



Kazakhstan - China Pipeline Group

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2009

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INDEPENDENT AUDITOR'S REPORT

To the Owners of Kazakhstan-China Pipeline Group:

We have audited the accompanying consolidated financial statements of Kazakhstan-China Pipeline Limited Liability Partnership and its subsidiary (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 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.

Auditor's 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

INDEPENDENT AUDITOR'S REPORT (Continued)

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Opinion

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

PricewaterhouseCoopers LLP

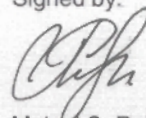
Almaty, Kazakhstan
2 February 2010

Approved by:



Zhanbota T. Bekenov
General Director of PricewaterhouseCoopers LLP
(General State License of the Ministry of Finance of the
Republic of Kazakhstan №0000005 dated 21 October 1999)

Signed by:



Maigul S. Rakhimbekova
Auditor in charge
(Qualified Auditor's Certificate
№00056 dated 28 February 1994)

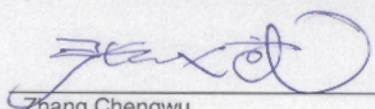


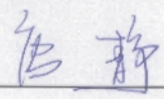
Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

Kazakhstan-China Pipeline Group
Consolidated Statement of Financial Position

<i>In thousands of Kazakhstani tenge</i>	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	187,958,407	161,939,285
Other non-current assets	7	4,486,365	507,914
Total non-current assets		192,444,772	162,447,199
Current assets			
Receivables from related parties	5	44,628	44,628
Inventories	8	175,059	69,146
Other current assets	9	22,012,159	12,475,251
Cash and cash equivalents	10	14,423,629	20,373,442
Total current assets		36,655,475	32,962,467
TOTAL ASSETS		229,100,247	195,409,666
OWNERS' EQUITY AND LIABILITIES			
Owners' equity			
Charter capital		13,000,000	13,000,000
Accumulated deficit		(38,794,565)	(1,423,112)
Cumulative translation adjustment		39,299	(45,533)
TOTAL OWNERS' EQUITY		(25,755,266)	11,531,355
LIABILITIES			
Non-current liabilities			
Borrowings	11	240,074,334	171,545,521
Deferred tax liability	16	1,684,529	1,096,932
Total non-current liabilities		241,758,863	172,642,453
Current liabilities			
Trade payable	12	2,628,291	4,595,779
Accounts payable to related parties	5	7,958,974	5,571,920
Other accounts payable and accrued liabilities	13	2,509,385	1,068,159
Total current liabilities		13,096,650	11,235,858
TOTAL LIABILITIES		254,855,513	183,878,311
TOTAL OWNERS' EQUITY AND LIABILITIES		229,100,247	195,409,666

Approved for issue and signed on behalf of the Management on 2 February 2010:


 Zhang Chengwu
 General Director


 Tang Jing
 Deputy General Director/
 Chief Accountant

Kazakhstan-China Pipeline Group
Consolidated Statement of Comprehensive Income

<i>In thousands of Kazakhstani tenge</i>	Note	2009	2008
Revenue		20,821,579	15,412,602
Cost of sales	14	(9,219,501)	(6,314,289)
Gross profit		11,602,078	9,098,313
General and administrative expenses	15	(1,727,814)	(1,993,698)
Foreign exchange gain, net		2,743,025	209,735
Other expenses, net		(18,538)	(62,537)
Operating profit		12,598,751	7,251,813
Interest expense		(10,668,732)	(6,770,766)
Interest income		198,895	103,796
Foreign exchange gain from financing activities		19,159,624	5,720,095
Foreign exchange loss from financing activities		(58,072,394)	(6,613,571)
Loss before income tax		(36,783,856)	(308,633)
Income tax (expense)/benefit	16	(587,597)	561,093
Loss/(income) for the year		(37,371,453)	252,460
Other comprehensive income			
Currency translation adjustment		84,832	1,475
Total other comprehensive income		84,832	1,475
Total comprehensive (loss)/ income for the year		(37,286,621)	253,935
Total comprehensive (loss)/income for the year attributable to			
- owners of the Group		(37,286,621)	253,935
- minority interest		-	-

Kazakhstan-China Pipeline Group
Consolidated Statement of Changes in Equity

<i>In thousands of Kazakhstani tenge</i>	Charter Capital	Accumulated Deficit	Cumulative translation adjustment	Total
Balance at 1 January 2008	13,000,000	(1,675,572)	(47,008)	11,277,420
Total comprehensive income for the year	-	252,460	1,475	253,935
Balance at 31 December 2008	13,000,000	(1,423,112)	(45,533)	11,531,355
Total comprehensive loss for the year	-	(37,371,453)	84,832	(37,286,609)
Balance at 31 December 2009	13,000,000	(38,794,565)	39,299	(25,755,266)

Kazakhstan-China Pipeline Group
Consolidated Statement of Cash Flows

<i>In thousands of Kazakhstani tenge</i>	Note	2009	2008
Loss before income tax		(36,783,856)	(308,633)
Adjustments for:			
Interest expense		10,668,732	6,770,766
Interest income		(198,895)	(103,796)
Depreciation	6	5,076,238	3,498,816
Amortisation of intangible assets		7,196	1,647
Unrealized foreign exchange loss from financing activities		38,894,544	898,530
Loss from disposal of property, plant and equipment		3,735	88,750
Loss from disposal of intangible assets		268	6,037
Changes in operating working capital, except for cash and debt:			
Decrease/(Increase) in inventories		(11,951)	139,218
(Increase)/decrease in other current assets		7,509,223	(10,641,795)
Increase in receivables from related parties		-	(44,628)
(Increase) in other non-current assets		(4,097,717)	(232,094)
(Decrease)/increase in trade payable		(6,625,804)	3,478,674
(Decrease) in accounts payable to related parties		(1,589,863)	(995,230)
Increase/(decrease) in other accounts payable and accrued liabilities		1,441,226	(90,312)
Cash flows from operating activities		14,293,076	2,465,950
Interest paid		(7,760,306)	(5,747,152)
Cash provided by/(used in) operating activities		6,532,770	(3,281,202)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(17,487,415)	(74,141,685)
Proceeds from disposal of assets available for sale		48,719	14,885
Acquisition of intangible assets		(2,607)	(243)
Placement of short-term bank deposits		(17,662,780)	(1,104,266)
Withdrawal of short-term bank deposits		-	3,896,689
Interest received		-	103,796
Cash used in investing activities		(35,104,083)	(71,230,824)
Cash flows from financing activities			
Proceeds from loans		22,621,500	100,323,282
Redemption of loans		-	(7,189,000)
Cash provided by financing activities		22,621,500	93,134,282
Net changes in cash and cash equivalents		(5,949,813)	18,622,256
Cash and cash equivalents at beginning of the year		20,373,442	1,751,186
Cash and cash equivalents at end of the year		14,423,629	20,373,442

1 The Kazakhstan-China Pipeline Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2009 for Kazakhstan-China Pipeline LLP (the "Group") and its subsidiaries (hereafter collectively referred to as the "Group").

The Group was incorporated on 6 July 2004 and is operating in the Republic of Kazakhstan. The Group is a limited liability partnership and was set up in accordance with the legislation of the Republic of Kazakhstan.

The Group is owned by two participants: China National Operating and Development Corporation ("CNODC"), a subsidiary of China National Petroleum Corporation ("CNPC"), and JSC KazTransOil ("KazTransOil"), a subsidiary of JSC National Company KazMunaiGas ("KazMunaiGas"), each owning 50 percent participant interest in the charter capital of the Group. The Group is jointly controlled by KazTransOil and CNODC on an equal basis. KazTransOil is ultimately controlled by the Kazakh Government through National Welfare Fund Samruk-Kazyna and CNODC is ultimately controlled by the Chinese Government through CNPC, a state owned company.

On 17 May 2004 the Government of the People's Republic of China and the Government of the Republic of Kazakhstan signed the Framework Agreement Concerning Development of Overall Cooperation in the Oil and Gas Sector. Additionally, on 17 May 2004 CNPC and KazMunaiGas signed the Agreement Concerning Main Principles for Construction of Atasu – Alashankou oil pipeline with length of 962.2 km. On 20 December 2006 CNPC and KazMunaiGas signed the Agreement Concerning Main Principles for Construction of the Second Stage of Kazakhstan – China Oil Pipeline and on 18 August 2007 the Additional Agreement No.1 thereto.

The Group is considered as a monopolist and, accordingly, is an object for regulation by the Natural Monopolies Regulation Agency of the Republic of Kazakhstan (the "Agency"). The Agency approves the tariff rates for oil transportation based on return of capital for assets used.

The Group has a wholly owned subsidiary, KCP Finance B.V., incorporated in the Netherlands. KCP Finance B.V. was incorporated solely for the purpose of issuing the notes to finance the construction of Atasu – Alashankou Oil Pipeline ("Atasu – Alashankou pipeline").

On 17 November 2005 the Group obtained a license to invest, construct, operate and repair the Atasu – Alashankou oil pipeline in China valid until 16 November 2025. In connection with the above, the Group has set up its branch in China.

The Group constructed, and on 28 July 2006 put into operation Atasu – Alashankou pipeline with the capacity of 7 million tons per year. In 2008 the Group put into operation the additional facilities to increase the Atasu – Alashankou pipeline's capacity up to 10 million tons per year.

The Group entered into Agreement No. PS133M06/№202-2005 dated 9 January 2006 with PetroChina International Kazakhstan LLP ("PetroChina") to fill in Atasu – Alashankou pipeline with technological oil of 401,449 metric tons. The technological oil belongs to PetroChina International Kazakhstan. The date of the technological oil return to PetroChina is the date of the Atasu – Alashankou pipeline operation termination.

On 8 May 2008 the Group obtained an approval from the Committee for Construction and Housing and Communal Services under the Ministry of Industry and Trade carry out construction and assembly operations for Kenkiyak – Kumkol oil pipeline, and signed contracts with KazStroiServices NSCC and China Petroleum Pipeline Engineering Kazakhstan LLP for development, shipping and construction of Kenkiyak-Kumkol oil pipeline with length of 794.1 km and with the annual throughput capacity of 10 million tons a year.

On 1 July 1 2009 the construction of linear part of Kenkiyak-Kumkol oil pipeline ("Kenkiyak-Kumkol pipeline") was completed. On 27 June 2009 the Group began filling Kenkiyak-Kumkol pipeline with technological oil in quantity of 411,915 metric tons, provided by JSC "CNPC-Aktobemunaigas" in accordance with the contract 02-2009 dated 12 February 2009. Technological oil belongs to JSC "CNPC-Aktobemunaigaz". Return period of the technological oil to JSC "CNPC-Aktobemunaigas" is the termination of the Kenkiyak-Kumkol pipeline operation.

On 7 October 2009 Group launched the first starting complex of Kenkiyak-Kumkol pipeline with the capacity, in the first phase, of 10 million tons per year.

In 2009 and 2008, Group transported through Atasu-Alashankou pipeline 7,707 thousand tons and 6,119 thousand tons of oil, respectively, and 427 thousand tons of oil through Kenkiyak-Kumkol pipeline in 2009.

The Group's registered office address is: 29D Satpayev Street, Almaty, 050008, the Republic of Kazakhstan.

2 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified in connection with certain financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated (see Note 4 "Application of new or refined standards and interpretations").

Functional and presentation currency. All amounts in these consolidated financial statements are presented in Kazakhstani tenge ("tenge"). Tenge is the Group's functional currency.

Consolidation principles. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The intra-group transactions, the balances of the corresponding accounts, as well as unrealized gains on the operations between the companies of the Group are mutually excluded. Unrealized losses are also mutually excluded, with the exception of cases when costs cannot be compensated.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

2 Summary of Significant Accounting Policies (Continued)

Classification of financial assets. The Management of the Group classifies its financial assets upon initial recognition. Financial assets of the Group include other receivables and deposits.

Classification of financial liabilities. Financial liabilities of the Group include financial liabilities that are carried at amortised cost. Financial liabilities on the Group's statement of financial position include borrowings (see Note 11) and trade payable (see Note 12).

Initial recognition of financial instruments. Financial assets and liabilities are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. Gain or loss upon initial recognition of the borrowings, which are received from the owners and/or the owners of the Group, is reflected on the statement of changes in equity. Subsequently, the carrying amount of the loans is adjusted for amortisation of the gains/losses on origination and the amortisation is recorded as interest income/ interest expense using the effective yield method on the asset/ liability.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful life in years
Buildings and constructions	12- 50
Machinery and equipment	2-22
Pipeline and other vehicles	5-30
Other	2-10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. Intangible assets are recorded at purchased cost and amortized on a straight-line basis over their estimated useful lives of one to three years.

2 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents include cash at bank and in hand as well as short-term deposits with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Deposits. Deposits include cash in bank accounts with a maturity of more than three months from the reporting period date.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Cost includes purchase price, import duties, transport-procurement works, and commission fees paid to supply and mediator organisations, and other expenses directly attributable to inventories purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Receivables, with the exception of prepaid taxes and advances given to the suppliers, are accounted for at the amortized cost using effective interest rate method. Prepaid taxes and advances given to the suppliers are stated at actual costs paid.

Impairment of financial assets carried at amortised cost. Receivables impairment losses are recognised when objective evidence exists that the Group will not be able to recover the amount due in initially stated period. The amount for the provision is the difference between the carrying value of the asset and the present value of expected cash flows discounted at the original effective interest rate of the asset. The provision is recognized as part of general and administrative expenses in profit or loss. Uncollectible trade receivables are written off against the trade receivables' impairment provision. Subsequent recoveries of amounts previously written off are accounted as part of general and administrative expense on profit or loss.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Financial income and financial expense. Interest income/expense is stated using the effective income on assets/liabilities method.

Foreign currency transactions and translation. The Group's foreign currency monetary assets and liabilities are translated into tenge using exchange rate of the Kazakhstani Stock Exchange (KASE) established at the reporting period date. Transactions in foreign currencies are recorded at the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions or from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

The foreign subsidiaries of the Group represent the foreign operations which form an integral part of the Group's operations. The financial statements of the foreign subsidiaries are translated as if the transactions of the foreign subsidiaries are the Group's activities.

At 31 December 2009 the official rate of exchange applied to translate balances denominated in USD, was 148.36 tenge for 1 US dollar (31 December 2008: 120.77 tenge for 1 US dollar). Tenge is not freely convertible in most countries outside of the Republic of Kazakhstan.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract. The Group accounts for trade payables initially at fair value. Subsequently trade payables are carried at amortized cost using the effective interest method.

Translated from Russian original

2 Summary of Significant Accounting Policies (Continued)

Employee benefits. Wages, salaries, paid annual leave and sick leave, bonuses, and other benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

The Group does not incur any expenses in relation to pensions for its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds upon the employee decision. Upon retirement of employees, all pension payments are administered by such pension funds.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses. Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Value-added taxes ("VAT"). VAT related to sales is payable to the tax authorities when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon the receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchase transactions, which has not been settled at the balance sheet date, is recognized in the statement of financial position on a net basis.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Revenue recognition. Revenue is recognized when there is a likelihood that the Group obtains the transaction related economic benefits, and when the amount of revenue can be reliably estimated. Revenue from oil transportation services is recognized upon delivery of oil through the pipelines. Revenue is shown net of VAT and measured at the fair value of the consideration received or receivable. Revenue is based on the application of authorized tariffs by the Agency for transportation of oil through the pipelines. .

Changes in financial statements' presentation. Certain comparative data from 2008 has been corrected in order to put it in accordance with the presentation of the results in 2009 to provide better understanding of these consolidated financial statements. The effect of the reclassification is shown in the table below:

<i>In thousands of Kazakhstani tenge</i>	Amount
<i>Consolidated statement of comprehensive income</i>	
Property tax related to production assets has been reclassified from general and administrative expenses to cost of sales	714,050

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances (see Note 16).

Asset retirement obligation. Current Kazakhstani legislation in respect to environmental obligations prescribes the companies operating in extracting industries to dismantle certain assets and reclaim a land. However, management of the Group believes that environmental law as applicable to the Group's operations does not require dismantling of pipelines and land reclamation upon retirement. As a result, no asset retirement obligation as of 31 December 2009 and 2008 were recognised in these consolidated financial statements.

Tax legislation. Kazakh tax, currency and customs legislation is subject to varying interpretations. (See Note 17).

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Debt versus equity classification. Management concluded that the participants' interests in the Group should be classified as equity rather than as a financial liability. Under the Kazakhstani legislation and the Group's Charter, the Group is obliged to redeem the participant's equity interest in cash or in non-financial assets if a disposal of a participant's interest in the Group is not possible. The Group's Charter imposes only a temporary restriction on the possibility to dispose of a participant's interest during the period of construction of the Group's oil pipeline. The construction was completed in October 2009 and as the restriction on the disposal was only temporary, management believes that the participants' interests in the Group are equity instruments. Management believes that only permanent restrictions on disposal create redemption obligation which is not the Group's situation.

Useful lives and residual values of property, plant and equipment. Management estimates economic useful lives of property, plant and equipment as the period over which the Group expects to consume economic benefits from the asset. Also management estimates that the residual value of the asset is nil as the Group expects to use the asset until the end of its physical life. The useful lives and residual values of the assets are reviewed at least at each financial year-end.

Effective interest rate calculation for the loan from Industrial and Commercial Bank of China and ING Bank N.V. The Group used effective interest rate methods for calculation of amortised cost for the loan from Industrial and Commercial Bank of China and ING Bank N.V., based on its best estimated future payments of principal and interest amounts in accordance with loan agreement. Should the payment schedule change subsequent periods, carrying value of the loan would change significantly. The current calculations at 2009 year-end are believed to be reasonable under the circumstances.

4 New Accounting Pronouncements

(i) Standards, amendments and interpretations effective in 2009 relevant to the Group

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The amendments did not have any impact on the Group's financial statements.

IAS 23, 'Borrowing Costs', revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are 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 (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The Group has adopted the amendment in advance.

(ii) Standards, amendments and interpretations effective in 2009 but not relevant

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (revised May 2008);

Vesting Conditions and Cancellations-Amendment to IFRS 2, 'Share-based Payment' ;

IFRS 8, 'Operating Segments';

IAS 16, 'Property, Plant and Equipment' (and consequential amendments to IAS 7);

IAS 20, 'Accounting for Government Grants and Disclosure of Government Assistance';

IAS 40, 'Investment Property' (and consequential amendments to IAS 16);

IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009);

IFRIC 13, 'Customer Loyalty Programmes';

IFRIC 15, 'Agreements for the Construction of Real Estate';

IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation';

IFRIC 17, 'Distributions of Non-Cash Assets to Owners' (effective for annual periods beginning on or after 1 July 2009);

IFRIC 18, 'Transfers of Assets from Customers' (effective for annual periods beginning on or after 1 July 2009);

(iii) Certain new standards, amendments and interpretations to existing standards that are not yet effective and which Group has not early adopted

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

4 New Accounting Pronouncements (Continued)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. Currently the Group is considering the effect of the amended standard on the disclosure in its financial statements.

IFRIC 19, 'Extinguishment of financial liabilities by the issue of equity instruments' (effective for annual periods beginning on or after 1 July 2010.)

The Group is considering the implications of the standards, the impact on the Group and the timing of its adoption by the Group.

5 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's immediate parents and ultimate controlling parties are disclosed in Note 1.

For the purposes of these consolidated financial statements, related parties of the Group include its owners and their affiliated companies.

At 31 December 2009, the outstanding balances with related parties were as follows:

<i>In thousands of Kazakhstani tenge</i>	Parent companies	Associates	Total
Gross amount of receivables	-	44,628	44,628
Cash and cash equivalents – bank deposits (contractual interest rates: 0.5%-8.2%)	-	28,240,175	28,240,175
Advances received	17,083	3,424,604	3,441,687
Trade and other payables	456,702	4,060,585	4,517,287

5 Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the year ended 31 December 2009 were as follows:

<i>In thousands of Kazakhstani tenge</i>	Parent companies	Associates	Total
Revenue	3,408,552	14,026,367	17,434,919
Repairs and maintenance services	2,035,827	-	2,035,827
Security services	-	307,549	307,549
Other services	-	56,311	56,311

At 31 December 2008, the outstanding balances with related parties were as follows:

<i>In thousands of Kazakhstani tenge</i>	Parent companies	Associates	Total
Gross amount of receivables	-	44,628	44,628
Cash and cash equivalents – bank deposits (contractual interest rates: (1%-6.5%))		12,072,610	12,072,610
Advances received	254,054	453,205	707,259
Trade and other payables	168,437	4,696,224	4,864,661

The income and expense items with related parties for the year ended 31 December 2008 were as follows:

<i>In thousands of Kazakhstani tenge</i>	Parent company	Associates	Total
Revenue	2,786,881	11,984,843	14,771,724
Repairs and maintenance services	1,684,223	-	1,684,223
Security services	-	357,539	357,539
Other services	-	50,993	50,993

Terms of related parties transactions. Services are rendered to related parties on the same terms as to the third companies. Outstanding balances as at the end of the year are not secured, and settlements are made in cash. Purchases from the related parties are made on the terms determined in the open tender.

Directors' compensation. Compensation paid to 6 directors for their services in full time executive management positions, is made up of a contractual salary and bonuses. Total directors' compensation included in general and administrative expenses in the consolidated statement of comprehensive income for 2009 and 2008 is 132,697 thousand tenge and 137,727 thousand tenge, respectively.

6 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

<i>In thousands of Kazakhstani tenge</i>	Free- hold land	Buildings	Plant and equipment	Plant and other vehicles	Other	Construc- tion in progress	Total
Cost at 1 January 2008	-	4,023,367	13,451,758	59,777,296	295,304	11,841,447	89,389,172
Accumulated depreciation	-	(225,491)	(1,337,976)	(3,030,045)	(55,212)	-	(4,648,724)
Carrying amount at 1 January 2008	-	3,797,876	12,113,782	56,747,251	240,092	11,841,447	84,740,448
Additions	-	-	21,981	40,800	16,364	79,511,100	79,590,245
Capitalised borrowing costs	-	-	-	-	-	1,467,328	1,467,328
Reclassification to a different category	-	6,130,743	7,552,916	92,005	67,135	(13,842,799)	-
Reclassification to non-current assets	-	-	-	(88,490)	-	-	(88,490)
Disposals	-	-	(7,102)	(59,684)	(21,927)	(271,170)	(359,583)
Disposals of depreciation	-	-	7,156	59,475	21,522	-	88,153
Depreciation charge	-	(213,397)	(1,184,050)	(2,037,759)	(63,610)	-	(3,498,816)
Carrying amount at 31 December 2008	-	9,715,222	18,504,683	54,753,898	259,576	78,705,906	161,939,285
Cost at 31 December 2008	-	10,154,110	21,019,553	59,762,227	356,876	78,705,906	169,998,672
Accumulated depreciation	-	(438,888)	(2,514,870)	(5,008,329)	(97,300)	-	(8,059,387)
Carrying amount at 31 December 2008	-	9,715,222	18,504,683	54,753,898	259,576	78,705,906	161,939,285
Additions	2,184	292	102,238	698,329	68,414	25,353,320	26,224,777
Capitalised borrowing costs	-	-	-	-	-	4,939,094	4,939,094
Reclassification to a different category	-	7,202,047	11,717,304	83,299,021	51,993	(102,270,365)	-
Reclassification to non-current assets	-	-	-	(64,776)	-	-	(64,776)
Disposals	-	-	(675)	(43,088)	(13,279)	(3,735)	(60,777)
Disposals of depreciation	-	-	675	43,088	13,278	-	57,041
Depreciation charge	-	(476,147)	(1,842,658)	(2,677,201)	(80,231)	-	(5,076,237)
Carrying amount at 31 December 2009	2,184	16,441,414	28,481,567	136,009,271	299,751	6,724,220	187,958,407
Cost at 31 December 2009	2,184	17,356,449	32,838,420	143,651,713	464,004	6,724,220	201,036,990
Accumulated depreciation	-	(915,035)	(4,356,853)	(7,642,442)	(164,253)	-	(13,078,583)
Carrying amount at 31 December 2009	2,184	16,441,414	28,481,567	136,009,271	299,751	6,724,220	187,958,407

On 31 July 2009 the Group launched a second phase of the first starting complex of pipeline Atasu - Alashankou under EPC 3 systems of telecommunications contract (data transmission network, video conferencing, video surveillance, perimeter-security alarm system) and SCADA systems for total amount of 1,806,589 thousand tenge.

On 7 October 2009 under contract EPC 1A and EPC 1B of the first starting complex of the Kenkiyak-Kumkol pipeline the following equipment was launched: pipeline length of 794.1 km, launch and receive sites of cleaning and diagnostic devices (UPPOD), crane components, VL-10kV with supporting facilities, helipads for the total amount of 97,706,626 thousand tenge.

On 13 November 2009 under the contract EPC 1A. second starting complex of Kenkiyak-Kumkol pipeline the Group launched a joint emergency rehabilitation point (OAVP) "Aralsk" for the total amount of 2,120,628 thousand tenge.

On 30 December 2009 under the contract EPC 1B second starting complex of Kenkiyak-Kumkol pipeline was launched oil commercial metering point (KUUN) "Kumkol" in the amount of 436,692 thousand tenge.

At 31 December 2009 and 31 December 2008 the class "Plant and other vehicle" includes emergency stock for 591,946 thousand tenge and 109,219 thousand tenge, respectively. The emergency stock was created and transferred after completion of oil pipelines construction and consists of pipes, ball cocks, pipe bend and complex transformer substation.

7 Other Non-current Assets

As at 31 December 2009 Non-current assets represent mainly VAT on purchases that the Group did not expect to recover during next 12 months and accordingly, classified this asset as non-current.

8 Inventories

<i>In thousands of Kazakhstani tenge</i>	2009	2008
Spare parts	144,881	53,663
Materials	30,164	15,453
Fuel	14	30
Total inventories	175,059	69,146

9 Other Current Assets

<i>In thousands of Kazakhstani tenge</i>	2009	2008
Term deposits with maturity within 12 months	17,662,780	-
VAT receivable	4,274,380	11,803,528
Advances paid	17,244	21,040
Prepaid taxes	923	109,772
Other	56,832	540,911
Total other current assets	22,012,159	12,475,251

On 31 December 2009 VAT receivable includes the amount of 3,350,880 thousand tenge for services and goods provided by Kazakhstani suppliers and non-residents. VAT receivable is defined as 12% of the value of the provided goods or services. During 2009 tax authorities of the Republic of Kazakhstan refunded VAT for the amount of 6,198,459 thousand tenge.

10 Cash and Cash Equivalents

<i>In thousands of Kazakhstani tenge</i>	2009	2008
Cash on term deposits with maturities of less than three months	6,055,720	14,451,625
Cash at bank – tenge	4,943,922	50,065
Cash at bank – USD	3,422,226	5,864,934
Other cash at bank, in transit and on hand	1,761	6,818
Total cash and cash equivalents	14,423,629	20,373,442

All short-term bank deposits within cash and cash equivalents at the end of 2009 and 2008 are denominated in tenge, and have interest rates varying from 0.5% to 8.2% per annum (2008: from 1% to 6.5% per annum). All cash at bank and short-term bank deposits are not overdue or impaired

11 Borrowings

<i>In thousands of Kazakhstani tenge</i>	2009	2008
<i>Long-term borrowings</i>		
Industrial and Commercial Bank of China Limited and ING Bank N.V.	146,349,662	95,683,816
Notes issued in 2004	46,328,589	38,504,416
Notes issued in 2005	47,396,083	37,357,289
Total long-term borrowings	240,074,334	171,545,521

On 22 December 2004 the Group issued notes for the amount of 300 million US dollars for the period of 15 years. On 22 September 2005 the Group again issued notes for the amount of 300 million US dollars for the period of 15 years. Notes were issued at 7% for the first 4 years and 8.8% rate for the remaining period up to the full repayment. Notes were issued through the subsidiary company, KCP Finance B.V., against the guarantee of CNPC. Change in interest rate from 7% to 8.8% is caused by expiration of the guarantee issued by CNPC. The interest related to the notes is paid semi-annually. The Group incurred total transaction costs of 429,787 thousand tenge (equivalent to USD 3.21 million) and 433,615 thousand Tenge (equivalent to USD 3.35 million), respectively, for 2005 and 2004 notes issue and circulation. These costs are amortized till maturity in full, i.e. within 15 years.

On 12 August 2008 the Group signed the loan agreement with the Industrial and Commercial Bank of China Limited and ING Bank N.V. The credit line amount is 1,180 million USD for 10 years with the possibility for extension up to 5 years. The loan is intended for financing of the construction of the second stage of Kazakhstan-China Pipeline, Kenkiyak-Kumkol part. Loan is attracted in tranches with cash calls.

On 31 December 2009 the Group received four tranches. The first tranche was obtained on 2 September 2008 in the amount of 400 million USD, the second tranche on 6 October 2008 in the amount of 200 million USD, the third tranche on 15 December 2008 in the amount of 200 million USD and on 12 August 2009 Group received fourth tranche for amount of 150 million USD. The Group incurred the loan transaction costs in the amount of 2,399,512 thousand tenge (equivalent of 19.87 million USD).

Interest rate for each interest period is the annual rate which includes 6-month-LIBOR and the bank margin. The interest capitalization period is 36 months from the loan agreement signing date. The preference period is 42 months within which the repayment of principal amount is not made. After the expiry of the guarantee issued by CNPC the lending bank margin will increase from 2% to 4% after 54 months from the loan agreement signing date.

In 2009, the Group unified payment schedules on all tranches, according to a new single repayment schedule interest payments will be made on 2 September and on 2 March on all tranches. This change led to a decrease of carrying value of the loan for 819,716 thousand tenge.

As of 31 December 2009 and 2008, carrying value of the loans approximates their fair value.

12 Trade Payables

<i>In thousands of Kazakhstani tenge</i>	2009	2008
Denominated in tenge	2,314,753	4,047,166
Denominated in foreign currency	313,538	548,613
Total trade payables	2,628,291	4,595,779

13 Other Payables and Accrued Liabilities

<i>In thousands of Kazakhstani tenge</i>	2009	2008
Accrued liabilities	1,811,201	976,140
Other payables	369,080	22,039
Taxes other than income tax	132,950	22,162
Advances received	119,064	97
Unused vacation provision	77,090	47,721
Total other payables and accrued liabilities	2,509,385	1,068,159

14 Cost of Sales

<i>In thousands of Kazakhstani tenge</i>	2009	2008
Depreciation of property, plant and equipment	4,986,984	3,398,709
Operational and technical maintenance	2,272,509	1,726,057
Taxes other than income tax	1,328,703	714,050
Security services	333,475	319,956
Inspection services	78,269	41,166
Salaries and wages	44,431	28,670
Social tax	3,160	2,235
Other	171,970	83,446
Total costs of sales	9,219,501	6,314,289

15 General and Administrative Expenses

<i>In thousands of Kazakhstani tenge</i>	2009	2008
Salaries and wages	897,212	796,382
Taxes other than income tax	271,940	617,249
Rent expenses	162,918	169,018
Business trip expenses	81,095	88,573
Social tax	79,200	57,307
Depreciation of property, plant and equipment	75,790	73,786
Consulting services	23,080	35,650
Communication services	17,332	23,628
Transportation services	12,015	27,200
Representative expenses	6,221	13,074
Other	101,011	91,831
Total general and administrative expenses	1,727,814	1,993,698

16 Income Taxes

Income tax expense comprises the following:

<i>In thousand of Kazakhstani tenge</i>	2009	2008
Income tax expense/(benefit)	587,597	(561,093)
Income tax expense/(benefit)	587,597	(561,093)

Reconciliation between the expected and the actual taxation charge is provided below:

	2009	2008
Loss before tax	(36,783,856)	(308,663)
Theoretical tax credit at statutory changed rate (2009: 20%, 2008:20%)	(7,356,771)	(92,590)
Increase due to:		
Unrecognized deferred tax assets on tax losses carried forward	5,206,794	-
Non-deductible portion of interest expense	2,257,377	626,988
Effect from change of statutory tax rate	432,155	(1,297,874)
Adjustment of assets cost according to IAS 23	48,556	-
Non-deductible expenses	17,210	200,537
(Income)/expenses of KCP Finance B.V.	(17,724)	45,230
Other non-deductible expenses	-	18,063
Other gain	-	(61,447)
Income tax expense/(benefit)	587,597	(561,093)

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate applicable to period of assets realisation or liabilities settlement. Due to changes in the tax legislation of the Republic of Kazakhstan effective from 1 January 2009, the income tax rate in 2009-2012 is 20%, in 2013 – 17.5%, in 2011 and in 2014 and further – 15% (2008: 30%).

16 Income Taxes (Continued)

	1 January 2009	Charged to profit or loss	31 December 2009
Tax effect of deductible temporary differences			
Tax losses carried forward	47,817	5,158,977	5,206,794
Bonds	-	628,439	628,439
Provision for unused vacation	9,544	4,446	13,990
Gross deferred tax asset	57,361	5,791,862	5,849,223
Unrecognized deferred tax asset	-	(5,835,233)	(5,835,233)
Deferred tax asset (net)	57,361	(43,371)	13,990
Tax effect of taxable temporary differences			
Property, plant and equipment and intangible assets	(1,142,060)	(532,076)	(1,674,136)
Taxes payable	(12,233)	(12,150)	(24,383)
Gross deferred income tax liabilities	(1,154,293)	(544,226)	(1,698,519)
Total deferred income tax liabilities, net	(1,096,932)	(587,597)	(1,684,529)

As at 31 December 2009 the Group did not recognize deferred tax asset for 5,206,794 thousand tenge on tax losses carried forward and deferred tax asset for 628,439 thousands tenge on the notes, which occurred due to the application of effective interest rate method to the notes as management does not believe it is possible that future taxable profit will allow the deferred tax assets to be recovered in future.

	1 January 2008	Charged to profit or loss	31 December 2009
Tax effect of deductible temporary differences			
Tax loss carried forward	72,918	(25,101)	47,817
Provision for unused vacation	9,444	100	9,544
Gross deferred tax asset	82,362	(25,001)	57,361
Tax effect of taxable temporary differences			
Property, plant and equipment and Intangible assets	(1,729,680)	587,620	(1,142,060)
Taxes payable	(10,707)	(1,526)	(12,233)
Gross deferred income tax liabilities	(1,740,387)	586,094	(1,154,293)
Total deferred income tax liabilities, net	(1,658,025)	561,093	(1,096,932)

17 Commitments and Contingent Liabilities

Political and economic conditions in Kazakhstan. Whilst there have been improvements in the economic situation in the Republic of Kazakhstan in recent years, its economy continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country and a low level of liquidity of the securities markets.

Additionally, the oil and gas sector in Kazakhstan is particularly impacted by political, legal, financial and regulatory developments in Kazakhstan. The prospects for future economic stability in Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Group's control.

The financial condition and future operations of the Group may be adversely affected by continued economic difficulties inherent to an emerging market as well because of global economic crisis impact. Management is unable to predict the extent and duration of the economic difficulties, nor quantify the impact, if any, on these consolidated financial statements.

Taxation. Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open to review by the tax authorities for five years.

The Kazakhstan Government introduced significant amendments to the existing Tax Code effective from 1 January 2009 ("New Tax Code"). The following key changes were made: replacement of the royalty by the mineral production tax; change in the methodology of calculation of rent tax on oil exports; change in the methodology of excess profit tax calculations; reduction of the corporate income tax rate from 30% to 20% in the financial year 2009, 17.5% in 2010, and 15% in 2011 and afterwards; reduction of the VAT to 12%; and other changes. However, in accordance with the Law of the Republic of Kazakhstan from 16 November 2009 regarding the delay until 1 January 2014 of the paragraph 1, article 147 of the New Tax Code concerning the rate of the corporate income tax, it was established that during the period of delay the following rates of corporate income tax will apply: starting 1 January 2009 until 1 January 2013 - 20%; 1 January 2013 until 1 January 2014 - 17.5%. However, Law of the Republic of Kazakhstan dated 16 November 2009 has made amendments of suspension until 1 January 2014 to article 147, item 1 of Tax Code in respect of corporate income tax rate, established that during suspension period the following corporate income tax rates are effective: in 2009, 2010, 2011 and 2012 - 20%; in 2013 - 17.5%; in 2014 and subsequent periods - 15%.

Changes in corporate income tax rates will have an impact on the amounts of recognized deferred income tax liabilities (see Note 16).

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2009 no provision for potential tax liabilities had been recorded (2008: no provision).

Capital expenditure commitments. At 31 December 2009 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling 6,189,617 thousand tenge (2008: 21,500,880 thousand tenge). These commitments include contractual obligations against JSC CAF Block in the amount of 236,041 thousand tenge for the construction, assembly works and other services under the contract KCPP/EPC 2B. However, in 2010, the Group's management plans to sign amendments to the contract with JSC CAF Block to decrease the contractual obligations for 236,041 thousand tenge.

Oil for oil pipelines filling. The Group obtained technological oil for the oil pipelines filling, required for its operation (Note 1). The Group is fully responsible for safety of this oil and will return it to PetroChina International Kazakhstan and CNPC-Aktobemunaigas JSC upon decommission of the pipelines. The Group does not record any liability in respect to the technological oil filled at the reporting dates.

Environmental liabilities. Certain activities in the oil and gas industry may create environmental problems. Environmental regulations are currently in a state of transition in the Republic of Kazakhstan and the Group is assessing its obligations related thereto.

Management believes that under existing legislation there are no significant liabilities that are in addition to the amounts, which have already been accrued, in the consolidated financial statements, which will have a materially adverse effect on the operating results or financial position of the Group

17 Commitments and Contingent Liabilities (Continued)

Recent volatility in global financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

The volume of wholesale financing has significantly reduced since August 2007. However, such circumstances did not prevent the Group to obtain significant loans during 2008 and 2009. Nevertheless, continued global economic crisis may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Shippers of oil of the Group may be affected by the lower liquidity situation which could in turn impact their ability to fulfill contractual obligations. Deteriorating operating conditions for shippers of oil may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. Considering the information available, management believes that it has properly reflected the changes in the cash flow forecasts when estimating asset impairment.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

18 Financial Risks Management

Financial risk factors. The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Credit risk. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. Maximum exposure to credit risk is limited by these financial assets.

For banks and financial institutions, only independently rated parties with a stable financial position and support from the State, as a consequence of the financial crisis, the Group could not rely on the ratings received by banks from independent agencies. Where no independent rating is available for customers, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

The table below shows the rating, deposits that have original maturities of less than three months and balances with major banks at 31 December 2009 and 2008:

<i>In thousands of Kazakhstani tenge</i>	Rating agency	Rating	2009	2008
Halyk Bank of Kazakhstan	Moody's	D-	7,351,920	12,072,610
Industrial and Commercial Bank of China	Moody's	D-	3,647,318	-
Kazkommertsbank	Moody's	E+	3,225,475	-
Deutsche Bank	Moody's	B	134,225	36,573
Bank of China (Kazakhstan)	-	-	62,377	47,629
Citi Bank	-	-	1,408	3,490
Bank of China (Alashankou)	-	-	528	607
BTA Bank	Moody's	E	-	5,132,725
Alliance Bank	Moody's	E	-	3,079,685

The difference to cash and cash equivalents as disclosed on the face of the balance sheet is in respect of cash in transit and cash on hand (see Note 10).

18 Financial Risks Management (Continued)

The table below shows the rating and balances with the bank where deposits that have original maturities of more than three months at 31 December 2009 and 2008:

	Rating agency	Rating	2009	2008
Halyk Bank of Kazakhstan	Moody's	D-	16,604,880	-
Kazkommertsbank	Moody's	E+	1,057,900	-

Foreign exchange risk. The Group attracts foreign currency denominated borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated liabilities (Note 11, 12) give rise to foreign exchange exposure. Due to undeveloped market of financial instruments in Kazakhstan, the management does not hedge the Groups foreign exchange risk. At 31 December 2009, if the US Dollars had weakened/strengthened by 27 percent against tenge with all other variables held constant, after-tax loss for the year would have been 45,433,308 thousand tenge higher/lower (2008: 12,046,589 thousand tenge higher/lower), mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated trade payables and borrowings. Since the Group does not hold any financial instruments revalued through equity, the effect of change of exchange rate on equity would be the same as on post-tax profit.

Interest rate risk. Risk of change of interest rates of the Group arises from of long-term loans and short-term bank deposits. Loans/deposits issued at fixed rates expose the Group risk impact of changes in interest rates on the fair value.

For the loans with floating interest rate Group is exposed to the potential risk in the market of the LIBOR rate. In accordance with accounting policy Group capitalizes interest expenses to the construction in progress, change in interest rate will not affect the change in capitalized amount of interest expenses related to construction in progress, as this qualifying asset has been put into operation in 2009. As at 31 December 2009, if the LIBOR rate for the US dollars denominated loans with floating interest rate increased/decreased for one percent, other terms being equal, the balance of interest payable on that loan would had been changed for 525,434 thousand tenge (3,542 thousand US dollars)

Liquidity risk. Surplus of cash held by the Group required for working capital management are transferred to the treasury department. Treasury invests surplus cash in interest bearing current accounts, time deposits, choosing instruments with appropriate maturities to provide sufficient liquidity to the Group. At the reporting date, the Group held money at deposits and current accounts of 32,086,409 thousands tenge (2008: 20,373,442 thousands tenge) deposits are expected to readily generate cash inflows for managing liquidity risk.

The Groups objective is to maintain the balance between the continuous financing and flexibility using the bank deposits.

The table below analyses the Group's financial liabilities into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cashflows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

<i>In thousand of Kazakhstani tenge</i>	Less than year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2009				
Borrowings	11,974,539	12,288,916	37,494,605	52,961,893
Accounts payable and accounts payable to related parties	10,587,265	-	-	-
At 31 December 2008				
Borrowings	7,121,723	11,557,911	42,690,490	130,827,538
Accounts payable and accounts payable to related parties	10,167,699	-	-	-

18 Financial Risks Management (Continued)

Capital risk management. The Groups objectives when managing capital are to safeguard the Groups ability to continue as a going concern in order to provide returns for owners and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. The Groups policy is to minimize the gearing ratio as far as possible. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "trade and other payables" and "payable to related parties" as shown in the statement of financial position) less cash and cash equivalents, including short-term bank deposits. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt

<i>In thousand of Kazakhstani tenge</i>	2009	2008
Total borrowings	253,170,984	182,781,380
Less: cash and cash equivalents	(32,086,409)	(20,343,442)
Net debt	221,084,575	162,437,938
Total equity	(25,755,254)	11,531,355
Total capital	195,329,321	172,969,293
Gearing ratio	113%	93%

Financial instruments by category. In accordance with the accounting policies for financial instruments all classes of financial assets of the Group as of both year-ends represent deposits and receivables and all classes of financial liabilities as of these dates represent financial liabilities measured at amortised cost.

In the management's view the risk profile of all trade payable balances does not vary significantly if analysed in the context of foreign suppliers/contractors versus local ones or in some other context. Classification of trade payables into foreign currency originated balances versus local currency originated balances is used for the estimation of a minimum exposure to currency risk.

19 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Estimated fair value of such instruments approximates the carrying value of the liabilities stated at amortized cost as at 31 December 2009 and 2008.