31 December 2010, the Group had the following financial instruments measured at fair value:

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

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

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

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

As at 31 December 2010 and 2009 the Group does not have Level 1 and Level 2 financial instruments.

Fair value of financial instruments

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

<i>In thousands of Tenge</i>	Carrying amount		Fair Value	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
<i>Financial Assets</i>				
Cash and cash equivalents	16,914,394	16,401,503	16,914,394	16,401,503
Bank deposits	40,932,958	25,291,135	40,932,958	25,291,135
Trade and other receivables	6,552,547	7,035,257	6,552,547	7,035,257
Other financial assets	108,546	252,884	108,546	252,884
<i>Financial liabilities</i>				
Floating rate borrowings	-	19,992,229	-	19,992,229
Fixed rate borrowings	591,664	700,200	591,664	700,200
Trade and other payables	14,100,509	12,890,968	14,100,509	12,890,968
Other financial liabilities	3,842,352	3,446,541	3,842,352	3,446,541

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

38. EVENTS AFTER THE REPORTING PERIOD

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