

**Kazakhstan – China Pipeline Group**

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

**31 December 2011**

*(Translated from the Russian original)*

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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 LLP and its subsidiary (together "Group") which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other notes.

### *Management's responsibility for the consolidated financial statements*

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

### *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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

*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)

Page 2

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

Almaty, Kazakhstan  
7 February 2012

Approved by:

Zhanbota T. Bekenov  
Managing 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.*


**MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

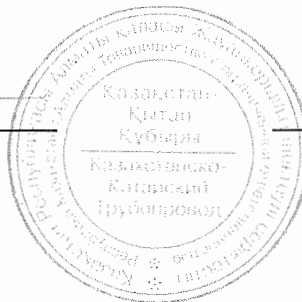
7 February 2012

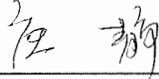
The enclosed consolidated financial statements were prepared by the management, which bears responsibility for its full and accurate representation. The management considers that the consolidated financial statements, preparation of which requires formation of certain estimates and judgments, fairly and accurately represent the financial position, results of its operations, and the cash flows of the Kazakhstan-China Pipeline LLP (hereinafter the "Company"), and its subsidiary (hereinafter the Company and its subsidiary are jointly referred to as the "Group") in accordance with International Financial Reporting Standards ("IFRS").

Management of the Group implements relevant policies, procedures and systems of internal control in order to maintain compliance and consistency of reporting practices, accounting and administrating procedures at reasonable costs. These methods and procedures are intended to provide reasonable assurance that operations are accurately reflected and summarized in accounting records for preparation of fair financial records and reports and safeguarding of assets.

Approved for issue and signed on behalf of the management on 7 February 2012.

  
Fu Zhen-dong  
Acting General Director




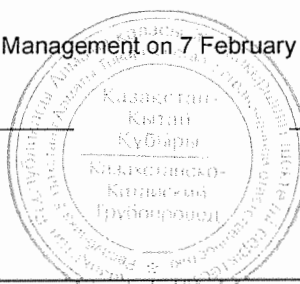
  
Tang Jing  
Deputy General Director / Chief Accountant

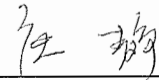
**Kazakhstan-China Pipeline Group**  
**Consolidated Statement of Financial Position**

<i>In thousands of Kazakhstani tenge</i>	<b>Note</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	234,258,450	186,320,504
Other non-current assets	7	8,739,536	8,886,900
<b>Total non-current assets</b>		<b>242,997,986</b>	<b>195,207,404</b>
<b>Current assets</b>			
Inventories	8	792,965	240,456
Receivables from related parties	5	736,310	-
Other current assets	9	15,587,721	469,857
Cash and cash equivalents	10	17,136,665	10,417,333
<b>Total current assets</b>		<b>34,253,661</b>	<b>11,127,646</b>
<b>TOTAL ASSETS</b>		<b>277,251,647</b>	<b>206,335,050</b>
<b>OWNERS' EQUITY AND LIABILITIES</b>			
<b>Owners' equity</b>			
Charter capital		13,000,000	13,000,000
Accumulated deficit		(5,286,578)	(24,606,409)
Cumulative translation adjustment		39,102	35,755
Reserve capital for revaluation of property, plant and equipment		37,997,093	-
<b>TOTAL OWNERS' EQUITY</b>		<b>45,749,617</b>	<b>(11,570,654)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	11	204,191,831	201,892,812
Deferred tax liability	16	14,578,667	3,009,259
<b>Total non-current liabilities</b>		<b>218,770,498</b>	<b>204,902,071</b>
<b>Current liabilities</b>			
Trade payables	12	1,328,441	2,354,669
Accounts payable to related parties	5	9,575,559	8,578,477
Other payables and accrued liabilities	13	1,827,532	2,070,487
<b>Total current liabilities</b>		<b>12,731,532</b>	<b>13,003,633</b>
<b>TOTAL LIABILITIES</b>		<b>231,502,030</b>	<b>217,905,704</b>
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>		<b>277,251,647</b>	<b>206,335,050</b>

Approved for issue and signed on behalf of the Management on 7 February 2012:

  
Fu Zhen-dong  
Acting General Director




  
Tang Jing  
Deputy General Director / Chief Accountant

The accompanying notes on pages 5 to 25 are an integral part of these consolidated financial statements.  
Translated from the Russian original

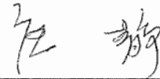
**Kazakhstan-China Pipeline Group**  
**Consolidated Statement of Comprehensive Income**

<i>In thousands of Kazakhstani tenge</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
Revenue		54,787,851	48,366,731
Cost of sales	14	(19,920,188)	(16,223,553)
<b>Gross profit</b>		<b>34,867,663</b>	<b>32,143,178</b>
General and administrative expenses	15	(2,624,824)	(2,480,282)
Foreign exchange gain/(loss) (net)		46,837	(148,366)
Property, plant and equipment impairment loss		(5,081,364)	-
Other income (net)		46,967	19,864
<b>Operating profit</b>		<b>27,255,279</b>	<b>29,534,394</b>
Interest expense		(6,000,736)	(16,982,032)
Interest income		278,293	1,366,096
Foreign exchange gain from financing activities		18,785,010	20,552,905
Foreign exchange loss from financing activities		(20,163,628)	(18,958,477)
<b>Profit before income tax</b>		<b>20,154,218</b>	<b>15,512,886</b>
Income tax expense	16	(1,822,985)	(1,324,730)
<b>Profit for the year</b>		<b>18,331,233</b>	<b>14,188,156</b>
<b>Other comprehensive income</b>			
Revaluation of property, plant and equipment		48,732,114	-
Income tax charged to equity		(9,746,423)	-
Currency translation adjustment		3,347	(3,544)
<b>Total other comprehensive income</b>		<b>38,989,038</b>	<b>(3,544)</b>
<b>Total comprehensive income for the year</b>		<b>57,320,271</b>	<b>14,184,612</b>
<b>Total comprehensive income for the year attributable to</b>			
- owners of the Group		57,320,271	14,184,612
- minority interest		-	-

Approved for issue and signed on behalf of the Management on 7 February 2012:

  
**Fu Zhen-dong**  
 Acting General Director




  
**Tang Jing**  
 Deputy General Director / Chief Accountant

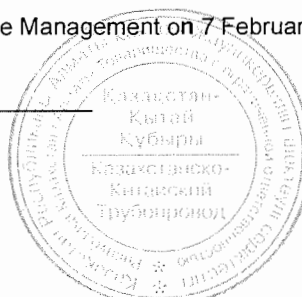
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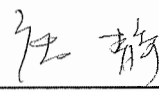
**Kazakhstan-China Pipeline Group**  
**Consolidated Statement of Changes in Equity**

<i>In thousands of Kazakhstani tenge</i>	Charter Capital	Cumulative translation adjustment	Revaluation provision	Accumulated deficit	Total
Balance at 1 January 2010	13,000,000	39,299	-	(38,794,65)	(25,755,266)
Total comprehensive income for the year	-	(3,544)	-	14,188,156	14,184,612
Balance at 31 December 2010	13,000,000	35,755	-	(24,606,409)	(11,570,654)
Profit for the year	-	-	-	18,331,233	18,331,233
Other comprehensive income:					
- Currency translation adjustment	-	3,347	-	-	3,347
- Provision for revaluation of property, plant and equipment	-	-	48,732,114	-	48,732,114
- Income tax charged to equity	-	-	(9,746,423)	-	(9,746,423)
Total other comprehensive income for the year	-	3,347	38,985,691		38,989,038
Revaluation provision utilised	-	-	(988,598)	988,598	-
Balance at 31 December 2011	13,000,000	39,102	37,997,093	(5,286,578)	45,749,617

Approved for issue and signed on behalf of the Management on 7 February 2012:

  
**Fu Zhen-dong**  
 Acting General Director



  
**Tang Jing**  
 Deputy General Director / Chief Accountant


The accompanying notes on pages 5 to 25 are an integral part of these consolidated financial statements.  
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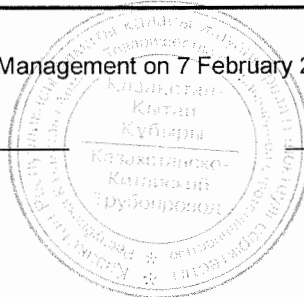


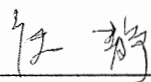
**Kazakhstan-China Pipeline Group**  
**Consolidated Statement of Cash Flows**

<i>In thousands of Kazakhstani tenge</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>Profit before income tax</b>		<b>20,154,218</b>	<b>15,512,886</b>
Adjustments for:			
Interest expense		6,000,736	16,982,032
Interest income		(278,293)	(1,366,096)
Depreciation	6	10,208,288	8,388,893
Property, plant and equipment impairment		5,081,364	-
Amortisation of intangible assets		5,043	7,758
Unrealized foreign exchange profit/(loss) from financing activities		1,702,439	(1,565,538)
Loss from disposal of property, plant and equipment		31,099	714
<b>Cash flow in operating activity before changes in operating capital:</b>			
(Increase) in inventories		(551,605)	(159,360)
(Increase)/decrease in other current assets		(471,585)	3,879,523
(Increase)/decrease in receivables from related parties		(736,310)	44,628
Decrease/(increase) in other non-current assets		445,680	(2,921,006)
Increase in trade payables		(242,956)	708,360
(Decrease)/increase in accounts payable to related parties		997,082	1,071,527
(Decrease) in other payables and accrued liabilities		(536,593)	(438,898)
<b>Cash flows from operating activities</b>		<b>41,808,607</b>	<b>40,145,423</b>
Interest paid		(5,785,916)	(8,975,046)
<b>Net cash flow from operating activities</b>		<b>36,022,691</b>	<b>31,170,377</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(14,657,080)	(8,619,453)
Placement of bank deposits		(19,646,279)	(31,752,503)
Withdrawal of bank deposits		5,000,000	49,415,283
<b>Net cash flow (used in)/provided by investing activities</b>		<b>(29,303,359)</b>	<b>9,043,327</b>
<b>Cash flows from financing activities</b>			
Repayment of loans and borrowings		-	(44,220,000)
<b>Net cash used in financing activities</b>		<b>-</b>	<b>(44,220,000)</b>
<b>Net changes in cash and cash equivalents</b>		<b>6,719,332</b>	<b>(4,006,296)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>10</b>	<b>10,417,333</b>	<b>14,423,629</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>10</b>	<b>17,136,665</b>	<b>10,417,333</b>

Approved for issue and signed on behalf of the Management on 7 February 2012:

  
Fu Zhen-dong  
Acting General Director



  
Tang Jing  
Deputy General Director / Chief Accountant

## **1 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 2011 for Kazakhstan-China Pipeline LLP (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group").

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

The Company is owned by two participants: China National Operating and Development Corporation ("CNODC"), a subsidiary of China National Petroleum Corporation ("CNPC"), and KazTransOil JSC ("KazTransOil"), a subsidiary of KazMunaiGas National Company JSC ("KazMunaiGas"), each owning 50 percent participant interest in the charter capital of the Company. The Company is jointly controlled by KazTransOil and CNODC on an equal basis. KazTransOil is ultimately controlled by the Kazakh Government through Samruk-Kazyna National Welfare Fund 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, Additional Agreement No.1 thereto.

The Company is considered to be a monopolist and, accordingly, is subject to 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 Company 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 (the "Atasu – Alashankou pipeline").

On 17 November 2005 the Company 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 the 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. #1/1-2009 dated 12 January 2009 with PetroChina International Kazakhstan LLP ("PetroChina") on rent of technological oil for operating Atasu – Alashankou pipeline. According to the agreement, the cost of rent for one calendar year is 12 million Tenge (VAT inclusive). The technological oil transferred under the rent agreement in the amount of 401,449 metric tons belongs to PetroChina. The date of the technological oil return to PetroChina is the date of the expiration of rent term.

On 8 May 2008, the Company obtained an approval from the Committee for Construction and Housing and Communal Services under the Ministry of Industry and Trade to 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 project development, shipping and construction of 794.1 km long Kenkiyak-Kumkol oil pipeline with the annual throughput capacity of the second stage's first phase of 10 million tons.

On 1 July 2009, the construction of linear part of Kenkiyak-Kumkol oil pipeline (the "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 Contract No. 02-2009 dated 12 February 2009. Technological oil belongs to JSC "CNPC-Aktobemunaigas". The return period of the technological oil to JSC "CNPC-Aktobemunaigas" is the termination of the Kenkiyak-Kumkol pipeline operation.

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

On 10 December 2010, the Group completed the commissioning of the second stage's first phase facilities of the Kenkiyak-Kumkol pipeline construction.

## **1 The Kazakhstan-China Pipeline Group and Its Operations (Continued)**

In 2011, the Group commissioned the additional equipment in order to increase the throughput capacity of the Atasu-Alashankou pipeline up to 12 million tons per year.

In 2011 and 2010, the Group transported through the Atasu-Alashankou pipeline 10,900 thousand tons and 10,104 thousand tons of oil, respectively. In 2011 and 2010, the Group transported through the Kenkiyak-Kumkol pipeline 4,782 thousand tons and 3,721 thousand tons of oil, respectively.

The Company's registered office address is: 29D Satpayev Street, Almaty 050008, 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") on the historical cost basis, except for the financial instruments and revaluation of property, plant and equipment recorded at fair value. 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 "New Accounting Pronouncements").

**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 when 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 supply 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.

## 2 Summary of Significant Accounting Policies (Continued)

*The effective interest method* is a method of allocating interest income or interest expense during 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.

**Classification of financial assets.** The management of the Group classifies its financial assets upon initial recognition. Financial assets of the Group include accounts receivable 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 (Note 11), trade payables (Note 12) and accounts payable to related parties (Note 5).

**Initial recognition of financial instruments.** Financial assets and liabilities are initially recorded at fair value subject to 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 ultimate 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.** On 1 January 2011, the Group amended its Accounting Policies with regard to the accounting for property, plant and equipment and selected the revaluation model. Therefore, the Group, through an independent appraiser, revaluated its property, plant and equipment as at 31 August 2011 for the first time.

Upon recognition as an asset, property, plant and equipment items are stated at revaluation cost less accumulated depreciation and provision for impairment, if any.

Property, plant and equipment, are subject to revaluation regularly performed to ensure that the carrying amount does not substantially change from the amount determined at fair value as at the end of the reporting period. Property, plant and equipment are revaluated on approval of an authorised agency regulating natural monopolies. Once every three years the Group engages independent appraisers for revaluation of its property, plant and equipment.

An increase in the carrying amount resulting from revaluation is recorded within other comprehensive income and increases revaluation provision within the equity; decrease in the value of an item within the amount of previous cost increases is recorded directly in other comprehensive income and reduces the revaluation provision previously recognized within the equity; when decrease in the value exceeds such amount, it is recorded in profit or loss for the year. The provision for revaluation of property, plant and equipment, within the equity is directly included into retained earnings when capital gain is realised with use of such asset by the Group; in the last event, the capital gain write-off amount is determined as the difference between the depreciation measured at carrying value, taking into account revaluation, and the depreciation determined at the initial cost.

When property, plant and equipment are disposed, the remaining surplus of the provision for revaluation of property, plant and equipment is directly transferred to retained earnings. This movement is stated in the statement of changes in equity.

## 2 Summary of Significant Accounting Policies (Continued)

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.

Costs of complex regular inspections of property, plant and equipment objects having periodicity of not more than once a year amounting to not less than 10 percent of cost of property, plant and equipment object, are subject to capitalization as separate component of PPE. If the amount of costs of complex regular inspections of selected property, plant and equipment object is less than 10 percent of its cost, the amount is recognized as current expense.

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.** Land is not charged depreciation. Depreciation on other items of 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	5-50
Machinery and equipment	2-30
Pipeline and other vehicles	8-39
Other	2-12

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 necessary, 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.

**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 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.

## **2 Summary of Significant Accounting Policies (Continued)**

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 stated at amortised cost using the effective interest method.

**Capitalisation of borrowing costs.** Borrowing costs directly attributable to the acquisition, construction or production of the asset that require substantial time to prepare for its intended use or sale (qualifying asset) are capitalised as part of the cost of such asset.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for use or sale.

The Group capitalises the borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The capitalised borrowing costs are calculated using the Group's average financing cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except when funds are borrowed specifically for the purpose of purchasing the qualifying asset. Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

**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 2011 the official rate of exchange applied to translate balances denominated in USD, was Tenge 148.4 for 1 US dollar (31 December 2010: Tenge 147.4 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.

**Employee benefits.** Salaries, pension fund contributions, 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. However, 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.



## **2 Summary of Significant Accounting Policies (Continued)**

**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 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 sale 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.

**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 interest received or receivable. Revenue is based on the application of tariffs authorized by the Agency for transportation of oil through the pipelines.

## **3 Critical Accounting Estimates and Professional Judgments 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 consolidated 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.** Deferred income tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. 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 management makes judgements and applies estimates that are believed to be reasonable under the circumstances taking into account taxable profit for the previous years and expectations of future revenue. (Note 16).

**Revaluation of property, plant and equipment.** Property, plant and equipment are stated at fair value based on the reports prepared by an independent appraiser. Due to a specific nature of buildings, structures, pipeline assets, machinery and equipment, and due to the lack of comparable market data, the fair value of such assets was determined by the cost recovery methods applied the cost approach.

### **3 Critical Accounting Estimates and Professional Judgments in Applying Accounting Policies (Continued)**

Fair value measurement is based on the key assumptions related to the cash generating unit, tariffs and volumes of transported oil. In the profitability test applied the income approach two pipelines were considered as one cash generating unit, where united oil transportation tariff was applied to both pipelines since mid-2012, and oil transported through the Atasu-Alashankou pipelines was 16 million tons and through the Kenkiyak-Kumkol pipeline 10.5 million tons.

**Tax legislation.** Tax, currency and customs legislation of the Republic of Kazakhstan is subject to varying interpretations (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. The terms and conditions with regard to related party transactions are exposed in Note 6.

**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 assets. 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.

### **4 New Accounting Pronouncements**

*(i) New standards, amendments and interpretations, that are mandatory for the accounting periods beginning on or after 1 January 2011 and relevant to the Group's operations.*

- 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. As a result of this Amendment, the Group now discloses its contractual obligations on purchase and sale of goods or services to related parties and has disclosed the information only on individually substantial transactions with public companies.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.



#### **4 New Accounting Pronouncements (Continued)**

*(ii) New standards, amendments and interpretations, that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 but not relevant to the Group's operations.*

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments), Amendment to IAS 32 (Classification of Rights Issues), IFRIC 14 interpretation regarding IAS 19 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) regarding the prepayment of contractual minimum funding requirement, and Amendments to IFRS 1 (First-time Adoption of IFRS) have not affected these consolidated financial statements.

*(iii) Standards, amendments and interpretations not effective yet but relevant to the Group's operations.*

- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 with regard to (i) change of the effective date determined as the annual periods beginning on or after 1 January 2015, (ii) addition of a requirement to the disclosure of transition to this Standard. The key features of the standard 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.
  - 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.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. Currently the Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

- IFRS 13, Fair Value Measurement (issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013), is intended to improve the comparability and the quality of the information disclosed on fair value due to its requirements which result in IFRSs having the same definition and meaning of fair value and the same disclosure requirements about fair value measurements. Currently the Group is considering the implications of the standard for these financial statements.
- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 and effective for the periods beginning on or after 1 July 2012) revise the way other comprehensive income is presented. These Amendments Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently, i.e. those that might be reclassified and those that will not be reclassified. These Amendments change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. The Group believes that the revised Standard will change the presentation of financial statements; however, it will not affect the measurement of transactions and balances.

#### **4 New Accounting Pronouncements (Continued)**

- The revised IAS 19, Employee Benefits (issued in June 2011 and effective for the periods beginning on or after 1 January 2012), substantially changes the procedure for recognition and measurement of defined pension and benefit plans, and substantially changes the requirements to disclosure of the information on all types of employee benefits. This Standard requires recognition of all changes in net liabilities (assets) on defined pension plans when they arise as follows: (i) cost of services and net interest income are recognised in the profit or loss; and (ii) revaluation is recognised in other comprehensive income. Currently the Group is considering the implications of the standard for these financial statements.
- Disclosures - Offsetting Financial Assets and Financial Liabilities – Amendment to IFRS 7 (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013). This Amendment requires a disclosure allowing the readers of financial statements to assess the effect or potential effect of offsetting arrangements, including the rights of set-off. This change will affect the disclosure of information but it will not affect the measurement and recognition of financial instruments.
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for the annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation, Including the clarification of the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

*(iv) Standards, amendments and interpretations not effective yet but relevant to the Group's operations.*

- Amendments to IFRS 1, First-time Adoption of IFRS, regarding severe hyperinflation and removal of fixed dates for certain mandatory and voluntary exception will not affect these consolidated financial statements.
- Amendment to IFRS 12, Income Taxes, introduces a disputable assumption that the investment property carried at fair value is fully recoverable through sale, and IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, addresses the issue of when and how to account for the benefits from stripping activity, will not affect these annual financial statements.
- IAS 27, Separate Financial Statements (revised in May 2011 and effective for the annual periods beginning on or after 1 January 2013). This Standard was revised and currently it sets requirements to the accounting and disclosure of information on investment in subsidiaries, joint ventures or associates in preparation of separate financial statements. The guidelines on control and consolidated financial statements were replaced by IFRS 10, Consolidated Financial Statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

#### **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 2011, the outstanding balances with related parties were as follows:

<i>In thousands of Kazakhstani tenge</i>	<b>Parent companies</b>	<b>Associates</b>	<b>Total</b>
Cash and cash equivalents – bank deposits (contractual interest rates: 0.5%-4.2%)	-	8,978,005	8,978,005
Advances received	-	4,825,756	4,825,756
Accounts receivable	-	736,310	736,310
Trade and other payables	1,326,044	3,423,759	4,749,803

## **5 Balances and Transactions with Related Parties (Continued)**

The income and expense items with related parties for the year ended 31 December 2011 were as follows:

<i>In thousands of Kazakhstani tenge</i>	<b>Parent companies</b>	<b>Associates</b>	<b>Total</b>
Revenue	-	54,616,846	54,616,846
Pipeline repairs and maintenance services	3,624,450	296,299	3,920,749
Security services	-	1,041,611	1,041,611
Other services	1,060	50,115	51,175

At 31 December 2010, the outstanding balances with related parties were as follows:

<i>In thousands of Kazakhstani tenge</i>	<b>Parent companies</b>	<b>Associates</b>	<b>Total</b>
Cash and cash equivalents – bank deposits (contractual interest rates: (1%-6.5%))	-	4,267,169	4,267,169
Advances received	-	4,836,604	4,836,604
Trade and other payables	697,822	3,044,051	3,741,873

The income and expense items with related parties for the year ended 31 December 2010 were as follows:

<i>In thousands of Kazakhstani tenge</i>	<b>Parent companies</b>	<b>Associates</b>	<b>Total</b>
Revenue	-	48,227,482	48,227,482
Pipeline repairs and maintenance services	3,074,228	250,189	3,324,417
Security services	-	760,912	760,912
Other services	6,501	436,378	442,879

**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.

The Group entered into oil transportation agreements with its related parties; guaranteed minimum volumes of oil supplied in 2012 amount to 14,875 thousand tons.

The Government of the Republic of Kazakhstan and People's Republic of China exercise a joint control over the Group. The Group decided to apply the exemption from individual disclosure of immaterial transactions and outstanding balances with the government and related parties, as permitted by IAS 24.

The Group purchases goods and services from a large number of parties related to the government. Such purchases are individually immaterial and, in general, are executed on market conditions. Transactions with the Kazakhstan government also include tax transactions disclosed in Notes 13, 14 and 16.

**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 2011 and 2010 is Tenge 129,840 thousand and Tenge 133,331 thousand, 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 and structures	Plant and equipment	Plant and other vehicles	Other	Construction in progress	Total
Cost at 1 January 2010	2,184	17,356,449	32,838,420	143,651,713	464,004	6,724,220	<b>201,036,990</b>
Accumulated depreciation	-	(915,035)	(4,356,853)	(7,642,442)	(164,253)	-	(13,078,583)
<b>Carrying amount at 1 January 2010</b>	<b>2,184</b>	<b>16,441,414</b>	<b>28,481,567</b>	<b>136,009,271</b>	<b>299,751</b>	<b>6,724,220</b>	<b>187,958,407</b>
Additions	-	-	41,621	503,421	642	6,206,102	6,751,786
Reclassification to a different category	-	798,622	11,344,834	228,771	1,243	(12,373,470)	-
Reclassification to non-current assets held for sale	-	-	-	-	-	(82)	(82)
Disposals	-	-	-	(714)	-	-	(714)
Depreciation charge	-	(685,802)	(2,657,566)	(4,972,350)	(73,175)	-	(8,388,893)
<b>Carrying amount at 31 December 2010</b>	<b>2,184</b>	<b>16,554,234</b>	<b>37,210,456</b>	<b>131,768,399</b>	<b>228,461</b>	<b>556,770</b>	<b>186,320,504</b>
Cost at 31 December 2010	2,184	18,155,071	44,224,875	144,383,191	465,889	556,770	207,787,980
Accumulated depreciation	-	(1,600,837)	(7,014,419)	(12,614,792)	(237,428)	-	(21,467,476)
<b>Carrying amount at 31 December 2010</b>	<b>2,184</b>	<b>16,554,234</b>	<b>37,210,456</b>	<b>131,768,399</b>	<b>228,461</b>	<b>556,770</b>	<b>186,320,504</b>
Additions	3,177	2,237,210	112,203	274,016	46,138	11,853,838	14,526,582
Reclassification to a different category	-	3,856,707	7,931,599	-	2,264	(11,790,570)	-
Disposals	-	-	(12,510)	(18,545)	(44)	-	(31,099)
Depreciation charge	-	(942,941)	(4,419,047)	(4,752,908)	(93,392)	-	(10,208,288)
Impairment recognised in profit or loss	-	(4,079,264)	(877,716)	(105,427)	(18,957)	-	(5,081,364)
Revaluation	-	3,677,801	20,829,187	24,094,285	130,842	-	48,732,115
<b>Carrying amount at 31 December 2011</b>	<b>5,361</b>	<b>21,303,747</b>	<b>60,774,172</b>	<b>151,259,820</b>	<b>295,312</b>	<b>620,038</b>	<b>234,258,450</b>
Revalued amount at 31 December 2011	5,361	21,764,464	62,956,297	152,680,059	348,899	620,038	238,375,118
Accumulated depreciation	-	(460,717)	(2,182,125)	(1,420,239)	(53,587)	-	(4,116,668)
<b>Carrying amount at 31 December 2011</b>	<b>5,361</b>	<b>21,303,747</b>	<b>60,774,172</b>	<b>151,259,820</b>	<b>295,312</b>	<b>620,038</b>	<b>234,258,450</b>

On 30 November 2011, the Group commissioned NPS 11 oil transfer pumping station for the amount of Tenge 10,143,639 thousand, the second phase's second stage construction object of the Kazakhstan-China pipeline, Atasu-Alashankou section, under KCPP2/EPC3 contract.

On 30 December 2011, under KCPP/EPC4 contract, the Group reconstructed 10kV high-voltage line along the Atasu-Alashankou pipeline for the amount of Tenge 1,103,915 thousand.

In 2011, the additions in column 'Buildings and Structures' comprise the Globus offices under Real Estate Sale and Purchase Agreement No. 27-2011 dated 24 March 2011 for the amount of Tenge 2,496,279 thousand.

Construction-in-progress represents mainly the construction along highways and reconstruction of NPS-9. Upon completion of these works, the assets will be reclassified to the category 'Transfer devices' and 'Plant and equipment'. The additions to Construction-in-progress comprise the capitalised borrowing costs in the amount of Tenge 320,891 thousand. Capitalisation rate was 5.16% (in 2010: borrowing costs were not capitalised).

## **6 Property, Plant and Equipment (Continued)**

At 31 August 2011, the Group revaluated property, plant and equipment to the market value. The revaluation was performed by independent professional appraiser AppraisConsult LLP having the required professional qualifications and the appropriate experience in valuating properties similar to the evaluated property by location and category. The appraiser applied the cost approach and calculated the full value of assets replacement less any accumulated depreciation for buildings, structures and pipeline assets. The appraiser applied two approaches, cost and comparison, and two methods, replacement cost and comparative analysis, to valuation of plant, equipment and other property, plant and equipment, respectively. The economic obsolescence of the valuated property and its measurement by cost approach were based on the income approach procedure. The discount rate was 14.16%.

As a result of the revaluation, the carrying amount of certain items of "Buildings and structures", "Plant and equipment" and "Other" were reduced in aggregate by Tenge 5,081,364 thousand and written down to profit or loss for the year ended 31 December 2011 because property, plant and equipment were revaluated for the first time in pursuance of the Accounting Policies. The markup on the remaining property, plant and equipment in the amount of Tenge 48,732,114 thousand was recognized in equity within revaluation provision for the year ended 31 December 2011.

Accumulated depreciation was eliminated against the carrying amount of property, plant and equipment, and the net amount was brought to the revaluated amount of property, plant and equipment.

The depreciated value would be Tenge 190,916,646 thousand (in 2010: Tenge 185,761,550 thousand) if the revaluated property, plant and equipment, excluding land, were recognised in the balance sheet at the historical acquisition cost less accumulated depreciation.

<i>In thousands of Kazakhstani tenge</i>	<b>Buildings and structures</b>	<b>Plant and equipment</b>	<b>Plant and other vehicles</b>	<b>Other</b>	<b>Total</b>
<b>At 31 December 2010</b>					
Cost	18,155,071	44,224,875	144,383,191	465,889	207,229,026
Accumulated depreciation	(1,600,837)	(7,014,419)	(12,614,792)	(237,428)	(21,467,476)
Net book value	16,554,234	37,210,456	131,768,399	228,461	185,761,550
<b>At 31 December 2011</b>					
Cost	24,248,988	52,232,096	144,655,250	484,679	221,621,013
Accumulated depreciation	(2,337,397)	(10,458,608)	(17,609,816)	(303,907)	(30,709,728)
Net book value	21,911,591	41,773,488	127,045,434	180,772	190,911,285

Depreciation charges are included into the following items:

<i>In thousands of Kazakhstani tenge</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
Cost of services	14	10,000,306	8,268,654
General and administrative expenses	15	162,917	110,341
Construction-in-progress		45,065	9,898
<b>Total depreciation charges</b>		<b>10,208,288</b>	<b>8,388,893</b>

In 2011, the Group reviewed and increased the maximum useful lives of pipeline assets from 30 to 39 years. Due to the decrease in depreciation charges, profit for the year ended 31 December 2011 increased by Tenge 322,280 thousand.

## **7 Other Non-Current Assets**

Other non-current assets mainly consist of VAT Receivable connected with the procurement of goods and services. As at 31 December 2011 the Group recognized VAT refund in the amount of about Tenge 8.6 billion (in 2010: Tenge 8.4 billion). The Group's management believe that this VAT must be fully recovered after the completion of the tax audit for 2007-2009 which was suspended in 2011 by the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan (Note 17). As at 31 December 2011 and 31 December 2011, the management did not establish any impairment provisions for the above-mentioned amounts in these consolidated financial statements.

## **8 Inventories**

<i>In thousands of Kazakhstani tenge</i>	<b>2011</b>	<b>2010</b>
Spare parts	660,126	150,902
Materials	130,193	87,843
Fuel	2,646	1,711
<b>Total inventories</b>	<b>792,965</b>	<b>240,456</b>

## **9 Other Current Assets**

<i>In thousands of Kazakhstani tenge</i>	<b>2011</b>	<b>2010</b>
Term deposits with maturity 3-12 months (0.5%-4.2%)	14,646,279	-
VAT receivable	496,901	262,519
Deferred expenses	231,646	134,480
Advances paid	63,307	20,405
Prepaid taxes	412	20,063
Other	149,176	32,390
<b>Total other current assets</b>	<b>15,587,721</b>	<b>469,857</b>

## **10 Cash and Cash equivalents**

<i>In thousands of Kazakhstani tenge</i>	<b>2011</b>	<b>2010</b>
Cash at bank – Tenge	16,660,497	8,452,848
Cash at bank – USD	475,755	1,964,085
Other cash at bank, in transit and on hand	413	400
<b>Total cash and cash equivalents</b>	<b>17,136,665</b>	<b>10,417,333</b>

## **11 Borrowings**

<i>In thousands of Kazakhstani tenge</i>	<b>2011</b>	<b>2010</b>
<i>Long-term borrowings</i>		
Industrial and Commercial Bank of China Limited and ING Bank N.V.	157,015,087	154,914,054
Bonds issued in 2005	47,176,744	46,978,758
<b>Total long-term borrowings</b>	<b>204,191,831</b>	<b>201,892,812</b>

## **11 Borrowings (Continued)**

**Bonds.** On 22 September 2005 the Company issued notes for the amount of USD 300 million for the period of 15 years. Notes were issued at 7% for the first 4 years, subsequently 8.8% for the remaining period until full redemption. The interest related to the notes is paid semi-annually. The notes were issued via subsidiary KCP Finance B.V. and guaranteed by CNPC. The interest rate changed from 7% to 8.8% due to the expiration of the CNPC guarantee. The interest on notes is payable twice a year. The Group's transaction costs related to the notes issue and floating were Tenge 429,787 thousand (equivalent to USD 3.21 million). These costs are amortised until full redemption of the notes, i.e. during 15 years.

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

As at 31 December 2009 the Company received four tranches for the total amount of USD 950 million. The Group's loan arrangement costs were Tenge 3,003,382 thousand (equivalent to USD 23.15 million).

In 2009, the Company unified payment schedules on all tranches, according to a new single repayment schedule, interest payments will be made on 2 September and 2 March on all tranches.

Interest rate for each interest period is the annual rate which includes 6-month-LIBOR and the bank margin. The interest capitalization period which terminated in 2011 is 36 months from the loan agreement execution date. Due to the expiration of the interest capitalisation period, the loan agreement principal amount was fixed at Tenge 153,311,743 thousand, i.e. USD 1,033,098 thousand.

In 2011, the Group extended the grace period for the principal repayment to 54 months without any additional costs or commissions. The lending bank's margin will increase from 2% to 4% after the expiry of 54-month period after the loan agreement execution date.

As a result of the aforementioned changes in the loan agreement terms and conditions, the Group recognised financial income in profit or loss for 2011.

On 31 August 2011, the Group made the first interest payment in the amount of Tenge 217,634 thousand.

The carrying amounts of bank loans as at 31 December 2011 and 2010 approximate their fair values.

## **12 Trade Payables**

<i>In thousands of Kazakhstani tenge</i>	<b>2011</b>	<b>2010</b>
Denominated in Tenge	1,175,073	2,302,327
Denominated in foreign currency	153,368	52,342
<b>Total trade payables</b>	<b>1,328,441</b>	<b>2,354,669</b>

## **13 Other Payables and Accrued Liabilities**

<i>In thousands of Kazakhstani tenge</i>	<b>2011</b>	<b>2010</b>
Corporate income tax payable by non-residents	762,153	1,093,352
Accrued liabilities	506,374	683,011
Taxes other than income tax	154,747	47,055
Advances received	141,918	32,053
Reserves for unused vacations	92,179	99,284
Other payables	170,161	115,732
<b>Total other payables and accrued liabilities</b>	<b>1,827,532</b>	<b>2,070,487</b>

#### **14 Cost of Sales**

<i>In thousands of Kazakhstani tenge</i>	<b>2011</b>	<b>2010</b>
Depreciation	10,000,306	8,268,654
Operational and technical maintenance	4,240,487	3,324,042
Taxes other than income tax	2,577,465	2,417,508
Security services	1,041,611	766,377
Pipeline diagnostics	594,222	558,950
Electricity costs	232,605	171,190
Communication systems maintenance	224,652	171,349
Payroll	180,205	87,433
Inspection services	78,617	90,577
Other	750,018	367,473
<b>Total cost of sales</b>	<b>19,920,188</b>	<b>16,223,553</b>

#### **15 General and Administrative Expenses**

<i>In thousands of Kazakhstani tenge</i>	<b>2011</b>	<b>2010</b>
Payroll	1,028,630	964,231
Withholding tax	659,207	817,741
Depreciation	162,917	110,341
Rent expenses	155,282	153,983
Penalties and fines	151,879	-
Social tax	90,940	83,648
Business trip expenses	82,127	99,986
Consulting services	48,453	55,218
Taxes other than income tax	24,277	25,324
Other	221,112	169,810
<b>Total general and administrative expenses</b>	<b>2,624,824</b>	<b>2,480,282</b>

#### **16 Income Taxes**

Income tax expense comprises the following:

<i>In thousands of Kazakhstani tenge</i>	<b>2011</b>	<b>2010</b>
Current income tax expense	-	-
Deferred income tax expense	1,822,985	1,324,730
<b>Income tax expense</b>	<b>1,822,985</b>	<b>1,324,730</b>



## 16 Income Taxes (Continued)

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

	2011	2010
<b>Income before tax</b>	<b>20,154,218</b>	<b>15,512,886</b>
<b>Theoretical tax credit at statutory changed rate (2011: 20%, 2010: 20%,)</b>	<b>4,030,844</b>	<b>3,102,577</b>
Changes in non-recognised deferred income tax assets	(2,362,717)	(4,751,112)
Non-deductible expenses	158,710	152,334
KCP Finance B.V. income	(3,852)	(16,404)
Non-deductible portion of interest expense	-	2,484,574
Effect from change of statutory tax rate	-	32,498
Adjustment of non-recognised deferred income tax liabilities	-	320,263
<b>Income tax expense</b>	<b>1,822,985</b>	<b>1,324,730</b>

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 (in 2011: 20%, in 2010: 20%).

	1 January 2011	Charged to profit or loss	Charged to capital account	31 December 2011
<b>Tax effect of deductible temporary differences</b>				
Tax losses carried forward	2,090,370	2,362,717	-	4,453,087
Bonds	422,786	(422,786)	-	-
Provision for unused vacation	18,028	(1,286)	-	16,742
<b>Gross deferred tax asset</b>	<b>2,531,184</b>	<b>1,938,645</b>	<b>-</b>	<b>4,469,829</b>
Unrecognized deferred tax asset	(422,786)	422,786	-	-
<b>Deferred tax asset, net</b>	<b>2,108,398</b>	<b>2,361,431</b>	<b>-</b>	<b>4,469,829</b>
<b>Tax effect of taxable temporary differences</b>				
Property, plant and equipment and intangible assets	(5,121,962)	(4,215,588)	(9,746,423)	(19,083,973)
Taxes payable	4,305	31,172	-	35,477
<b>Gross deferred income tax liabilities</b>	<b>(5,117,657)</b>	<b>(4,184,416)</b>	<b>(9,746,423)</b>	<b>(19,048,496)</b>
<b>Total deferred income tax liabilities, net</b>	<b>(3,009,259)</b>	<b>(1,822,985)</b>	<b>(9,746,423)</b>	<b>(14,578,667)</b>

**16 Income Taxes (Continued)**

	1 January 2010	Charged to profit or loss	31 December 2010
<b>Tax effect of deductible temporary differences</b>			
Tax losses carried forward	5,206,794	(3,116,424)	2,090,370
Bonds	628,439	(205,653)	422,786
Provision for unused vacation	13,990	4,038	18,028
<b>Gross deferred tax asset</b>	<b>5,849,223</b>	<b>(3,318,039)</b>	<b>2,531,184</b>
Unrecognized deferred tax asset	(5,835,233)	5,412,447	(422,786)
<b>Deferred tax asset, net</b>	<b>13,990</b>	<b>2,094,408</b>	<b>2,108,398</b>
<b>Tax effect of taxable temporary differences</b>			
Property, plant and equipment and intangible assets	(1,674,136)	(3,447,826)	(5,121,962)
Taxes payable	(24,383)	28,688	4,305
<b>Gross deferred income tax liabilities</b>	<b>(1,698,519)</b>	<b>(3,419,138)</b>	<b>(5,117,657)</b>
<b>Total deferred income tax liabilities, net</b>	<b>(1,684,529)</b>	<b>(1,324,730)</b>	<b>(3,009,259)</b>

**17 Contingencies and Commitments**

**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 are 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 for review by the tax authorities for five years.

On 26 November 2010, President of the Republic of Kazakhstan signed the Law "Concerning Incorporation of Amendments of and Additions to Certain legislative Acts of the RK on Taxation Issues", according to which the corporate income tax rate was fixed at 20%, with no changes in subsequent years.

The Group's Management believe that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly as at 31 December 2011 no provision for potential tax liabilities had been recorded (2010: nil).

## **17 Contingencies and Commitments (Continued)**

**Tax audits.** In 2009 tax authorities initiated an unscheduled complex audit of the Company. In March 2010 tax authorities initiated an audit in order to substantiate of 2009 VAT amounts claimed for recovery. However, the mentioned audits were suspended in April 2010 due to the fact that it was necessary for the Company to obtain a license to carry out activities associated with oil transportation. In August 2011 the Company received an explanatory note from the Agency, which accordingly informed that the license is required for any entity directly engaged in oil transportation activities across main oil pipelines. In turn, in the letter dated 6 December 2011 tax authorities have informed the management of the company that for the tax audit completion purposes an Agency specialist would be engaged to provide an opinion on the arisen licensing issue. As at the reporting date, the Group's management believe that the licensing issue will be positively resolved in favour of the Company and, accordingly, the tax audit will be completed, and VAT refundable will be fully refunded.

**Capital expenditure commitments.** At 31 December 2011 the Group had contractual capital expenditure commitments in respect of property, plant and equipment totalling to Tenge 282,183 thousand (2010: Tenge 2,414,192 thousand).

**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 upon the expiration of rent contract. The term of return of technological oil to CNPC Aktobemunaygaz is the termination of Kenkiyak-Kumkol pipeline operation.

**Environmental liabilities.** Certain activities in the oil and gas industry may create environmental problems entailing the respective liabilities for the Group. Currently, the management believe that the Group does not have any substantial liabilities related to the environment protection or site restoration after the retirement of the pipeline. This point of view takes into account all applicable legal documents effective at the reporting date. However, future changes in the legislation may oblige the Group to assume additional environmental liabilities or take certain measures to retired assets.

## **18 Financial Risk 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.** The Group is exposed to credit risk, in particular the risk that a party to a financial instrument will cause financial loss to the other party due to the default on its obligation.

The maximum credit exposure of the Group by asset classes comprises the credit risk arising from cash and bank deposits, as well as the credit risk associated with trade receivables and VAT receivable.

At the reporting date, the Group's balance sheet states the accounts receivable from related party Petrochina International (HongKong) Corporation Ltd in the amount of Tenge 736,610 thousand, and long-term VAT receivable, including Tenge 7,867,979 thousand subject to refund and the remaining amount subject to offsetting against future payments.

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.

## 18 Financial Risk Management (Continued)

The table below shows the rating, deposits that have original maturities of less than three months and balances with major banks at 31 December 2011 and 2010:

<i>In thousands of Kazakhstani tenge</i>	<b>Rating agency</b>	<b>Rating</b>	<b>2011</b>	<b>2010</b>
Industrial and Commercial Bank of China (China) in Almaty	Moody's	D+	12,730,693	5,696,752
Halyk Bank of Kazakhstan (Kazakhstan)	Moody's	D-	3,929,890	4,264,342
Deutsche Bank	Moody's	C+	474,761	454,248
Bank of China (China)	Moody's	D	833	1,237
Kazkommertsbank (Kazakhstan)	Moody's	E+	75	307
Citibank (Kazakhstan)	Moody's	C-	-	47

The difference in cash and cash equivalents as disclosed on the face of statement of financial position relates to cash in transit and cash on hand (Note 10).

The table below shows the rating and balances with the bank where deposits that have original maturities of 3-12 months and over one year are placed as at 31 December 2011 and 2010:

<i>In thousands of Kazakhstani tenge</i>	<b>Rating agency</b>	<b>Rating</b>	<b>2011</b>	<b>2010</b>
Kazkommertsbank (Kazakhstan)	Moody's	E+	9,600,679	-
Halyk Bank of Kazakhstan (Kazakhstan)	Moody's	D-	5,047,880	2,520

**Foreign exchange risk.** The Group attracts foreign currency denominated borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated liabilities (Notes 11 and 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. As at 31 December 2011, if the US Dollar had weakened/strengthened by 10 percent against Tenge with all other variables held constant, after-tax profit for the year would have been Tenge 15,574,132 thousand higher/lower (2010: Tenge 24,117,831 thousand higher/lower). Since the Group does not hold any financial instruments re-valued 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 long-term loans and short-term bank deposits.

For the loans with floating interest rate Group is exposed to a potential market risk related to LIBOR changes. As at 31 December 2011, if LIBOR for the US dollars denominated loans with floating interest rate increased/decreased by one percent, other terms being equal, the borrowing costs for the year would have change by Tenge 523,186 thousand or USD 3,525 thousand (2010: Tenge 454,918 thousand or USD 3,086 thousand).

**Liquidity risk.** Surplus of cash held by the Group required for working capital management are controlled by the treasury department. The treasury department invests money surplus to interest-bearing current bank accounts, choosing the instruments with relevant maturities for providing enough liquidity. At the reporting date the Group had cash on current accounts and deposits amounting to Tenge 31,782,531 thousands (2010: Tenge 10,416,933 thousand).

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

## 18 Financial Risk Management (Continued)

The table below analyses the Group's financial liabilities by the 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 cash flows. 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 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>At 31 December 2011</b>					
Borrowings	7,792,271	33,591,859	96,836,056	118,279,728	256,499,914
Trade payables and payables to related parties	6,078,412	-	-	-	6,078,412
<b>At 31 December 2010</b>					
Borrowings	9,628,016	28,610,250	92,441,481	157,157,934	287,837,681
Trade payables and payables to related parties	10,904,000	-	-	-	10,904,000

**Capital risk management.** The Group's objectives when managing capital are to safeguard the Group's 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 Group's policy is to minimize the gearing ratio by retiring borrowings. 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 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>	2011	2010
Total borrowings	211,944,481	214,896,445
Less: cash and cash equivalents	(31,783,944)	(10,417,333)
Net debt	180,160,897	204,479,112
Total equity	45,996,767	(11,570,654)
Total capital	226,157,664	192,908,458
<b>Gearing ratio</b>	<b>80%</b>	<b>106%</b>

**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.

## 19 Fair Value of Financial Instruments (Continued)

**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 and accounts receivable 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, is 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 2011 and 2010.