

KazTransOil JSC

Consolidated Financial Statements

*Year ended December 31, 2008
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 balance sheet as of December 31, 2008 and the consolidated income statement, 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 notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 auditors' 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 and fair presentation 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 of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Ernst & Young LLP


Gulmira Turmagambetova
Auditor



Auditor Qualification Certificate No.
0000374 dated 21 February 1998.


Evgeny Zhemaletdinov
General Director
Ernst & Young LLP



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

March 12, 2009

CONSOLIDATED BALANCE SHEET*In thousands of Tenge*

	Note	December 31, 2008	December 31, 2007
ASSETS			
Non-current assets			
Property, plant and equipment	6	322,439,882	265,733,871
Intangible assets and goodwill	7	3,555,478	4,135,216
Available-for-sale investments	8	99,920	99,920
Interest-free loan to related party	9	–	1,017,697
Other non-current financial assets	10	562,051	185,912
Advances to suppliers for non-current assets	11	1,529,218	1,502,571
Other non-current assets	12	1,079,449	1,818,237
		329,265,998	274,493,424
Current assets			
Inventories	13	3,210,266	3,143,377
Trade and other accounts receivable	14	6,209,285	4,131,491
Current portion of interest-free loan to related party	9	3,690,753	2,497,478
Advances to suppliers	15	288,958	368,796
Prepayment for corporate income tax		1,270,612	85,434
VAT recoverable and other taxes prepaid	16	10,643,025	4,981,394
Other current assets	17	940,816	586,426
Short-term bank deposits	18	20,725,017	3,361,339
Cash and cash equivalents	19	29,941,748	25,403,345
		76,920,480	44,559,080
Non-current assets classified as held for sale	6	26,798	2,324,524
		76,947,278	46,883,604
TOTAL ASSETS		406,213,276	321,377,028

CONSOLIDATED BALANCE SHEET (continued)*In thousands of Tenge*

	Note	December 31, 2008	December 31, 2007
EQUITY AND LIABILITIES			
Equity attributable to equity holder of the parent			
Share capital	20	32,916,055	32,916,055
Revaluation reserve	20	49,917,152	67,660,719
Other reserves	20	17,104	17,104
Currency translation reserve		(77,776)	(227,064)
Retained earnings		137,741,663	113,451,726
		220,514,198	213,818,540
Minority interest	5	-	3,066,103
Total equity		220,514,198	216,884,643
Non-current liabilities			
Interest-bearing loans and borrowings	21	87,426,013	7,960,824
Debt securities issued	22	37,545,798	36,884,827
Finance lease liability		-	92,470
Financial guarantee issued to related party		300,133	352,863
Employee benefits	23	1,883,532	1,926,000
Deferred income tax liabilities	32	13,365,015	26,475,206
Other non-current liabilities	24	1,227,853	315,297
		141,748,344	74,007,487
Current liabilities			
Current portion of interest-bearing loans and borrowings	21	6,161,148	2,001,697
Current portion of debt securities issued	22	385,055	375,436
Current portion of finance lease liability		-	11,933
Current portion of employee benefits	23	114,000	105,000
Trade and other accounts payable	25	19,295,377	11,278,956
Advances received	26	8,717,264	9,530,274
Income tax payable		328,822	1,096,646
Taxes payable	27	855,737	653,219
Provisions	28	3,718,848	-
Other current liabilities	29	4,374,483	5,431,737
		43,950,734	30,484,898
TOTAL EQUITY AND LIABILITIES		406,213,276	321,377,028

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

Acting General Director

Chief Accountant



Missupova A.B.

Mittangaliyeva Zh.O.

CONSOLIDATED INCOME STATEMENT

<i>In thousands of Tenge</i>	Note	2008	2007
Revenue	30	129,608,153	94,993,806
Cost of sales	31	(68,356,422)	(56,087,295)
Gross profit		61,251,731	38,906,511
General and administrative expenses	32	(19,607,093)	(13,880,474)
Other operating income	33	1,794,152	1,926,852
Other operating expenses	34	(596,224)	(1,371,719)
Impairment of property, plant and equipment	6	(3,103,004)	(1,567,606)
Impairment of goodwill	7	(17,553,133)	-
Operating profit		22,186,429	24,013,564
Finance income	35	3,020,622	1,882,613
Finance costs	36	(4,916,458)	(4,756,464)
Foreign exchange gain / (loss), net		(914,234)	2,761,724
Share in losses from jointly controlled operations		(260,574)	(240,202)
Profit before income tax		19,115,785	23,661,235
Income tax benefit / (expense)	37	942,277	(9,481,204)
Profit for the year		20,058,062	14,180,031
Profit attributed:			
Equity holder of the parent		20,058,062	13,562,627
Minority interest	5	-	617,404
		20,058,062	14,180,031

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

Acting General Director

Chief Accountant



Kussupova A.B.

Sultangaliyeva Zh.O.

CONSOLIDATED CASH FLOW STATEMENT

<i>In thousands of Tenge</i>	Note	2008	2007
Cash flows from operating activities:			
Profit before income tax		19,115,785	23,661,235
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	6, 7	20,291,261	20,789,212
Provision for / (Reversal of) impairment of doubtful debts, VAT and other non-current financial assets	32	1,934,311	(103,178)
Loss on disposal of property, plant and equipment and intangible assets, net	34	596,224	940,441
Provisions	28, 32	3,718,848	-
Impairment of goodwill		17,553,133	-
Employee benefits (apartments)		-	2,047,714
Employee benefits (current service expense)		163,000	2,019,000
Finance income	34	(3,020,622)	(1,882,613)
Finance cost	35	4,916,458	4,756,464
Actuarial gains	33	(211,000)	-
Impairment of property plant and equipment		3,103,004	1,567,606
Income from write off of payables	33	(10,258)	(15,253)
Loss from initial recognition of financial guarantee	34	-	431,278
Amortization of financial guarantee	33	(56,149)	(47,325)
Excess of inventory	33	(14,224)	(369,356)
Allowance for obsolete inventory	32	58,511	(158,900)
Unrealized foreign exchange loss / (gain)		1,294,452	(2,724,035)
Operating cash flow before working capital changes		69,432,734	50,912,290
Changes in inventories		283,326	153,511
Changes in trade and other accounts receivable		1,467,794	(1,287,308)
Changes in advances to suppliers		78,978	467,560
Changes in taxes recoverable and other current assets		(5,834,762)	5,272,785
Changes in trade and other payables, financial guarantee and lease liabilities		7,445,123	(1,137,795)
Changes in advances received		(813,010)	165,063
Changes in other taxes payable		79,379	(762,231)
Changes in other current and noncurrent liabilities		(1,382,245)	(207,314)
Cash generated from operations		70,757,317	53,576,561
Income taxes paid		(12,378,348)	(4,053,128)
Interest paid		(3,666,470)	(3,541,374)
Interest received		1,541,765	1,471,246
Dividends received		79,336	99,920
Net cash flow from operating activities		56,333,600	47,553,225
Cash flows from investing activities:			
Withdrawal of term deposits		4,903,062	9,231,669
Placement of term deposits		(21,048,518)	(9,707,338)
Purchase of property, plant and equipment		(73,505,648)	(30,262,911)
Change in advances paid for non-current assets		(75,532)	(1,064,447)
Proceeds from disposal of property, plant and equipment and intangible assets		1,267,729	473,691
Purchase of intangible assets		(332,440)	(213,148)
Acquisition of business, net of cash acquired	5	(37,903,770)	(6,831,147)
Net cash flow used in investing activities		(126,695,117)	(38,373,631)

CONSOLIDATED CASH FLOW STATEMENT (continued)

<i>In thousands of Tenge</i>	<i>Note</i>	2008	2007
Cash flows from financing activities:			
Proceed from interest-free loan from related party		36,300,000	-
Repayment of interest-free loan to related party		(36,300,000)	-
Proceeds from interest bearing loans and borrowings		86,888,169	680,026
Dividends paid		(3,268,788)	(2,316,632)
Dividends paid to former shareholder of Batumi Industrial Holding Limited		(776,265)	-
Repayment of loans and borrowings		(7,943,196)	(4,713,067)
Net cash flow from / (used in) financing activities		74,899,920	(6,349,673)
Net change in cash and cash equivalents		4,538,403	2,829,921
Cash and cash equivalents at the beginning of the year	19	25,403,345	22,573,424
Cash and cash equivalents at the end of the year	19	29,941,748	25,403,345

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

Acting General Director

General Director



[Signature]
Nussupova A.B.

[Signature]
Sultangaliyeva Zh.O.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Attributable to equity holder of the Parent						Total
	Share capital	Revaluation reserve	Other reserves	Foreign currency translation reserve	Retained earnings	Minority interest	
As at December 31, 2006	32,916,055	55,800,150	19,770,393	(10,353)	75,194,507	-	183,670,752
Foreign currency translation	-	-	-	(216,711)	-	(126,551)	(343,262)
Transferred to retained earnings	-	-	(19,753,220)	-	19,753,220	-	-
Amortisation of revaluation reserve	-	(7,258,004)	-	-	7,258,004	-	-
Disposal of assets	-	-	(69)	-	-	-	(69)
Revaluation of property, plant and equipment	-	19,118,573	-	-	-	-	19,118,573
Net Income and expense recognized directly in equity	-	11,860,569	(19,753,289)	(216,711)	27,011,224	(126,551)	18,775,242
Profit for the year	-	-	-	-	13,562,627	617,404	14,180,031
Total recognized income and expenses	-	11,860,569	(19,753,289)	(216,711)	40,573,851	490,853	32,955,273
Minority interest arising on business acquisition (Note 5)	-	-	-	-	-	3,269,593	3,269,593
Dividends declared	-	-	-	-	(2,316,632)	(694,343)	(3,010,975)
As at December 31, 2007	32,916,055	67,660,719	17,104	(227,064)	113,451,726	3,066,103	216,884,643
Foreign currency translation	-	1,475	-	149,288	-	-	150,763
Amortization of revaluation Reserve	-	(7,500,663)	-	-	7,500,663	-	-
Impairment of assets	-	(10,469,290)	-	-	-	-	(10,469,290)
Revaluation of property, plant and equipment	-	224,911	-	-	-	-	224,911
Net Income and expense recognized directly in equity	-	(17,743,567)	-	149,288	7,500,663	-	(10,093,616)
Profit for the year	-	-	-	-	20,058,062	-	20,058,062
Total recognized income and expenses	-	(17,743,567)	-	149,288	27,558,725	-	9,964,446
Acquisition of minority interest (Note 5)	-	-	-	-	-	(3,066,103)	(3,066,103)
Dividends declared	-	-	-	-	(3,268,788)	-	(3,268,788)
As at December 31, 2008	32,916,055	49,917,152	17,104	(77,776)	137,741,663	-	220,514,198

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

Acting General Director

Chief Accountant



Nussupova A.B.
Nussupova A.B.

Sultangaliyeva Zh.O.
Sultangaliyeva Zh.O.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

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

The Company is domiciled in the Republic of Kazakhstan and is a wholly owned subsidiary of National Company "KazMunayGas" JSC ("KazMunayGas" or "Shareholder"). KazMunayGas is wholly owned by the Government as represented by JSC "National Welfare Fund "Samruk-Kazyna" and, respectively, all subsidiary companies of KazMunayGas and other state controlled entities are considered as related parties in these consolidated financial statements (Note 38).

As at December 31, 2008 and December 31, 2007, the following significant subsidiaries and joint ventures have been included in these consolidated financial statements:

	Place of incorporation	Principal activities	Interest ownership	
			December 31, 2008	December 31, 2007
KTO-Service LLP ("KTO-Service")	Kazakhstan	Management of non-production assets	100%	100%
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%	—

* Main activities of BCPL and BIHL are carried out by their subsidiaries located in Georgia.

The Company, its subsidiaries and joint ventures 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 scientific-technical centre located in Almaty, a Multiaccess computing centre in Astana, and representative offices in Russian Federation (Moscow, Omsk and Samara) and Ukraine (Kiev).

On December 24, 2003, the Company concluded an investment contract ("Investment Contract 1") with the Committee for Investment of the Ministry of Industry and Trade of the Republic of Kazakhstan (the "Committee for Investment"). On December 24, 2003, MunayTas JSC concluded a similar contract ("Investment Contract 2") with the Committee for Investment. In accordance with Investment Contracts 1 and 2 the Group has been provided with the following investment tax concessions as stipulated by the legislation of the Republic of Kazakhstan concerning investments:

- for corporate income tax purposes, the Company and MunayTas have been provided with the right to deduct the cost of fixed assets entered into operation from aggregate annual income in equal shares for two years beginning from 1 January of the year following the year when fixed assets entered in operation. The Company used the preferences in 2005 and 2006 and MunayTas uses the preferences in 2004–2008.
- an exemption from property tax for three years for fixed assets that were newly entered into operation beginning from 1 January of the year following the year when fixed assets entered in operation. The Company used the preferences in 2005–2007 and MunayTas uses the preferences in 2004–2008.
- an exemption from land tax for three years for plots of land purchased and used for the implementation of an investment project beginning from 1 January of the year following the year when the fixed assets entered into operation. The Company used the preferences in 2005–2007 and MunayTas uses the preferences in 2004–2008.

On October 13, 2006 the Company entered into an investment contract ("Investment Contract 3") with the Committee for Investment for the provision of the following investment tax concessions from January 1, 2007 when implementing the investment project "Construction of the Supply Oil Pipeline "North Buzachi-Karazhanbas":

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

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

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

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

These consolidated financial statements were approved for issue by the acting General Director and the Chief Accountant of the Group on March 12, 2009.

2. POLITICAL AND ECONOMIC ENVIRONMENT

Operating environment

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

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

Tariff setting

The Company is considered to be a monopolist, and as such, is regulated by the Agency for the Regulation of Natural Monopolies and the Protection of Competition of the Republic of Kazakhstan (the "Antimonopoly Committee"). This agency is responsible for approving the methodology for calculating tariffs and tariff rates, under which the Company derives substantially all of its primary revenues. Tariffs are generally based on the cost of capital for assets used. According to legislation of the Republic of Kazakhstan on the regulation of the activities of natural monopolies, tariffs may be no lower than costs to provide services, and should take into consideration the possibility of generating profit that ensures the effective performance of a natural monopoly.

Oil transportation services tariffs for mainline pipelines were approved by the Order of the Chairman of the Antimonopoly Committee dated February 20, 2003. The Order of the Company's General Director dated May 5, 2004 reduces oil pumping tariffs due to changes in Kazakhstan legislation. In this respect, tariffs are calculated based on the weighted tariff of 2,413 Tenge for the transportation of 1 tonne of oil for 1,000 km for export and 1,303 Tenge for the transportation of 1 tonne of oil for 1,000 km for local market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. CURRENT ECONOMIC ENVIRONMENT (continued)

Tariff setting (continued)

In accordance with the Order of the Antimonopoly Committee dated November 21, 2007 starting from January 1, 2008 new tariffs were introduced based on the weighted tariff of 3,015 Tenge for the transportation of 1 tonne of oil for 1,000 km for export and 1,303 Tenge for the transportation of 1 tonne of oil for 1,000 km for local market.

In accordance with the Order of the Antimonopoly Committee dated January 25, 2008 starting from March 1, 2008 separate tariff of 471 Tenge for the transportation of 1 tonne of oil was introduced for the route North Buzachi – Karazhanbas.

Water is supplied to oil and gas producers and other consumers in the Western Kazakhstan region, and also to the local population. Current water supply tariffs were approved by the Order of the Chairman of the Antimonopoly Committee dated November 21, 2006, and were entered into force from January 1, 2007. Water supply tariffs were set for the following groups of consumers: population, budget and non-commercial organisation, agricultural producers, industrial companies and other commercial organisations, and oil and gas production companies.

3. BASIS OF PREPARATION

The consolidated financial statements of the Group for the year ended December 31, 2008 have been prepared on a revalued 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.

Statement of Compliance

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

Foreign currency translation

Functional and presentation currency

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 functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

Subsidiaries and joint ventures

The results and financial position of all of the Group’s subsidiaries and joint ventures (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 income statement 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF PREPARATION (continued)

Foreign currency translation (continued)

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.

The currency exchange rate of KASE as at December 31, 2008 was 120.79 Tenge to USD 1 (2007: 120.3 Tenge to USD 1). This rate was used to translate monetary assets and liabilities denominated in US dollars as at December 31, 2008 (Note 42).

Changes in Accounting policies and disclosures

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this Interpretation did not have any effect on the financial position or operating results of the Group.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. As the Group does not have defined benefit schemes, the Interpretation had no impact on the financial position or operating results of the Group.

IFRIC 12 – Service Concession Arrangements. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Group is not an operator and, therefore, this interpretation has no impact on the Group.

IFRIC 13 – Customer Loyalty Programmes. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. As the Group does not have Customer Loyalty Programmes, the Interpretation had no impact on the financial position or operating results of the Group.

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation. IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group does not have hedge of net investments and, therefore the interpretation has no impact on the Group.

The Group early adopted the revised IAS 23 "Borrowing Costs" since January 1, 2007, which resulted in capitalization of borrowing costs of 730,611 thousand Tenge on construction of new assets in 2008 (2007: Nil) (Note 6).

IFRS and IFRIC Interpretations not yet effective

The Group has not applied the following IFRS and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 1 Amendment "First-time Adoption of International Financial Reporting Standards";
- IFRS 2 "Share-based Payments – Vesting conditions and Cancellations";
- IFRS 3R "Business Combinations";
- IFRS 8 "Operating Segments";
- IAS 1R and Amendment "Presentation of Financial Statements";

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF PREPARATION (continued)

Changes in Accounting policies and disclosures (continued)

IFRS and IFRIC Interpretations not yet effective (continued)

- IAS 27R “Consolidated and Separate Financial Statements”;
- IAS 32 Amendment “Financial Instruments: Presentation”;
- IAS 39 “Financial Instruments: Recognition and Measurement”;
- IFRIC 15 “Agreement for the Construction of Real Estate”.

The management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

In May 2008 the Board issued its first 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 Group adopted those amendments and improvements to IFRSs which are applicable to its operating activities in 2008.

Significant accounting judgments, estimates and assumptions

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

Revaluation of property, plant and equipment

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF PREPARATION (continued)

Significant accounting judgments, estimates and assumptions (continued)

Revaluation of technological oil

The following judgments 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 for the technological oil in pipeline to reflect fair value that would be determined by informed market participant would be 152 US Dollars (18,372 Tenge) per tonne as of December 31, 2008 (2007: 200 US Dollars (Tenge 24,000)).

As of 31 December 2007 the market prices observed from sales of local producers for export were in the range of 225 US Dollars (27,173 Tenge) and 337.5 US Dollars (40,759 Tenge) per tonne (2007: 550 US Dollars (Tenge 66,165) and 620 US Dollars (Tenge 74,586) per tonne). As of 31 December 2008 the amount of oil in the pipeline included as part of property, plant and equipment is 2086 thousand tonnes (2007: 2,100 thousand tonnes).

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. However, management of the Group believes that environmental law as applicable to the Group's operations does not require dismantling of pipeline and land reclamation upon retirement. As a result, no asset retirement obligation as of December 31, 2008 and 2007 were recognised in these consolidated financial statements.

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 an impairment exists.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF PREPARATION (continued)

Significant accounting judgments, estimates and assumptions (continued)

Impairment of property, plant and equipment (continued)

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

In 2008 the Group recognized an impairment of 16,089,012 thousand Tenge (2007: 941,714 thousand Tenge), where the impairment of 3,103,004 thousand Tenge was recognized in consolidated income statement (2007: 146,866 thousand Tenge) and 12,986,008 thousand Tenge was recognized directly in equity (2007: 794,848) (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

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. 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 December 31, 2008 and 2007, allowances for doubtful accounts have been created for the amount of 2,452,886 thousand Tenge and 561,019 thousand Tenge, respectively (Notes 10, 11, 12, 14, 15).

Deferred tax assets

Deferred tax assets are recognized for all provisions for doubtful debts, allowances for slow-moving inventories and accruals to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The amount of recognized deferred tax assets as of December 31, 2008 was 1,635,752 thousand Tenge (2007: 1,835,317 thousand Tenge) (Note 37).

Tax Provisions

The Group is involved in the process of legal proceedings related to the tax audit results. 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 December 31, 2008 the management has made a provision in the consolidated financial statements in amount of 3,718,848 thousand Tenge (2007: Nil), what 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 (Note 28).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

Consolidated financial statements comprise the accounts of the Company, its subsidiaries and joint ventures, 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 and joint ventures 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 subsidiary, KTO-Service and BIHL, which have been fully consolidated in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. 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 the consolidated income statement.

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.

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.

Interest in joint ventures

As discussed in Note 1, the Group has interest in three joint ventures which are jointly controlled entities, BCPL, KCP and MunayTas, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Property, plant and equipment

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

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

	Years
Buildings and constructions	20 – 50
Machinery and equipment	2 – 25
Pipelines and other transportation assets	10 – 33
Other	2 – 15

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction-in-progress

Construction-in-progress represents property, plant and equipment under construction. This includes cost of construction and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

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 a 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 consolidated income statement, in which case the increase is recognized in the consolidated 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. A transfer from revaluation reserve to retained earnings is not made through the consolidated income statements.

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 shown in the consolidated statement of changes in equity as a release for the disposals of property, plant and equipment.

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 amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over the estimated useful economic life of the assets. Intangible assets are generally amortised over five years. The amortisation expense on intangible assets is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

Non-current assets classified as held for sale

Assets are classified as non-current 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.

The Group measures a non-current 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. Non-current 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 balance sheet.

Investments and other financial assets

Financial assets within the scope of IAS 39 "Financial instruments: recognition and measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition. 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.

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the consolidated income statement. During the period the Group did not hold any investments in this category.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Impairment of financial instruments

Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortised cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of accounts receivable, an impairment or allowance for doubtful debt is recognised in the consolidated income statement. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded as income in the consolidated income statement.

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.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement trade and other receivables are carried at amortized cost using the effective interest method less any allowance for impairment.

Gains and losses are recognised in the consolidated income statement when trade and other receivables are derecognized or impaired, as well as through the amortization process.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash in the Company's bank accounts. Cash equivalents are highly liquid investments with original maturities of three months or less.

Loans and borrowings

All loans and borrowings are initially recognized at fair value less directly attributable transactions costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Securities Issued

Debt securities are initially recognized at cost, which is the fair value of consideration received, net of any transaction costs incurred. Subsequently, debt securities issued are stated at amortized cost over the period of the borrowings using the effective interest method.

Trade and other accounts payable

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

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, significant anniversaries and funeral. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. Actuarial gains and losses arising in the year are taken to the consolidated income statement. 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 consolidated income statement, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the income statement 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 borrowing cost.

Revenue recognition

Rendering of services and sales of goods

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Sales are recognised net of related taxes. Revenue from transportation services is recognised based on actual volumes of crude oil or water transported during the reporting period. Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income

Revenue is recognized as interest is accrued (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Expense recognition

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the consolidated financial statements in the period to which they relate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

Current 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 balance sheet date in the Republic of Kazakhstan.

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

Deferred Income Tax

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;
- in respect of taxable temporary differences associated with investments in subsidiaries and associates.

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

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 utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Income Tax (continued)

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

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

Other taxes

The Group pays social tax to the budget of the Republic of Kazakhstan for its employees based on a regressive scale depending on the amount of salary in accordance with the tax legislation of the Republic of Kazakhstan.

The Group also withholds up to 10%, limited to 78,863 Tenge in 2008 (2007: 73,140 Tenge), from the salary of its employees as the employees' contribution to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to pay its employees upon their retirement.

Value Added Tax

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

Due to specifics of tax legislation and the Company's operations certain part of input VAT can be offset against output VAT which will be generated only after period exceeding 12 months. 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.

Equity

Share Capital

Share capital is recognized at cost and is comprised of common. Dividends on ordinary shares are recognized in shareholder's equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Subsequent events

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

Financial Guarantee Contract Liabilities

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 issue of the guarantee. At origination, the fair value of financial guarantee contracts issued in favour of loans given to related parties is recognized as a distribution to Shareholder. At origination, the fair value of financial guarantee contracts issued in favour of loans given to third parties is recognized as expense in the consolidated income statement. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount initially recognised, less, when appropriate, cumulative amortization recognized in accordance with IAS 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain reclassifications have been made to the previous year consolidated balance sheet and consolidated income statement in order to conform to the current year presentation.

<i>In thousands of Tenge</i>	Amount
Non-current portion of interest-free loan to related party was reclassified from other non-current financial assets to interest-free loan to related party	1,017,697
Accounts receivable for transportation coordination was reclassified from other current assets to trade and other receivables	2,277,231
Short-term loans were reclassified from trade and other receivables to other current assets	98,417
Due from employees was reclassified from trade and other receivables to other current assets	51,361
Current portion of interest-free loan to related party was reclassified from trade and other receivables to current portion of interest-free loan to related party	2,497,478
Other non-current accounts payable was reclassified to other non-current liabilities	71,908
Accounts payable for transportation coordination from third parties was reclassified from other current liabilities to trade and other payables	3,636,897
Accounts payable for transportation coordination from related parties was reclassified from other current liabilities to trade and other payables	1,255,026
Other estimation liabilities were reclassified from trade and other payables to other current liabilities	463,625
Impairment of property, plant and equipment was reclassified from cost of sales to the separate line on the face of the consolidated income statement	1,688,070
Reversal of impairment of property, plant and equipment was reclassified from general and administrative expenses to the separate line on the face of the consolidated income statement	(120,464)

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

<i>In thousands of Tenge</i>	Presentation in 2008	Presentation in 2007
Consolidated balance sheet as of December 31, 2007		
Interest-free loans to related party	1,017,697	–
Other non-current financial assets	185,912	1,203,609
Trade and other receivables	4,131,491	4,501,516
Current portion of interest-free loans to related party	2,497,478	–
Other current assets	586,426	2,713,879
Other non-current accounts payable	–	71,908
Other non-current liabilities	315,297	243,389
Trade and other payables	11,278,956	6,850,658
Other current liabilities	5,431,737	9,860,035
	25,444,994	25,444,994
Consolidated income statement for 2007		
Cost of sales	56,087,295	57,775,365
General and administrative expenses	13,880,474	13,760,010
Impairment of property, plant and equipment	1,567,606	–
	71,535,375	71,535,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS

Acquisitions in 2008

Acquisition of Batumi Industrial Holdings Limited

On September 12, 2007 the Group concluded an agreement on acquisition of 100% of common shares of Batumi Industrial Holdings Limited ("BIHL") from Terminal Partners Limited for 325 million US Dollars. BIHL is a holding company with 50% stake in BCPL (former Nafttrans Capital Partners Limited ("NCPL"), 38.12% stake in Batumi Terminal Limited ("BTL") and 100% stake in Port Capital Partners, which owns 100% of Batumi Sea Port. The Group paid consideration of 325 million US Dollars or 39,061,750 thousand Tenge on February 5, 2008, date of acquisition. The acquisition has been accounted for using the purchase method of accounting.

The fair value of the identifiable assets, liabilities and contingent liabilities attributable to 100% interest acquired in BIHL and the historical IFRS carrying value as at the date of acquisition were:

<i>In thousands of Tenge</i>	Fair values recognized on acquisition	Previous carrying value
Property, plant and equipment	20,003,778	13,328,666
Inventories	371,414	371,414
Trade accounts receivable	3,641,015	3,641,015
Other taxes prepaid	456,028	456,028
Other current assets	181,723	181,723
Other short-term financial assets	97,714	97,714
Cash and cash equivalents	1,157,980	1,157,980
Total assets	25,909,652	19,234,540
Long-term interest bearing loans and borrowings	480,760	480,760
Short-term Interest bearing loans and borrowings	1,953,213	1,953,213
Deferred income tax liabilities	484,015	484,015
Other non-current liabilities	1,155,884	1,155,884
Liabilities to employees	305,702	305,702
Payables to third parties	480,573	480,573
Other taxes payable	123,139	123,139
Other current liabilities	1,854,144	1,854,144
Total liabilities	6,837,430	6,837,430
Net assets	19,072,222	12,397,110
Minority interest (19.06 % of BTL) acquired	3,066,103	
Total net assets acquired	22,138,325	
Goodwill arising from acquisition (Note 7)	16,923,425	
Total consideration	39,061,750	
Net cash acquired with the subsidiary	(1,157,980)	
Net outflow of cash and cash equivalents	37,903,770	

From the date of acquisition, BIHL has contributed 1,527,517 thousand Tenge to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been 20,568,576 thousand Tenge and revenue from continuing operations for the year ended December 31, 2008 would have been 132,065,425 thousand Tenge.

The goodwill recognized above is attributed to the expected synergies and other benefits from combining the assets and activities of BIHL with those of the Group.

The valuation of property, plant and equipment was performed by an independent professional appraiser. The basis used for the appraisal was replacement cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (continued)

Acquisitions in 2007

On January 11, 2007 the Group acquired 50 % of common shares of Nafrans Capital Partners Limited ("NCPL") for 64 million US Dollars or 8,012,800 thousand Tenge. The acquisition has been accounted for using the purchase method of accounting.

The fair value of the identifiable assets, liabilities and contingent liabilities attributable to 50% of interest acquired in NCPL and the historical IFRS carrying value as at the date of acquisition were:

<i>In thousands of Tenge</i>	Fair values recognized on acquisition	Previous carrying value
Property, plant and equipment	9,965,559	9,547,724
Inventories	148,728	148,728
Trade accounts receivable	280,114	280,114
Advances to suppliers	217,149	217,149
Other taxes prepaid	130,670	130,670
Cash and cash equivalents	1,181,653	1,181,653
Total assets	11,923,873	11,506,038
Current portion of financial lease	12,213	12,213
Finance lease	94,820	94,820
Interest bearing loans and borrowings	1,953,256	1,953,256
Trade accounts payable and other liabilities	874,182	874,182
Advances received	155,896	155,896
Other taxes payable	332,131	332,131
Total liabilities	3,422,498	3,422,498
Net assets	8,501,375	8,083,540
Minority interest (19.06 % of BTL)	(3,269,593)	
Total net assets acquired	5,231,782	
Goodwill arising from the acquisition	2,781,018	
Total consideration	8,012,800	
Net cash acquired with joint venture	(1,181,653)	
Net outflow of cash and cash equivalents	6,831,147	

From the date of acquisition to December 31, 2007, acquired joint venture has contributed 5,628,774 thousand Tenge to the revenue and 998,368 thousand Tenge to the net profit of the Group.

The goodwill recognized above is attributed to the expected synergies and other benefits from combining the assets and activities of BIHL with those of the Group.

The valuation of property, plant and equipment was performed by an independent professional appraiser. The basis used for the appraisal was replacement cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of Tenge</i>	Land	Buildings and construction	Machinery and equipment	Pipelines and other transportation assets	Technological oil	Other	Construction in progress	Total
Net book value as at December 31, 2006	594,079	27,699,713	57,803,535	87,663,624	30,260,750	8,829,371	10,277,823	223,128,895
Acquisitions through business combinations (Note 5)	1,102,738	5,752,257	2,477,554	581,194	-	-	51,816	9,965,559
Additions	19,885	538,462	2,557,619	3,794,335	640,610	573,086	23,904,202	32,028,199
Disposals	(29,876)	(1,121,710)	(246,405)	(761,259)	(81,889)	(63,674)	(115,772)	(2,420,585)
Transfers from/into non-current assets held for sale	(815,888)	(658,903)	436,841	9,104	-	(167,853)	-	(1,196,699)
Transfers and reclassifications	-	7,058,905	12,518,852	1,497,368	-	(786,061)	(20,289,064)	-
Revaluation (Equity)	1,384,249	363,530	3,147,030	3,179,748	19,074,559	310,526	-	27,459,642
Impairment (Equity)	-	(20,705)	(7,104)	(763,590)	-	(3,449)	-	(794,848)
Revaluation (Income Statement)	(1,554)	(2,402,186)	(490,980)	(156,331)	(78,310)	(284,291)	(163,779)	(3,577,431)
Reversal of impairment (Income Statement)	75,167	1,044,379	282,473	620,366	-	112,111	22,195	2,156,691
Impairment (Income Statement)	-	-	(165)	(146,701)	-	-	-	(146,866)
Depreciation charge	-	(2,000,502)	(7,926,691)	(9,218,449)	-	(1,339,970)	-	(20,485,612)
Foreign currency translation	(43,158)	(219,496)	(95,952)	(21,728)	-	-	(2,740)	(383,074)
Net book value as at December 31, 2007	2,285,642	36,033,744	70,456,607	86,277,681	49,815,720	7,179,796	13,684,681	265,733,871
Foreign currency translation	32,931	31,342	11,988	(89,288)	-	4,316	314	(8,397)
Additions	59,399	1,662,831	1,737,053	2,048,127	66,525	1,219,877	68,190,515	74,984,327
Acquisitions through business combinations (Note 5)	12,679,018	2,340,234	2,859,102	1,182,480	-	915,657	27,287	20,003,778
Disposals	(407,480)	(2,794,492)	(1,046,575)	(336,251)	(43,820)	(632,509)	(187,444)	(5,448,571)
Transfers from/into non-current assets held for sale	1,206,357	1,091,369	-	-	-	-	-	2,297,726
Depreciation charge	-	(2,360,483)	(8,052,429)	(8,174,913)	-	(1,347,067)	-	(19,934,892)
Accumulated depreciation on disposals	-	239,190	234,255	156,575	-	144,084	-	774,104
Impairment (Income Statement)	(11,746)	(2,103,550)	(431,026)	(226,631)	(123,901)	(117,864)	(88,286)	(3,103,004)
Impairment (Equity)	(1,292,954)	(47,814)	(20,480)	(5,770)	(11,614,860)	(4,130)	-	(12,986,008)
Revaluation (Equity)	-	-	-	-	220,258	4,653	-	224,911
Transfers to intangible assets	-	-	-	-	-	-	(97,963)	(97,963)
Transfers and reclassifications	5,856	6,525,875	13,940,777	10,901,310	-	2,468,707	(33,842,525)	-
Net book value as at December 31, 2008	14,557,023	40,618,246	79,689,272	91,733,320	38,319,922	9,835,520	47,686,579	322,439,882
As at December 31, 2008								
At revalued cost	15,861,723	46,204,105	92,317,362	107,877,150	50,058,683	11,781,427	47,774,865	371,875,315
Impairment	(1,304,700)	(2,151,364)	(451,671)	(379,102)	(11,738,761)	(121,994)	(88,286)	(16,235,878)
Accumulated depreciation	-	(3,434,495)	(12,176,419)	(15,764,728)	-	(1,823,913)	-	(33,199,555)
Net book value	14,557,023	40,618,246	79,689,272	91,733,320	38,319,922	9,835,520	47,686,579	322,439,882
As at December 31, 2007								
At revalued cost	2,285,642	37,346,946	74,815,017	94,170,772	49,815,720	7,800,726	13,684,681	279,919,504
Impairment	-	-	(165)	(146,701)	-	-	-	(146,866)
Accumulated depreciation	-	(1,313,202)	(4,358,245)	(7,746,390)	-	(620,930)	-	(14,038,767)
Net book value	2,285,642	36,033,744	70,456,607	86,277,681	49,815,720	7,179,796	13,684,681	265,733,871

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

As of December 31, 2008 and 2007 construction-in-progress ('CIP') mainly includes pump stations, tanks and transportation assets under construction.

As of December 31, 2008 and 2007 construction-in-progress includes inventories in the amounts of 283,647 thousand Tenge and 116,987 thousand Tenge, respectively, which were purchased for construction purposes.

As of December 31, 2008 and 2007 the cost of fully depreciated but still in use property, plant and equipment was 2,927,636 thousand Tenge and nil, respectively.

As of December 31, 2008 and 2007 cost of property, plant and equipment which temporarily are not in use is 500,852 thousand Tenge and 469,230 thousand Tenge, respectively.

In 2008 Group capitalized borrowing costs directly related to the financing of the construction of "Kenkiyak-Kumkol" pipeline in amount of 730,611 thousand Tenge (2007: nil).

Under certain credit line agreements MunayTas, joint venture of the Group, shall not sell, lease, transfer or dispose assets with net book value more than 20% of net book value of its total assets that comprise 30,583,250 thousand Tenge and 29,145,162 thousand Tenge as of December 31, 2008 and December 31, 2007, respectively (Note 21).

In 2008 Group was unable to sell assets classified as non-current assets held for sale and accordingly transferred these assets to fixed assets.

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

	Land	Buildings	Machinery and equipment	Pipelines and other transportation assets	Technological oil	Other	Construction-in-progress	Total
At December 31, 2007	902,947	28,754,341	48,874,316	66,753,631	756,963	6,177,338	13,684,681	165,904,217
At December 31, 2008	14,479,028	33,154,266	59,197,331	73,194,305	698,602	8,383,218	47,686,579	236,793,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INTANGIBLE ASSETS AND GOODWILL

<i>In thousands of Tenge</i>	Goodwill	Licenses	Software	Other	Total
Net book value at January 1, 2007	–	45,027	1,417,560	–	1,462,587
Additions	–	1,926	170,315	45,243	217,484
Acquisitions through business combinations (Note 5)	2,781,018	–	–	–	2,781,018
Disposals	–	(4,021)	(315)	–	(4,336)
Amortization charge	–	(10,914)	(310,591)	(32)	(321,537)
Net book value at December 31, 2007	2,781,018	32,018	1,276,969	45,211	4,135,216
Additions	–	12,920	296,588	22,932	332,440
Acquisitions through business combinations (Note 5)	16,923,425	–	–	–	16,923,425
Disposals	–	–	(71,611)	(15)	(71,626)
Amortization charge	–	(10,889)	(354,416)	(14,151)	(379,456)
Accumulated depreciation on disposals	–	–	70,649	–	70,649
Impairment provision	(17,553,133)	–	–	–	(17,553,133)
Transfers from CIP (Note 6)	–	–	97,963	–	97,963
Transfers and reclassifications	–	23,679	(23,679)	–	–
Net book value at December 31, 2008	2,151,310	57,728	1,292,463	53,977	3,555,478
At cost	19,704,443	81,787	2,631,421	68,160	22,485,811
Impairment	(17,553,133)	–	–	–	(17,553,133)
Accumulated amortization	–	(24,059)	(1,338,958)	(14,183)	(1,377,200)
Net book value at December 31, 2008	2,151,310	57,728	1,292,463	53,977	3,555,478
At cost	2,781,018	45,188	2,332,160	45,243	5,203,609
Accumulated amortization	–	(13,170)	(1,055,191)	(32)	(1,068,393)
Net book value at December 31, 2007	2,781,018	32,018	1,276,969	45,211	4,135,216

8. AVAILABLE-FOR-SALE INVESTMENTS

As of December 31, 2008 available-for-sale investment represent investments in 0.91% of the shares of Accumulative Pension Fund of Halyk Bank of Kazakhstan JSC (2007: 10%). Decrease in the Group's share in 2008 is due to additional issue of the common shares of Accumulative Pension Fund of Halyk Bank of Kazakhstan JSC. As of December 31, 2008 and December 31, 2007 the carrying amount of the available-for-sale investments approximates its fair value.

9. INTEREST-FREE LOAN TO RELATED PARTY

As at December 31, 2008 and December 31, 2007 the interest-free loan to related party represents financing provided to KazMunayGas-Service LLP, subsidiary of KMG, amounting to 3,755,000 thousand Tenge (Note 38). Loan is repayable by the end of 2009. At initial recognition the loan was recorded at the fair value using 9% discount rate, and thereafter carried at amortized cost.

10. OTHER NON-CURRENT FINANCIAL ASSETS

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Non-current accounts receivable	563,383	152,423
Loans to employees	87,485	134,022
Less: allowance for doubtful debts	(88,817)	(100,533)
	562,051	185,912

The carrying amounts of other non-current financial assets are denominated in Tenge. At initial recognition loans to employees are recorded at the fair value using 9 % discount rate, and thereafter carried at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. OTHER NON-CURRENT FINANCIAL ASSETS (continued)

Movement in allowance for doubtful debts was as follows:

<i>In thousands of Tenge</i>	2008	2007
As at January 1	100,533	560,290
Change for the year	124	16,617
Written-off during the year	–	(336,003)
Reclassification	–	1,113
Reverse of allowance	(11,840)	(141,484)
As at December 31	88,817	100,533

11. ADVANCES TO SUPPLIERS FOR NON-CURRENT ASSETS

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Advances to third parties for property, plant and equipment	1,664,064	1,588,531
Less: allowance for doubtful debts	(134,846)	(85,960)
	1,529,218	1,502,571

Movement in allowance for doubtful debts was as follows:

<i>In thousands of Tenge</i>	2008	2007
As at January 1	85,960	–
Change for the year	48,886	85,960
As at December 31	134,846	85,960

12. OTHER NON-CURRENT ASSETS

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
VAT recoverable	2,216,288	1,800,854
Deferred expenses	474,202	17,383
Other	189,813	–
Less: allowance for non-recoverable VAT	(1,800,854)	–
	1,079,449	1,818,237

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. INVENTORIES

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Spare parts	2,378,303	2,227,536
Fuel	714,847	689,970
Construction materials	34,634	35,477
Other	455,351	515,426
Less: provision for slow-moving and obsolete inventories	(372,869)	(325,032)
	3,210,266	3,143,377

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

<i>In thousands of Tenge</i>	2008	2007
As at January 1	325,032	497,786
Change for the year	58,511	–
Write-off of inventories	(10,674)	(13,854)
Reverse of reserve	–	(158,900)
As at December 31	372,869	325,032

14. TRADE AND OTHER ACCOUNTS RECEIVABLES

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Accounts receivable for oil transportation coordination	2,494,725	2,277,231
Trade accounts receivable from third parties	2,056,881	1,096,615
Other accounts receivable from third parties	1,622,068	851,095
Trade accounts receivable from related parties (Note 38)	376,379	83,849
Other accounts receivable from related parties (Note 38)	81,453	195,557
Due from employees	5,048	–
Less: allowance for doubtful debts	(427,269)	(372,856)
	6,209,285	4,131,491

For terms and conditions relating to related party receivables, refer to Note 38.

The Group provides oil transportation coordination services to its customers being an agent between its customers and foreign pipeline operators for transportation of oil outside of Kazakhstan (Note 1). These services are provided on 100% prepayment basis. Accounts receivable for oil transportation coordination services represent advances to foreign pipeline operators transferred by the Group on behalf of its customers (Note 25).

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

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Tenge	1,460,744	986,874
Foreign currencies	4,748,541	3,144,617
	6,209,285	4,131,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. TRADE AND OTHER ACCOUNTS RECEIVABLES (continued)

Movement in allowance for doubtful debts was as follows:

<i>In thousands of Tenge</i>	2008	2007
As at January 1	372,856	396,955
Change for the year	129,346	85,453
Write-off of receivable	(41,014)	(431)
Reverse of allowance	(33,919)	(109,121)
As at December 31	427,269	372,856

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

	Total	Neither past due nor impaired	30-90 days	90-120 days	Past due but not impaired 120-360 days	>360 days
2007	4,131,491	3,947,611	36,555	135,791	11,534	–
2008	6,209,285	5,361,255	218,637	64,365	565,028	–

15. ADVANCES TO SUPPLIERS

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Advances to third parties	251,623	333,512
Advances to related parties (Note 38)	38,435	36,954
Less: allowance for doubtful debts	(1,100)	(1,670)
	288,958	368,796

Movement in allowance for doubtful debts was as follows:

<i>In thousands of Tenge</i>	2008	2007
As at January 1	1,670	43,499
Change for the year	867	626
Write-off of advances to suppliers	(1,430)	(113)
Reclassification	–	(1,113)
Reverse of allowance	(7)	(41,229)
As at December 31	1,100	1,670

As at December 31, 2008 and 2007, advances to suppliers were mainly denominated in Tenge.

16. VAT RECOVERABLE AND OTHER TAXES PREPAID

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
VAT recoverable	10,095,922	4,502,191
Other taxes prepaid	547,103	479,203
	10,643,025	4,981,394

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. OTHER CURRENT ASSETS

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Deferred expenses	752,972	9,185
Due from employees	168,767	51,361
Prepaid insurance	19,077	48,422
Dividends receivable	–	379,041
Short-term loans	–	98,417
	940,816	586,426

18. SHORT-TERM BANK DEPOSITS

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Short-term bank deposits	19,499,400	3,247,493
Interest on deposits	1,225,617	113,846
	20,725,017	3,361,339

At December 31, 2008 short-term bank deposits comprised Tenge denominated time deposits with Kazakhstani banks with maturity from 3 to 12 months (2007: 3 to 12 months), which earn interest of 7.5% to 11.5% per annum (2007: from 6.5% to 11.5% per annum) (Note 40).

19. CASH AND CASH EQUIVALENTS

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Time deposits with banks – Tenge	15,809,898	24,374,083
Current accounts with banks – US Dollars	11,893,108	728,858
Current accounts with banks – Tenge	2,070,315	286,845
Current accounts with banks – Georgian Lari	69,720	–
Current accounts with banks – Euro	10,098	–
Current accounts with banks – Chinese Yuan	304	–
Current accounts with banks – Russian Rouble	79	1,702
Cash on hand and in transit	6,029	9,257
Other current accounts with banks	82,197	2,600
	29,941,748	25,403,345

At December 31, 2008 Tenge denominated time deposits included deposits in Kazakhstani banks with interest rates ranging from 1% to 11.5% per annum (December 31, 2007: from 9% to 11%) and maturing in January 2009 (2007: January 2008). At December 31, 2008 and 2007, most current accounts with Kazakhstani banks carried interest ranging from 1% and 1.5% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. EQUITY

Share capital

As at December 31, 2008 and 2007, share capital of the Group comprised the following:

	Authorised	Issued and Fully paid	Par value, Tenge	Amount, thousand Tenge
December 31, 2007	32,916,055	32,916,055	1,000	32,916,055
December 31, 2008	32,916,055	32,916,055	1,000	32,916,055

As at December 31, 2008 and 2007, all issued shares of the Group were owned by KazMunayGas.

During 2008, the Group declared and paid dividends for 2007, totalling 3,268,788 thousand Tenge (2007: 2,316,632 thousand Tenge). The dividend per share amount was 99.30 Tenge per common stock (2007: 70.38 Tenge).

Dividends are not paid if (a) the equity becomes negative, (b) the Group becomes insolvent, (c) the Shareholder decided to liquidate the Group. The Shareholder has the right to decide not to pay dividends on the Group'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 June 30, 2007, December 31, 2004 and December 31, 1999.

Other reserves

Prior to 2007, as it was stated in the charter, the Group was required to maintain a general reserve fund of not less than 15 percent of its share capital. During 2007, due to changes to legislation and based on approval of the Group's Shareholder, the reserve capital of the Group amounting to Tenge 19,753,220 thousand was transferred to retained earnings.

At 31 December 2008 and 2007, 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 right for disposal of these assets requires approval of the Government represented by the Committee for State Property and Privatisation of the Republic of Kazakhstan.

21. INTEREST BEARING LOANS AND BORROWINGS

<i>In thousands of Tenge</i>	Maturity	Currency	Effective Interest rate	December 31, 2008	December 31, 2007
ICBC and ING Bank N.V.	August, 2018	US dollars	LIBOR+2.00%	47,841,908	—
Natixis Company	August, 2013	US dollars	LIBOR+1.70%	33,712,401	—
EBRD	June, 2014	US dollars	LIBOR+2.25%	4,352,048	4,844,257
CitiBank N.A. Singapore	December, 2011	US dollars	LIBOR+2.25%	3,662,772	4,697,130
RBS Bank Kazakhstan	June, 2009	US dollars	LIBOR+1.65%	3,631,144	—
TBC Bank	September, 2012	US dollars	13%	968,396	60,249
Georgian Maritime Bank	August, 2017	US dollars	14%	69,663	34,697
Cartu Bank	June, 2008	Georgian lari	14%	—	326,188
Less: unamortised transaction costs				(651,171)	—
Total interest bearing loans and borrowings				93,587,161	9,962,521
Less: amounts due for settlement within 12 months				(6,161,148)	(2,001,697)
Long-term portion of interest bearing loans and borrowings				87,426,013	7,960,824

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. INTEREST BEARING LOANS AND BORROWINGS (continued)

Industrial and Commercial Bank of China and ING Bank N.V.

As at August 12, 2008 KCP has concluded a credit agreement with Industrial and Commercial Bank of China ("ICBC") and ING Bank N.V. ("ING Bank"). Credit facility amount constituted 1,180,000 thousand US Dollars with duration of 10 year and possible prolongation up to 5 years. The loan was obtained for the purposes of financing construction of Kenkiyak-Kumkol pipeline. KCP received tranches of 400 million US Dollars, 200 million US Dollars and 200 million US Dollars on September 2, 2008, October 6, 2008 and December 15, 2008, respectively. Fourth tranche is planned to be received in the second quarter of 2009. Interest rate is adjusted semi-annually and equals to six month LIBOR plus 2%, as at December 31, 2008. Interest capitalization period equals to 36 months after conclusion of the credit agreement. Grace period for principal repayment is 42 months. CNPC, the partner of the Group in the KCP, serves as a guarantor under the credit facility for 54 months starting from the date of conclusion of credit agreement ("guarantee period"). Upon the end of the guarantee period the bank margin will be increased from 2% to 4%.

Natixis Company

In accordance with syndicate loan agreement dated August 28, 2008 the Group received a loan from BTMU (Europe) Limited, ING Bank N.V. and Natexis totaling to 275,000 thousand US Dollars. The loan is interest bearing with interest rate of LIBOR+1.70%. The loan will be repaid in eight equal semi-annual payments starting from March 10, 2010. The loan was obtained to refinance financial support obtained from KazMunayGas in amount of 36,300,000 thousand Tenge to finance acquisition of 100% of the shares of Batumi Industrial Holding Limited. As at December 31, 2008 the Group complies with all requirements of the credit line agreement (Note 40).

European Bank for Reconstruction and Development

In accordance with the loan agreement dated July 29, 2004 the Group received a loan from European Bank for Reconstruction and Development ("EBRD") in amount of 81,600 thousand US Dollars that matures on June 14, 2014. The loan is repaid quarterly. Interest rate will increase each year by 0.25% starting from July 2011. The loan is guaranteed by the Company (Note 38). As stated in the loan agreement neither MunayTas, nor the Company shall sell, lease, transfer or dispose its assets in a way which could lead to credit disability. In case the Company withdraws the guarantee given, that could be done only when MunayTas starts to fulfill certain requirements of the loan agreement, the interest rate will be increased by three-month LIBOR+3.5%. Management of the Group believes that it meets all contractual terms. As of December 31, 2008 the Group did not utilize the full amount of credit line.

Citibank N.A. Singapore

In accordance with the credit line agreement dated December 4, 2002 the Group received a 9-year uncovered credit line from Citibank N.A. Singapore ("Citibank") totaling to 80,000 thousand US Dollars. Interest on the loan is paid quarterly. On June 30, 2003 Citibank extended the credit line to 102,000 thousand US Dollars. As of December 31, 2008 the Group did not utilize the full amount of credit line. Under the credit line agreement MunayTas, joint venture of the Group, shall not sell, lease, transfer or otherwise dispose through one ore serial transactions its assets or any part of its assets with net book value more than 20% of its total revenue or total assets (Note 6). As at December 31, 2008 and December 31, 2007 the Group complies will all requirements of the credit line agreement (Note 40).

RBS Bank Kazakhstan

In accordance with the roll-over facility agreement dated June 26, 2008 the Group received a credit line from RBS Bank Kazakhstan in amount of 30,000 thousand US Dollars. The loan bears interest at rate of LIBOR+1.65% and is repayable by 15 June 2009. The loan was obtained with purpose of replenishment of working capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. INTEREST BEARING LOANS AND BORROWINGS (continued)

TBC Bank

As of December 31, 2008 the loan, received from TBC Bank, constitutes 8,019 thousand US Dollars or 968,396 thousand Tenge (December 31, 2007: 501 thousand US dollars, or 60,249 thousand Tenge), out of which 1,000 thousand US Dollars were provided to Batumi Oil Terminal Limited, subsidiary of Batumi Capital Partners Ltd. The loan is collateralized by Railway Estacade, and was repaid on August 25, 2008. Loan amounted to 10,000 thousand US Dollars was provided to Batumi Port Holdings, which is secured by the Exclusive Management right of 100% of the state owned shares of Batumi Sea Port Limited, a subsidiary of Batumi Industrial Holdings Ltd. Loan received should be repaid by September 21, 2012.

Georgian Maritime Bank

As of December 31, 2008 the loan, received by the Group from Georgian Maritime Bank, constitutes 577 thousand US Dollars or 69,673 thousand Tenge (December 31, 2007: 288 thousand US dollars, or 34,697 thousand Tenge). The loans should be repaid by August 2017, but is classified as short-term due to liquidation of the bank.

Cartu Bank

As of December 31, 2008 the loan, received by the Group from Cartu Bank, was fully repaid (December 31, 2007: 4,316 thousand Georgian lari, or 326,188 thousand Tenge).

Amounts after 12 months are repayable as follows:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
1 to 2 years	10,247,246	1,821,405
2 to 5 years	42,589,375	4,959,343
Over 5 years	34,589,392	1,180,076
	87,426,013	7,960,824

22. DEBT SECURITIES ISSUED

As of December 31, 2008 and 2007, debt securities issued comprised the following:

	Issue	Maturity	Interest rate	US dollar	In thousands of Tenge	US dollar	In thousands of Tenge
				2008	2007		
Eurobonds 1 st Issue	22-Dec-04	22-Dec-19	7%-8.8%	159,412,172	19,252,208	157,148,196	18,904,928
Eurobonds 2 nd Issue	23-Sep-05	23-Sep-20	7%-8.8%	154,662,954	18,678,645	152,579,676	18,355,335
					37,930,853		37,260,263
Less: amounts due for settlement within 12 months					(385,055)		(375,436)
					37,545,798		36,884,827

Eurobonds 1st Issue

On December 22, 2004 KCP, joint venture of the Group, issued 15-years debt securities of US\$300 million. The debt securities have a coupon rate of 7% per annum that is payable in semi-annual installments. As of December 31, 2008 and December 31, 2007 these bonds are stated at amortized cost.

Eurobonds 2nd Issue

On September 23, 2005 KCP issued additionally 15-years debt securities of US\$300 million. The debt securities have a coupon rate of 7% per annum that is payable in semi-annual installments. As of December 31, 2008 and December 31, 2007 these bonds are stated at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. EMPLOYEE BENEFITS

When preparing the consolidated financial statements for the year ended December 31, 2007, management assessed the requirements of IAS 19 in respect of provisions outlined in the Rules on social support of employees. Based on the analysis performed, management concluded that provisions of the Rules on social support in respect of retirement payments should be accounted similarly to defined benefit post – employment plans.

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

Since all transactions related to employee benefits in periods prior to 2007 were not significant, in accordance with IAS 8, compliance with IAS 19 was treated as adoption of new accounting policy without retrospective application.

Changes in defined benefit obligations are as follows:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Present value of defined benefits obligation at the beginning of the year	2,031,000	–
Past service cost	–	1,879,000
Current services cost	163,000	140,000
Unwinding of discount (Note 36)	124,000	113,000
Actuarial gains (Note 33)	(211,000)	–
Benefits paid	(109,468)	(101,000)
Present value of defined benefit obligation at the end of the year	1,997,532	2,031,000
Less: current portion of present value of defined benefit obligation	(114,000)	(105,000)
Non-current portion of present value of defined benefit obligation	1,883,532	1,926,000

Amounts recognized in the consolidated balance sheet and consolidated income statement are as follows:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Present value of defined benefit obligation at end of the year	1,997,532	2,031,000
Net liability	1,997,532	2,031,000
Current service expense	163,000	140,000
Past service expense	–	1,879,000
Actuarial gains	(211,000)	–
Unwinding of discount (Note 36)	124,000	113,000
Expense recognized in consolidated income statement	76,000	2,132,000

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

Principal actuarial assumptions used for valuation of employee benefit obligation at December 31, 2007 and December 31, 2008 were as follows:

	December 31, 2008	December 31, 2007
Discount rate	6.0%	6.0%
Future salary increases	4.0%	4.0%
Mortality rate	12.0%	12.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. OTHER NON-CURRENT LIABILITIES

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Deferred income from related parties (Note 38)	182,715	223,133
Deferred income from third parties	1,045,138	18,491
Other	–	73,673
	1,227,853	315,297

BIHL, subsidiary of the Group, received a European Union grant as part of the "Technical Aid to Commonwealth of Independent States" scheme (TACIS). The grant received in 2003 amounted to 907,113 US Dollars and represents the acquisition of property, plant and equipment. At initial recognition, the grant was accounted for as deferred income, and is now depreciated over the useful life of the relevant plant and equipment.

In 2007 BIHL also received free-of-charge berth for the amount of 8,565,826 US Dollars from the Ministry of Economic Development of Georgia and railway track from Georgian Railways Limited for the amount of 248,575 US Dollars. Both grants were recognized as deferred income that is amortized over respective useful lives of received plant and equipment. BIHL was acquired by the Group in 2008.

<i>In thousands of Tenge</i>	Railway track	Berths	"TACIS"	Total
At December 31, 2007	31,401	1,008,821	113,376	1,153,598
Income recognized	(767)	(22,191)	(7,217)	(30,175)
Foreign currency translation differences	(1,306)	(41,954)	(4,732)	(47,992)
At December 31, 2008	29,328	944,676	101,427	1,075,431
Non-current	28,558	922,399	94,182	1,045,138
Current	770	22,278	7,245	30,293
Total	29,328	944,676	101,427	1,075,431

25. TRADE AND OTHER ACCOUNTS PAYABLE

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Accounts payable to third parties for goods and services	12,041,144	5,635,845
Accounts payable for oil transportation coordination for third parties	5,313,381	3,636,897
Accounts payable for oil transportation coordination for related parties (Note 38)	1,511,745	1,255,026
Accounts payable to related parties for goods and services (Note 38)	310,625	428,711
Other payables	118,482	322,477
	19,295,377	11,278,956

Trade and other accounts payables are non-interest bearing and are normally settled on 60-day terms.

For terms and conditions relating to related parties, refer to Note 38.

Accounts payable for oil transportation coordination services represent advances received from customers which then are to be transferred to foreign pipeline operators for transportation of oil abroad (Note 14).

The carrying amounts of the Group's trade and other accounts payable are denominated in the following currencies:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Tenge	15,532,303	9,872,670
Foreign currencies	3,763,074	1,406,286
	19,295,377	11,278,956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. ADVANCES RECEIVED

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Advances received from third parties	5,608,116	6,765,166
Advances received from related parties (Note 38)	3,109,148	2,765,108
	8,717,264	9,530,274

The carrying amounts of the Group's advances received are denominated in the following currencies:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Tenge	8,561,571	8,800,917
Foreign currencies	155,693	729,357
	8,717,264	9,530,274

27. TAXES PAYABLE

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Personal Income Tax	437,802	199,640
Social Tax	226,849	265,640
Property tax	21,954	100,049
Other	169,132	87,890
	855,737	653,219

28. PROVISIONS

According to the tax audit results related to the period 2003-2006 the Tax Committee of Astana region ("Tax Authority") proposed additional accrual of withholding tax payable in the amount of 3,221,780 thousand Tenge and corporate income tax in the amount of 1,267,101 thousand Tenge. The management of the Group believes that the Group might be found liable to the Tax Authority. The management has therefore made a provision in the consolidated financial statements in the amount of 3,718,848 thousand Tenge (2007: nil), 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 December 31, 2008 the Group was in the process of legal proceedings with the Tax Authority.

29. OTHER CURRENT LIABILITIES

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Salaries and wages	3,272,126	2,636,369
Current portion of deferred income from third parties	345,470	146,217
Payable to pension funds	227,831	197,353
Current portion of deferred income from related parties (Note 38)	40,418	40,418
Other liabilities to employees	—	1,105,685
Dividends payable	—	842,070
Other	488,638	463,625
	4,374,483	5,431,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. REVENUE

<i>In thousands of Tenge</i>	2008	2007
Crude oil transportation	103,859,720	81,903,732
Oil transportation coordination services	7,840,409	778,166
Oil reloading and railway shipment	7,343,598	5,140,566
Water transportation	5,207,439	5,216,872
Pipeline operation services	1,578,996	1,419,939
Oil storage services	432,022	95,499
Other	3,345,969	439,032
	129,608,153	94,993,806

Revenue from oil transportation coordination services represent an agency fee for cooperation with foreign pipelines operators with respect of oil transportation coordination outside of Kazakhstan (Notes 14, 25).

31. COST OF SALES

<i>In thousands of Tenge</i>	2008	2007
Depreciation and amortization	19,493,669	19,953,944
Personnel cost	16,171,719	16,574,331
Railway services	6,965,761	300,895
Materials and fuel	5,144,949	3,922,356
Repair and maintenance costs	4,883,300	4,172,445
Electrical energy	3,203,191	2,381,056
Taxes other than income tax	2,107,499	1,663,951
Air services	1,817,025	1,526,877
Security services	1,753,146	1,325,651
Gas expense	1,238,457	1,002,412
Environmental protection	774,939	519,350
Business trip expenses	495,634	407,732
Insurance	335,484	342,051
Diagnostics	234,678	196,550
Communication services	147,720	140,274
Other	3,589,251	1,657,420
	68,356,422	56,087,295

32. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of Tenge</i>	2008	2007
Personnel costs	7,147,135	7,560,058
Provision for / (reversal of) allowances for doubtful debts, VAT recoverable and other non-current financial assets	1,934,312	(103,178)
Taxes other than income tax and VAT	1,067,518	646,806
Depreciation and amortization	797,591	830,680
Social sphere expenses	452,302	983,868
Write-off of VAT recoverable	439,915	491,467
Business trip expenses	433,536	464,467
Office maintenance	164,170	279,118
Materials	192,149	149,080
Consulting	446,775	292,660
Charity expenses	264,687	347,880
Insurance and security	257,541	266,732
Operational lease expenses	235,072	197,761
Bank costs	209,732	165,363
Communication services	210,230	238,500
Advertising expense	158,801	159,619
Management fee	131,545	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. GENERAL AND ADMINISTRATIVE EXPENSES (continued)

<i>In thousands of Tenge</i>	2008	2007
Training	99,505	87,075
Provision for obsolete inventories	58,511	(158,900)
Impairment of assets held for sale	23,674	–
Provisions	3,718,848	–
Other	1,163,544	981,418
	19,607,093	13,880,474

33. OTHER OPERATING INCOME

<i>In thousands of Tenge</i>	2008	2007
Income from fines and penalties to customers	1,357,559	1,219,643
Actuarial gains (Note 23)	211,000	–
Amortization of financial guarantee issued to related party	56,149	47,325
Income from sale of inventory	34,552	127,764
Income from payables written off	10,258	15,253
Income from stock excess	14,224	369,356
Other income	110,410	147,511
	1,794,152	1,926,852

34. OTHER OPERATING EXPENSES

<i>In thousands of Tenge</i>	2008	2007
Loss on disposal of property, plant and equipment and intangible assets, net	596,224	940,441
Loss from initial recognition of financial guarantee	–	431,278
	596,224	1,371,719

35. FINANCE INCOME

<i>In thousands of Tenge</i>	2008	2007
Interest income on bank deposits	2,677,564	1,471,246
Employees and related parties loans: unwinding of discount	263,722	311,447
Dividends income	79,336	99,920
	3,020,622	1,882,613

36. FINANCE COSTS

<i>In thousands of Tenge</i>	2008	2007
Interest on loans and borrowings	4,696,613	3,363,929
Interest on debt securities issued	–	1,044,699
Employee benefits: unwinding of discount (Note 23)	124,000	113,000
Discounting on initial recognition of interest free loans to employees and related parties	81,333	220,285
Other interest expense	14,512	14,551
	4,916,458	4,756,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. INCOME TAX EXPENSE

<i>In thousands of Tenge</i>	2008	2007
Current Income tax expense	10,119,644	5,022,237
Deferred Income tax (benefit) / expense	(11,061,921)	4,458,967
	(942,277)	9,481,204

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate of 30% to current income tax expense was as follows:

<i>In thousands of Tenge</i>	2008	2007
Income tax expense on accounting profit	5,734,736	7,098,371
Tax effect of permanent differences		
Impairment of goodwill	5,265,940	—
Tax provisions	1,115,654	—
Interest expenses	476,955	403,546
Charity and social sphere expenses	301,844	350,139
Unrecognized income from transportation coordination	179,591	—
Representative expenses	141,786	472,463
VAT recoverable	125,453	172,023
Taxes other than VAT	94,357	(147,644)
Non-deductible employee benefits	15,300	609,300
Environment expenses	—	41,235
Change in unrecognized deferred tax assets	—	(330,396)
Non-taxable dividends income from investments available for sale	—	(29,976)
Non-deductible income of minority	—	(185,221)
Unrecognized income from excess in stock	(4,215)	102,118
Effect of difference in tax rates	(15,031,022)	154,391
Tax effect of items which are not deductible or assessable for taxation purposes	641,344	770,855
Corporate income tax expense reported in the consolidated income statement	(942,277)	9,481,204

On January 1, 2009 a new tax code became effective in the Republic of Kazakhstan, which resulted in the corporate income tax rate being reduced to 2009: 20%, 2010: 17.5% and 2011: 15%. This decrease in the corporate income tax rate has resulted in a decrease in the deferred tax liability in the amount of 15,031,022 thousand Tenge.

The movement in the net deferred tax liabilities was as follows for the year ended December 31, 2008:

<i>In thousands of Tenge</i>	December 31, 2008	Credited (charged) to income statement	Acquisition of business	Credited to revaluation reserve	December 31, 2007
Deferred tax assets:					
Property, plant and equipment	—	(1,438,772)	—	—	1,438,772
Loss carry-forward	38,911	(1,150,593)	—	—	1,189,504
Bonuses and other employee compensation and related costs	440,672	(125,610)	—	—	566,282
Financial guarantee liability	—	(105,859)	—	—	105,859
Allowance for doubtful debts	485,070	317,196	—	—	167,874
Allowance for obsolete inventory	65,506	(29,472)	—	—	94,978
Taxes	2,630	(21,100)	—	—	23,730
Interest-free loans to related parties and employees	11,429	(165,319)	—	—	176,748
Due to employees in the form of flats	7,007	(324,699)	—	—	331,706
Other temporary differences	125,097	120,099	—	—	4,998
Income of controlled foreign companies recognized for tax purposes	459,430	459,430	—	—	—
Unrecognised deferred tax assets	—	2,265,134	—	—	(2,265,134)
	1,635,752	(199,565)	—	—	1,835,317

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. INCOME TAX EXPENSE (continued)

<i>In thousands of Tenge</i>	December 31, 2008	Credited (charged) to income statement	Acquisition of business	Debited to revaluation reserve	December 31, 2007
Deferred tax liabilities:					
Taxes	(6,117)	(763)	–	–	(5,354)
Property, plant and equipment	(14,994,650)	11,262,249	(484,015)	2,532,285	(28,305,169)
	(15,000,767)	11,261,486	(484,015)	2,532,285	(28,310,523)
Net deferred tax liabilities	(13,365,015)	11,061,921	(484,015)	2,532,285	(26,475,206)

The movement in the net deferred tax liabilities was as follows for the years ended December 31, 2007:

<i>In thousands of Tenge</i>	December 31, 2007	Credited (charged) to income statement	Effect of translation	Debited to revaluation reserve	December 31, 2006
Deferred tax assets:					
Property, plant and equipment	1,438,772	(197,999)	–	–	1,636,771
Loss carry-forward	1,189,504	144,067	–	–	1,045,437
Bonuses and other employee compensation and related costs	566,282	214,084	–	–	352,198
Financial guarantee liability	105,859	105,859	–	–	–
Allowance for doubtful debts	167,874	(131,909)	–	–	299,783
Allowance for obsolete inventory	94,978	(54,358)	–	–	149,336
Taxes	23,730	23,730	–	–	–
Payables for environmental damages	–	(145,609)	–	–	145,609
Interest-free loans to related parties and employees	176,748	176,748	–	–	–
Due to employees in the form of flats	331,706	331,706	–	–	–
Other temporary differences	4,998	4,998	–	–	–
Controlled foreign companies income recognized for tax purposes	–	–	–	–	–
Unrecognised deferred tax assets	(2,265,134)	330,396	–	–	(2,595,530)
	1,835,317	801,713	–	–	1,033,604
Deferred tax liabilities:					
Taxes	(5,354)	492	–	–	(5,846)
Property, plant and equipment	(28,305,169)	(5,261,172)	955	(7,546,221)	(15,498,731)
	(28,310,523)	(5,260,680)	955	(7,546,221)	(15,504,577)
Net deferred tax liabilities	(26,475,206)	(4,458,965)	955	(7,546,221)	(14,470,973)

Deferred income tax assets and liabilities for individual entities included in the Group are offset because there is a legally enforceable right to set off current tax assets against current tax liabilities if the deferred income taxes relate to the same fiscal authority. Net deferred income tax positions of individual entities, included in the Group, are not offset against each other.

38. RELATED PARTY TRANSACTIONS

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel, KazMunayGas and Samruk-Kazyna entities and other entities controlled by the Government.

Terms and conditions of transactions with related parties

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. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended 31 December 2008, the Group has not recorded any impairment of receivables relating to amounts owed by related party. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The following tables provides the total amount of transactions, which have been entered into with related parties during the year ended December 31, 2008 and the related balances as at December 31, 2008 and December 31, 2007:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties (continued)

Interest free loans to related parties are detailed as following:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Interest-free loans to related parties		
Interest free loans to entities under common control of KazMunayGas	3,690,753	3,515,175
Total interest-free loans to related parties	3,690,753	3,515,175

Trade and other accounts receivables from related parties are detailed as following:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Trade and other accounts receivables from related parties		
Trade accounts receivable from entities under common control of KazMunayGas	376,275	83,845
Trade accounts receivable from entities of Samruk-Kazyna Group	104	4
	376,379	83,849
Other accounts receivables from entities under common control of KazMunayGas	81,453	186,008
Other accounts receivables from entities of Samruk-Kazyna Group	—	9,549
	81,453	195,557
Total trade and other accounts receivables from related parties	457,832	279,406

Advances provided to related parties are detailed as following:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Advances to related parties		
Advances to entities under common control of KazMunayGas	—	27,998
Advances to entities of Samruk-Kazyna Group	38,435	8,956
Total advances paid to related parties	38,435	36,954

Other non-current liabilities to related parties are detailed as following:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Deferred income from related parties		
Deferred income from entities under common control of KazMunayGas	182,715	223,133
Total other non-current liabilities to related parties	182,715	223,133

Trade and other accounts payable to related parties are detailed as following:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Accounts payable for oil transportation coordination for related parties		
Accounts payable for oil transportation coordination for entities under common control of KazMunayGas	1,511,745	1,255,026
	1,511,745	1,255,026
Accounts payables to related parties for goods and services		
Accounts payables to entities under common control of KazMunayGas	294,465	337,786
Accounts payables to entities under control of Samruk-Kazyna Group	16,160	90,925
	310,625	428,711
Total trade and other accounts payable to related parties	1,822,370	1,683,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties (continued)

Advances received from related parties are detailed as following:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Advances received from related parties		
Advances to entities under common control of KazMunayGas	3,109,148	2,765,108
Total advances received from related parties	3,109,148	2,765,108

Other current liabilities to related parties are detailed as following:

<i>In thousands of Tenge</i>	December 31, 2008	December 31, 2007
Employee benefits		
Employee benefits of key management personnel	170,000	170,000
	170,000	170,000
Current portion of deferred income from related parties		
Current portion of deferred income from entities under common control of KazMunayGas	40,418	40,418
	40,418	40,418
Total other current liabilities to related parties	210,418	210,418

During year ended December 31, 2008 the Group had the following transactions with the related parties:

<i>In thousands of Tenge</i>	2008	2007
Sales to related parties:		
Transportation services to entities under common control of KazMunayGas	33,637,875	28,868,739
Transportation services to entities of Samruk-Kazyna Group	26,082	39,552
Income from other activities from joint ventures	–	833,026
Income from other activities from entities under common control of KazMunayGas	1,612,381	1,446,505
Income from other activities from of Samruk-Kazyna Group	887	259
	35,277,225	31,188,081
Purchases from related parties:		
Purchases of services from entities under common control of KazMunayGas	4,774,585	4,201,651
Purchases of services from entities of Samruk-Kazyna Group	673,635	652,742
Purchases of inventory from entities of Samruk-Kazyna Group	1,911	13
	5,450,131	4,854,406

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

<i>In thousands of Tenge</i>	2008	2007
Salary	203,890	131,696
Bonuses	109,628	34,508
Post-employment benefits	1,998	20,400
	315,516	186,604
Number of persons	14	14

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. CONTINGENT LIABILITIES AND COMMITMENTS

Sales contracts

MunayTas has commitments to transport the following minimal volume of crude oil over the next five years:

	Crude oil per year in thousands of tons
2009	6,510
2010	6,533
2011	6,509
2012	6,134
2013	5,574

Such commitments may change as a result of future events, like a significant decrease in the oil price.

If MunayTas is not able to transport a minimal volume of crude oil, it will be subject to penalties equivalent to the value of the service fee had the MunayTas rendered its services in full.

Taxation

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

The current regime of penalties and interest related to reported and discovered violations of Kazakhstan law are severe. Fines are generally 50% of any taxes additionally assessed and interest is assessed at the rate of 20% per annum. As a result, fines and interest can amount to multiples of any unreported taxes.

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

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, fines and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2008. Although, such amounts are possible and may be material, it is the opinion of Group management that these amounts are either not probable, not reasonably determinable, or both.

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

Tax preferences

The Group has certain tax preferences related to Investment Contracts with the Committee for Investment as stated in *Note 1*. In order to use the tax preferences the Group must comply with certain requirement, such as timely provision of financial reports and use of the investment assets for designated purposes only. Management believes that as of December 31, 2008 and 2007 the Group meets the requirements.

Environmental matters

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

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

Asset retirement obligation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Covenants

Guarantees

At December 31, 2007 KazTransOil JSC ("the Guarantor") has guaranteed to EBRD in respect of the obligations of MunayTas JSC under the loan agreement with EBRD (Note 21). 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;
- Ratio of Debt to Equity of not more than 2:1;

As of December 31, 2008 and 2007 the Company fully complied with above covenants.

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

Borrowings

On August 28, 2008 KazTransOil JSC has concluded syndicate loan facility agreement with BTMU (Europe) Limited, ING Bank N.V. and Natexis (the "Creditor") for amount of 275,000 thousand US Dollars (Note 21). According to the Loan facility Agreement the Company has to comply with the following covenants:

- Current ratio of not less than 1:1;
- a ratio of Financial Debt to Earning 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 December 31, 2008 the Company fully complied with above covenants.

Contractual commitments

As at December 31, 2008, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 19,897,133 thousand Tenge (December 31, 2007: 26,566,199 thousand Tenge). In addition, as at December 31, 2008, the Group has committed to purchase inventory (materials and spare parts) and services for the amount of 44,931,451 thousand Tenge (December 31, 2007: 25,376,446 thousand Tenge).

Technological oil of MunayTas and KCP

MunayTas, joint venture of the Group, received technological oil to fill pipelines. As of December 31, 2008 and December 31, 2007 volume of technological oil is 99 thousand tones. Similarly, KCP, joint venture of the Group, received 401 thousand tones of technological oil from its related party PetroChina International Kazakhstan LLP. MunayTas and KCP are responsible for preservation of technological oil and should return it back to its customers upon abandonment of pipelines or expiration of oil transportation contracts. The Group did not recognize any asset or liability in relation to this oil.

40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group is exposed to market risk, credit risk and liquidity risk. The Group's management oversees the management of these risks.

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

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group manages market risk through the periodic estimation of potential losses that could arise from adverse changes in market conditions.

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.

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 basis points	Effect on profit before tax
2008	+50	466,001
US dollar	-50	(466,001)
2007	+50	47,708
US dollar	-50	(47,708)

• 1 basic point = 0.01 %

Liquidity Risks

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (eg 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, debt securities issued and trade and other payables.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2008 and 2007 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	Year ended December 31, 2008					Total
	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	
Interest bearing loans and borrowings	-	11,356,902	17,668,194	52,860,820	65,811,619	147,697,535
Debt securities issued	-	2,862,249	3,188,328	9,564,984	56,955,132	72,570,693
Trade and other payable	-	19,295,377	-	-	-	19,295,377
	-	33,514,528	20,856,522	62,425,804	122,766,751	239,563,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risks (continued)

<i>In thousands of Tenge</i>	Year ended December 31, 2007					Total
	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	
Interest bearing loans and borrowings	-	2,636,240	2,370,908	5,764,972	1,675,079	12,447,199
Debt securities issued	-	2,526,300	2,851,110	9,527,760	59,909,400	74,814,570
Financial lease	-	12,723	-	50,893	381,698	445,314
Trade and other payable	-	11,278,956	71,908	-	-	11,350,864
	-	16,454,219	5,293,926	15,343,625	61,966,177	99,057,947

Capital management

Capital includes equity attributable to the equity holders of the parent.

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 unrealized 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 shareholders, return capital to shareholders 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's policy is to keep the gearing ratio below 0.5. The Group includes within net debt, interest bearing loans and borrowings, debt securities issued, trade and other payables, less cash and cash equivalents, excluding discontinued operations. Capital includes equity attributable to the equity holders of the shareholder.

As at December 31 the gearing ratio is as follows:

<i>In thousands of Tenge</i>	2008	2007
Interest-bearing loans and borrowings and corporate bonds	131,132,959	46,847,348
Trade and other accounts payables	19,925,377	11,278,956
Less: cash and cash equivalents	(29,941,748)	(25,403,345)
Net debt	120,486,588	32,722,959
Equity	220,514,198	216,884,643
Capital and net debt	341,000,786	249,607,602
Gearing Ratio	0,35	0,13

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	Georgian Lari	Euro	Total
<i>At December 31, 2008</i>					
Assets	2,254,614	2,370,350	-	-	4,624,964
Liabilities	136,019,230	56,496	-	1,364	136,077,090
<i>At December 31, 2007</i>					
Assets	1,785,393	1,702	-	-	1,787,095
Liabilities	48,244,116	28,684	416,098	65,730	48,754,628

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency Risk (continued)

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the 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
2008	+40%	(54,407,692)
US Dollar	+25%	(34,004,808)
2007	+5%	(2,412,206)
US Dollar	-5%	2,412,206

Credit Risks

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk from its operating activities and certain investing activities. With regard to investing activities, the Group places deposits with banks of those countries, where operations are carried (Note 18). 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 these 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 Standard and Poor's, Fitch and Moody's credit ratings.

Thousands of Tenge

Banks	Rating agency	Rating		2008	2007
		2008	2007		
Halyk Bank of Kazakhstan JSC	Standard&Poor's	BB+/Negative/B	BB+ (negative)	20,343,883	16,358,892
ATF Bank JSC	Standard&Poor's	BB+/Negative/B	BB+/Stable/B	4,000,751	870
Alliance Bank JSC	Standard&Poor's	B+	-	1,541,187	-
KazKommerstBank JSC	Standard&Poor's	BB/Negative/B	BB/Stable/B	9,999,525	9,176,421
BankTuranAlem JSC	Standard&Poor's	BB/Negative	-	2,566,363	-
Deutsche Bank	Standard&Poor's	AA-/Negative	AA/Stable	18,287	-
CITI Bank Kazakhstan JSC	Standard&Poor's	A+	AA+	336,075	7,236
Fortis Bank (Netherlands)	Standard&Poor's	-	AA	-	94,042
KazInvestBank JSC	Moody's	B/negative/B	B/stable/B	1,417,800	1,412,700
Bank of Cyprus	Fitch	BBB+	BBB	59,818	14,326
Bank of Georgia	Fitch	B+	B	153,085	340
TBC Bank	Fitch	B-	B	27,577	206
SberBank of Russia	Standard&Poor's	B	-	1,681,125	-
ABN Amro Bank JSC	Standard&Poor's	-	AA-	-	1,332,520
RBS Bank Kazakhstan JSC	Standard&Poor's	A-1	-	6,115	-
SlavInvestBank	Standard&Poor's	BB-	-	79	-
Bank CenterCredit JSC	Standard&Poor's	BB-	BB- (stable)	6,000,010	-
Banks with no ratings				1,202,378	244,028
				49,354,058	28,641,581

*The rest of the balance sheet item 'cash and cash equivalents' is cash at hand and transit

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risks (continued)

At the level of operations, management believes that the Group established appropriate credit verification procedures and monitoring of trade customers, which enabled the Group to trade only with recognized, creditworthy third parties. The Group monitors the outstanding receivables on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Credit risks are taken through individual impairments.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, interest-free loans and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

41. 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	
	2008	2007	2008	2007
<i>Financial Assets</i>				
Cash and equivalents	29,941,748	25,403,345	29,941,748	25,403,345
Trade and other receivables	6,437,565	4,131,491	6,437,565	4,131,491
Other financial assets	36,806,012	12,890,109	36,806,012	12,890,109
Interest-free loans to related party	3,690,753	3,515,175	3,690,753	3,515,175
<i>Financial liabilities</i>				
Floating rate borrowings	93,200,272	9,541,387	93,200,272	9,541,387
Fixed rate borrowings	1,038,060	421,134	1,038,060	421,134
Debt securities issued	37,930,853	37,260,263	37,930,853	37,260,263
Trade and other payables	19,295,377	11,278,956	19,295,377	11,278,956
Other financial liabilities	10,241,488	10,210,367	10,241,488	10,210,367

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

The fair value of borrowings, notes payable and long-term payable has been calculated by discounting the expected future cash flows at prevailing interest rates.

42. SUBSEQUENT EVENTS

On February 4, 2009 the Tenge devalued against the US dollar and other major currencies. The exchange rate before and after devaluation were 120 Tenge / US dollar and 150 Tenge / US dollar respectively. The currency exchange rate of KASE as of March 12, 2009 was 150.48 Tenge to 1 US dollar.