

"Sovereign Wealth Fund "Samruk-Kazyna" JSC

Consolidated Financial Statements

*Year ended December 31, 2011
with Independent Auditors' Report*

CONTENTS

	Page
Independent Auditors' Report	
Consolidated Financial Statements	
Consolidated Balance Sheet	1-2
Consolidated Statement of Comprehensive Income	3-4
Consolidated Statement of Changes in Equity	5-6
Consolidated Statement of Cash Flows	7-8
Notes to the consolidated financial statements	9-96
1. General information	9
2. Basis of preparation	10
3. Summary of significant accounting policies	12
4. Critical accounting estimates and judgements	28
5. Acquisitions	32
6. Discontinued operations and assets classified as held for sale	38
7. Property, plant and equipment	41
8. Intangible assets	44
9. Investments in joint ventures and associates	47
10. Loans to customers	49
11. Amounts due from credit institutions	50
12. Other financial assets	51
13. Other non-current assets	54
14. Inventories	55
15. Trade accounts receivable and other current assets	55
16. Cash and cash equivalents	57
17. Equity	57
18. Borrowings	64
19. Loans from the Government of the Republic of Kazakhstan	64
20. Other non-current liabilities	65
21. Provisions	67
22. Employee benefit liability	68
23. Amounts due to customers	69
24. Other current liabilities	69
25. Revenue	69
26. Government grants	70
27. Cost of sales	70
28. General and administrative expenses	70
29. Transportation and selling expenses	71
30. Impairment loss	71
31. Other operating income	71
32. Other operating expenses	71
33. Finance costs	73
34. Finance income	73
35. Share of income in associates and joint ventures	73
36. Income tax expenses	73
37. Consolidation	77
38. Significant non-cash transactions	78
39. Related party disclosures	78
40. Financial instruments and financial risk management objectives and policies	80
41. Commitments and contingencies	84
42. Segment reporting	92
43. Subsequent events	95

INDEPENDENT AUDITORS' REPORT

To the Shareholder of "Sovereign Wealth Fund "Samruk-Kazyna" JSC

We have audited the accompanying consolidated financial statements of "Sovereign Wealth Fund "Samruk-Kazyna" JSC and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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


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

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

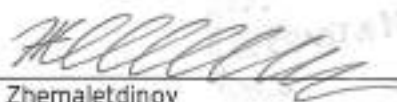
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of "Sovereign Wealth Fund "Samruk-Kazyna" JSC and its subsidiaries as at 31 December 2011, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.


Ernst & Young LLP




Elishad Aliyev
Audit Partner



Evgeny Zhemaletdinov
General Director
Ernst & Young LLP



Alexandr Nazarkulov
Auditor



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

Auditor Qualification Certificate No. МФ-0000059 dated 6 January 2012

23 May 2012

CONSOLIDATED BALANCE SHEET

As at December 31,

<i>In millions of Tenge</i>	Note	2011	2010*
ASSETS			
Non-current assets			
Property, plant and equipment	7	5,028,649	4,353,682
Intangible assets	8	306,989	265,172
Investments in joint ventures and associates	9	1,294,982	1,096,077
Loans to customers	10	1,072,530	1,214,144
Amounts due from credit institutions	11	347,672	379,566
Deferred tax asset	36	56,813	194,713
Other non-current financial assets	12	494,882	518,505
Other non-current assets	13	300,717	222,685
		8,903,234	8,244,544
Current assets			
Inventories	14	375,457	341,599
VAT recoverable		97,916	73,557
Income tax prepaid		70,534	46,509
Trade accounts receivable	15	276,552	251,606
Loans to customers	10	667,100	562,849
Amounts due from credit institutions	11	700,529	984,085
Other current financial assets	12	336,025	445,354
Other current assets	15	275,211	238,804
Cash and cash equivalents	16	1,640,700	1,639,460
		4,440,024	4,563,823
Assets classified as held for sale	8	70,147	6,941
TOTAL ASSETS		13,413,405	12,815,308

CONSOLIDATED BALANCE SHEET (continued)

As at December 31,

<i>In millions of Tenge</i>	Note	2011	2010*
EQUITY AND LIABILITIES			
Equity attributable to equity holder of the parent			
Share capital	17	4,050,383	3,891,909
Revaluation reserve for available-for-sale investments		(106,997)	29,682
Currency translation reserve		186,145	172,613
Other capital reserves		17,656	21,022
Retained earnings		823,433	537,822
		4,970,620	4,653,048
Non-controlling interest		758,983	789,366
Total equity		5,729,603	5,422,414
Non-current liabilities			
Borrowings	18	3,646,036	3,228,009
Loans from the Government of the Republic of Kazakhstan	19	430,747	405,762
Finance lease liabilities		14,307	14,879
Provisions	21	70,564	66,556
Deferred tax liability	36	299,666	257,412
Employee benefit liability	22	37,908	28,498
Amounts due to the customers	23	481,375	556,345
Derivatives		7,346	7,062
Other non-current liabilities	20	426,703	432,261
		5,414,652	4,996,784
Current liabilities			
Borrowings	18	550,740	854,117
Loans from the Government of the Republic of Kazakhstan	19	438,968	473,195
Finance lease liabilities		8,451	9,317
Provisions	21	151,608	115,405
Employee benefit liability	22	3,631	3,735
Income taxes payable	36	2,985	4,460
Trade and other payables		442,640	460,387
Amounts due to the customers	23	255,269	64,061
Derivatives		6,579	70,955
Other current liabilities	24	408,149	340,430
		2,269,020	2,396,062
Liabilities associated with assets classified as held for sale	6	130	48
Total liabilities		7,683,802	7,392,894
TOTAL EQUITY AND LIABILITIES		13,413,405	12,815,308

*Certain numbers shown here do not correspond to the 2010 consolidated financial statements and reflect adjustments made as detailed in Note 3.

The accounting policies and explanatory notes on pages 9 through 96 form an integral part of these consolidated financial statements.

Managing Director – Member of the Management Board



Nurlan Rakhmetov



Almaz Abdrahmanova



Chief Accountant

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31,

<i>In millions of Tenge</i>	Note	2011	2010*
Revenue	25	4,402,926	3,609,215
Government grants	26	24,406	21,314
		4,427,332	3,630,529
Cost of sales	27	(3,194,222)	(2,515,164)
Gross profit		1,233,110	1,115,365
General and administrative expenses	28	(438,583)	(372,225)
Transportation and selling expenses	29	(367,178)	(253,018)
Bargain purchase gain on acquisition	5	1,468	10,169
Loss on disposal of property, plant and equipment, net		(1,073)	(3,082)
Impairment loss	30	(232,035)	(49,353)
Other operating income	31	85,154	183,644
Other operating expenses	32	(54,759)	(318,561)
Operating profit		226,104	312,939
Finance costs	33	(194,215)	(167,990)
Finance income	34	66,848	75,606
Share of income in associates and joint ventures	35	611,177	397,120
Net foreign exchange (loss) / gain		(23,893)	18,736
Profit before income tax		686,021	636,411
Income tax expenses	36	(367,883)	(28,743)
Profit for the year from continuing operations		318,138	607,668
Profit from discontinued operations	6	32,491	26,683
Profit for the year		350,629	634,351
Attributable to:			
Equity holder of the parent		330,035	544,991
Non-controlling interest		20,594	89,360
		350,629	634,351

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

For the years ended December 31,

<i>In millions of Tenge</i>	Note	2011	2010*
Other comprehensive income / (loss), net of tax:			
Foreign currency translation		14,322	(10,940)
Unrealized (loss) / gain from revaluation on available-for-sale assets		(134,686)	22,070
Net realized gain / (loss) on financial assets available-for-sale		1,466	(445)
Reclassifications from other comprehensive income to other losses on impairment of available-for-sale assets		-	1,555
Gain from operations with hedge instruments		343	506
Tax effect of components of the other comprehensive income		(22)	-
Other income		5	-
Total comprehensive income for the year, net of tax		232,057	647,097
Attributable to:			
Equity holder of the parent		208,626	557,910
Non-controlling interest		23,431	89,187
		232,057	647,097
Earnings per share:			
Basic and diluted share in profit for the period attributable to the equity holder of the parent, Tenge		94.85	157.67
Earnings per share for continuing operations:			
Basic and diluted share in profit from continuing operations attributable for the equity holder of the parent, Tenge		85.51	157.48

*Certain numbers shown here do not correspond to the 2010 consolidated financial statements and reflect adjustments made as detailed in Note 3.


The accounting policies and explanatory notes on pages 9 through 96 form an integral part of these consolidated financial statements.

Managing Director – Member of the Management Board



Nurlan Rakhmetov

Chief Accountant



Almaz Abdрахmanova

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31,

	Note	Attributable to equity holder of the parent							Total
		Share capital	Revaluation reserve for investments available-for-sale	Currency translation reserve	Other capital reserves	Retained Earnings	Total	Non-controlling interest	
Balance as at December 31, 2009		3,748,299	6,475	182,960	20,301	182,528	4,140,563	604,444	4,745,007
Total comprehensive income for the year	17.1	—	23,207	(10,347)	—	544,991	557,910	89,187	647,097
Issue of share capital		143,610	—	—	—	—	143,610	—	143,610
Discount on loans from the Government and on bonds purchased by the Government (National Bank)	17.2	—	—	—	—	111,144	111,144	—	111,144
Dividends paid	17.3	—	—	—	—	(8,646)	(8,646)	(24,188)	(32,834)
Other transactions with the Shareholder	17.4	—	—	—	(16)	(55,589)	(55,585)	(22,584)	(78,169)
Recognition of share based payments		—	—	—	310	55	365	11	376
Execution of share based payments		—	—	—	6	—	6	—	6
Change in ownership interests of subsidiaries – acquisitions by non-controlling shareholders	17.5	—	—	—	(10)	(203,098)	(203,108)	203,617	709
Forfeiture of options in subsidiaries		—	—	—	(50)	—	(50)	—	(50)
Change in ownership interests of subsidiaries – acquisition of non-controlling interest	17.6	—	—	—	—	46,667	46,667	(64,118)	(17,451)
Acquisition of subsidiary	5	—	—	—	(95)	—	(95)	3,332	3,237
Buy back of shares subsidiary from the market performed by subsidiary	17.7	—	—	—	—	(7,987)	(7,987)	(20,535)	(28,522)
Other distributions to the Shareholder	17.8	—	—	—	—	(71,582)	(71,582)	—	(71,582)
Other changes in equity of associates		—	—	—	—	(164)	(164)	—	(164)
Increase in other capital reserves		—	—	—	517	(517)	—	—	—
Balance as at December 31, 2010		3,891,909	29,682	172,613	21,022	537,822	4,653,048	769,366	5,422,414

Sovereign Wealth Fund "Samruk-Kazyna" JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the years ended December 31.

	Note	Attributable to equity holder of the parent						Total	Non-controlling interest	Total
		Share capital	Revaluation reserve for investments available-for-sale	Currency translation reserve	Other capital reserves	Retained Earnings	Total			
Balance as at December 31, 2010		3,891,909	29,682	172,613	21,022	537,822	4,653,048	769,366	5,422,414	
Total comprehensive income for the year	17.1	158,474	(135,310)	13,553	348	330,035	208,626	23,431	232,057	
Issue of share capital							158,474		158,474	
Discount on loans from the Government and on bonds purchased by the Government (National Bank)	17.2					21,793	21,793		21,793	
Dividends paid	17.3					(7,056)	(7,056)	(26,709)	(33,765)	
Other transactions with the Shareholder	17.4		(1,369)	(21)	(505)	(18,797)	(20,692)		(20,692)	
Recognition of share based payments					250		250	291	541	
Change in ownership interests of subsidiaries – acquisitions by non-controlling shareholders	17.5					5,937	5,937	15,116	21,053	
Forfeiture of options in subsidiaries					(24)		(24)		(24)	
Change in ownership interests of subsidiaries – acquisition of non-controlling interest	17.6					(4,848)	(4,848)	(9,313)	(13,161)	
Acquisition of subsidiaries	5							1,035	1,035	
Buy back of shares of a subsidiary from the market performed by a subsidiary	17.7					(854)	(854)	(14,892)	(15,746)	
Other distributions to the Shareholder	17.8					(42,527)	(42,527)		(42,527)	
Adjustment for hyperinflation						(1,507)	(1,507)	(342)	(1,849)	
Decrease in other capital reserves					(3,435)	3,435				
Balance as at December 31, 2011		4,050,383	(106,997)	186,145	17,656	823,433	4,970,620	758,963	5,729,603	

The accounting policies and explanatory notes on pages 9 through 96 form an integral part of these consolidated financial statements.

Managing Director – Member of the Management Board



Nurlan Rakhmetov



Chief Accountant



Almaz Abdurakhmanova

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31,

<i>In millions of Tenge</i>	Note	2011	2010*
Cash flows from operating activities:			
Profit before income tax		686,021	636,411
Profit from discontinued operations before income tax		32,491	26,683
Adjustments for:			
Depreciation, depletion and amortization	7,8	288,707	259,191
Share of income in associates and joint ventures	9	(611,177)	(423,159)
Finance costs	33	194,215	167,990
Finance income	34	(66,848)	(75,606)
Impairment loss	30	232,035	49,353
Long-term employee benefits	22	13,442	10,280
Bargain purchase gain on acquisition	5	(1,468)	(10,169)
Provision charges	21	17,172	(50,187)
Derivatives		(40,119)	(50,589)
Loss on disposal of property, plant and equipment, net		1,073	3,082
Gain on disposal of subsidiaries		(2,619)	-
Allowance for doubtful debts on trade accounts receivable and other current assets	15	5,033	14,183
Loss / (Gain) on revaluation of financial assets designated at fair value through profit and loss		7,440	(2,017)
Realized loss on revaluation of available-for-sale assets		1,466	1,390
Gain from loss of significant influence	12	-	(19,881)
Effect of the debt restructuring	32	-	285,339
Amortization of fair value adjustments of acquisitions		21,467	2,600
Unrealized foreign exchange loss		12,498	2,256
Other non-cash transactions		8,353	7,772
Cash flows from operating activities before working capital changes		799,182	834,922
Changes in other non-current assets		(34,529)	(1,154)
Changes in loans to customers		(203,703)	(328,158)
Changes in amounts due from credit institutions		(8,512)	166,554
Changes in other financial assets		49,025	(172,350)
Changes in derivatives		(49,463)	(15,678)
Changes in inventories		(20,650)	(68,278)
Changes in VAT recoverable		(24,407)	(2,177)
Changes in trade accounts receivable		(22,015)	(64,485)
Changes in other current assets		35,858	(3,413)
Changes in borrowings and loans from the Government of the Republic of Kazakhstan		162,436	247,636
Changes in trade and other accounts payable		(50,267)	116,891
Changes in amounts due to the customers		178,967	189,561
Changes in other liabilities		24,357	54,679
Cash generated from operating activities		836,279	954,550
Income taxes paid		(231,578)	(227,629)
Interest paid		(142,886)	(153,308)
Interest received		45,883	51,836
Net cash flows from operating activities		507,698	625,449

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the years ended December 31,

<i>In millions of Tenge</i>	Note	2011	2010*
Cash flows from investing activities:			
Placement of bank deposits, net		309,968	(58,157)
Acquisition of associates and joint ventures	9	(110,280)	(5,258)
Acquisition of subsidiaries, net of cash acquired	5	(80,330)	(9,787)
Cash of subsidiaries being reclassified to disposal group		(5,432)	-
Purchase of property, plant and equipment		(930,468)	(747,814)
Purchase of intangible assets		(24,893)	(9,631)
Purchase of other financial assets		(69,163)	(118,773)
Proceeds from sale of property, plant and equipment		35,013	30,854
Advances paid for non-current assets	13	(33,428)	(82,640)
Dividends received from joint ventures and associates	8	460,224	321,476
Proceeds from sale of associates		711	-
Proceeds from sale of subsidiaries		-	10,959
Stock options exercised		-	6
Net cash flows used in investing activities		(448,078)	(668,785)
Cash flows from financing activities:			
Proceeds from borrowings		390,038	1,307,372
Repayment of borrowings		(484,283)	(986,816)
Repayment of finance lease liabilities		(8,160)	(7,862)
Redemption of shares of subsidiaries		(15,746)	(25,034)
Transactions with the Shareholder		(63,869)	(14,478)
Dividends paid to non-controlling shareholders of subsidiaries		(26,709)	(24,188)
Contributions to share capital by non-controlling shareholders		15,117	8,347
Dividends paid to the Shareholder		(9,077)	(7,056)
Acquisition of non-controlling interest	5	(6,697)	(17,450)
Contributions to share capital		147,552	141,447
Net cash flows (used in) / from financing activities		(61,834)	374,282
Effects of exchange rate changes on cash and cash equivalents		3,454	(2,638)
Net increase in cash and cash equivalents		1,240	328,328
Cash and cash equivalents at the beginning of the year		1,639,460	1,311,132
Cash and cash equivalents at the end of the year	16	1,640,700	1,639,460

*Certain numbers shown here do not correspond to the 2010 consolidated financial statements and reflect adjustments made as detailed in Note 3.

The accounting policies and explanatory notes on pages 9 through 96 form an integral part of these consolidated financial statements.

Managing Director – Member of the Management Board



Nurlan Rakhmetov



Almaz Abdrakhmanova



Chief Accountant

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011

1. GENERAL INFORMATION**Corporate information**

Sovereign Wealth Fund "Samruk-Kazyna" JSC (the "Fund" or "Samruk-Kazyna") was established on November 3, 2008 in accordance with the Decree of the President of the Republic of Kazakhstan dated October 13, 2008 and the Decree of the Government of the Republic of Kazakhstan dated October 17, 2008. The formation was enacted by the merger of Sustainable Development Fund "Kazyna" JSC ("Kazyna") and Kazakhstan Holding Company for State Assets Management "Samruk" JSC ("Samruk") and the additional transfer of ownership in certain entities owned by the Government of the Republic of Kazakhstan (the "State" or the "Government") to the Fund. The Government, represented by the State Assets and Privatization Committee of the Ministry of Finance of the Republic of Kazakhstan is the sole shareholder of the Fund (the "Shareholder").

The Government's overall objective of the reorganization is to increase management's efficiency and to optimise organisational structures in these entities in order to successfully achieve their strategic objectives set in the respective Government programs and development plans. Merger of Samruk and Kazyna and additional transfer of businesses represent a combination of businesses under common control, which is accounted for by the Fund using the pooling of interests method.

Prior to February 1, 2012, the Fund's activities were governed by the Law of the Republic of Kazakhstan "On Sovereign Wealth Fund" No. 134-4 dated February 13, 2009 and were aimed at assistance in providing stable development of the state economy, modernization and diversification of economy, and improvement of the Group companies' efficiency. According to the Law of the Republic of Kazakhstan enacted on February 1, 2012 "On Sovereign Wealth Fund" No. 550-4, the Fund's activity is focused on improving sovereign wealth of the Republic of Kazakhstan by increasing the long-term value of the Group companies and by effective management of the Group's assets.

The Fund is a holding company combining state-owned enterprises listed in *Note 37* (the "Group"). For management purposes, the Group is organized into organizational business units based on their products and services, and has seven reportable operating segments (*Note 42*):

- The Oil and Gas segment includes operations related to exploration and production of oil and gas, transportation of oil and gas and refining and trading of crude oil and refined products.
- The Transportation segment includes operations related to railway and air transportation of cargo and passengers.
- The Telecommunication segment includes operation of fixed line communication, including local, long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and also rent of lines, data transfer services and wireless communication services.
- The Energy segment includes operations related to production and distribution of electricity, the function of oversight over the input of electricity into the energy system and consumption of imported electricity, the function of centralized operation and dispatch of facilities in the Unified Electricity System of Kazakhstan.
- The Mining and industrial segment is engaged in exploration, mining, processing and sales of mineral resources, military industry enterprises and civil machine industry, projects for the development of chemical industry and geological exploration.
- The Financial and Innovation Institutions segment includes operations related to development and stimulation of investment and innovation activities in all segments of the economy of Republic of Kazakhstan. Further, this segment includes commercial banks acquired by the Fund during 2009.
- Segment of Corporate center and projects includes Fund's investing and financing activities.

The address of the Fund's registered office is Astana, 19, Kabanbay Batyr Avenue, the Republic of Kazakhstan.

These consolidated financial statements were authorised for issue on May 23, 2012, by the Managing Director – Member of the Management Board and Chief Accountant of the Fund.

Economic environment

Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. These reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government are aimed to support the future stability of the Kazakhstani economy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**1. GENERAL INFORMATION (continued)****Economic environment (continued)**

The Kazakhstani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in the instability of capital markets, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. In terms of Stabilization Plan, the Government has taken measures to ensure the liquidity and refinancing of foreign loans of Kazakhstani banks and companies, which resulted in the improved economic situation in Kazakhstan. However, despite the positive results of stabilization measures taken by the Government, there is uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect on the financial position, results of operations and business prospects of the Group.

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

Plan of stabilization of economic and financial systems

In order to maintain stability of economic and financial system of the country during the world economic crisis, the Government by Decree No. 1085 dated November 25, 2008 approved a Joint Action Plan of the Government, the National Bank, the Agency on the Regulation and Supervision of Financial Market and Financial Organizations of Republic of Kazakhstan on stabilization of the economy and financial system for 2009-2010 ("Stabilization Plan"). The Stabilization Plan provides certain measures aimed at the following:

- Stabilization of financial sector
- Resolution of real estate market issues
- Small and medium business support
- Development of agricultural sector
- Implementation of innovative, industrial and infrastructural projects

The Fund is the principal operator for the Government in the implementation of the Stabilization Plan.

Under the financial sector stabilization measures of the Stabilization Plan the Fund in 2009 acquired a controlling interest in BTA Bank and Alliance Bank and acquired a significant stake in Halyk Bank of Kazakhstan JSC and Kazkommertsbank JSC. These measures were aimed to provide additional liquidity to the banks and ensure their solvency.

In 2010, under BTA Bank's debt restructuring plan approved in March 2010, the Fund acquired newly issued shares of Temirbank JSC ("Temirbank"), a subsidiary of BTA Bank.

The Fund is not planning to keep its interest in BTA Bank, Alliance Bank, Temirbank JSC, Halyk Bank of Kazakhstan JSC and Kazkommertsbank JSC in a long-term perspective. In 2010, Alliance Bank, BTA Bank and Temirbank JSC completed the process of restructuring their debts. The ability of Alliance Bank and Temirbank to continue as going concern entities largely depends on successful realization of new business models in accordance with restructuring conditions. The ability of BTA Bank to continue as a going concern entity largely depends on results of debt restructuring, effective since May 8, 2012, in accordance with a decision of the Specialized finance court of Almaty (Note 43). As of December 31, 2011, the combined net liabilities of BTA Bank, Temirbank, and Alliance Bank recorded in these consolidated financial statements are 494,522 million Tenge (2010: 170,621 million Tenge).

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements.

These consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" and "KZT") and all monetary amounts are rounded to the nearest million Tenge except where otherwise indicated.

Statement of compliance

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION (continued)****Statement of compliance (continued)**

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in *Note 4*.

Foreign currency translation*Functional and presentation currency*

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Group entities

Gains, losses and financial position of all of the Group's subsidiaries, joint ventures and associates (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

Exchange rates

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

The following table presents currency exchange rates to Tenge as at December 31:

	2011	2010
USD	148.40	147.50
EUR	191.72	196.88
CHF	157.65	157.40
RUR	4.61	4.83
JPY	1.91	1.61

The currency exchange rate of KASE as at May 23, 2012 is 147.70 Tenge to 1 US Dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Changes in accounting policies and disclosures**

The accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied in the preparation of the annual consolidated financial statements for the year ended December 31, 2010, except for the following new and amended IFRS and IFRIC interpretations effective as of January 1, 2011:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have such instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. There are no minimum funding requirements in Republic of Kazakhstan, therefore the amendment of the interpretation had no effect on the financial position or performance of the Group.

Improvements to IFRSs (May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but had no impact on the financial position or performance of the Group.

- *IFRS 3 Business Combinations:* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- *IFRS 7 Financial Instruments — Disclosures:* The amendment was intended to simplify the disclosures requirements by reducing the volume of disclosures around collateral held and improving disclosures by requiring to put the quantitative information in context.
- *IAS 1 Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

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

- *IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008)).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Changes in accounting policies and disclosures (continued)***Improvements to IFRSs (May 2010) (continued)*

- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards).
- IAS 27 *Consolidated and Separate Financial Statements*.
- IAS 34 *Interim Financial Statements*.

The following interpretations and amendments to interpretations did not have any impact on the financial position or performance of the Group:

- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits).
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*.

Standards issued but not effective

The Group did not adopt the following standards issued but not yet effective. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective, except for IFRS 9.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

IAS 19 Employee Benefits (Amendments)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments. The amendments become effective for annual periods beginning on or after January 1, 2013.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis of an assumption that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued but not effective (continued)***IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user of the financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

Reclassifications

The Group made certain reclassifications in the consolidated balance sheet as of December 31, 2010 with purpose to bring it to the reporting format of the consolidated balance sheet as of December 31, 2011. Changes in classification of the following amounts led to the reclassification of other current liabilities items on December 31, 2010 and had no material impact on consolidated balance sheet as of December 31, 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Reclassifications (continued)**

Impact of reclassifications on the consolidated balance sheet as of December 31, 2010 is presented as follows:

<i>In millions of Tenge</i>	As was presented	Restatements	As presented
Provisions	108,130	7,275	115,405
Trade and other payables	401,123	59,264	460,387
Other current liabilities	406,969	(66,539)	340,430
	916,222	-	916,222

In addition, the Group considered some rearrangements of 2010 data in respect of the income from associated company transferred to discontinued operations as disclosed in *Note 6*.

Consolidation

The consolidated financial statements comprise the financial statements of the Fund and its controlled subsidiaries (*Note 37*).

Subsidiaries

Subsidiaries are the entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity, thus obtaining profit from its activities. Except for acquisition in transactions between entities under common control, subsidiaries are consolidated from the date when control is obtained by the Group and are de-consolidated from the date when control ceases. At the acquisition of the subsidiary, acquisition cost is distributed between assets and liabilities based on their fair value as at the date of acquisition. Financial statements of the subsidiaries are prepared for the same reporting period as those of the Fund, using consistent accounting policies. All intra-group balances and transactions, including unrealized gains resulting from intra-group transactions are eliminated in full. Unrealized losses are eliminated in the same manner as unrealized gains, except that they are eliminated to the extent that there is no evidence of impairment.

Non-controlling interests represent a portion of gains or losses and net assets in subsidiaries, which are not owned by the Group, and are recorded separately in equity in the consolidated balance sheet separately from parent share capital. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Investment in joint ventures and associates

The Group has interests in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. Also, the Group has interests in associates, in which it exercises significant influence over the economic activities of the entities. The Group's investment in its joint ventures and associates are accounted for using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Consolidation (continued)***Investment in joint ventures and associates (continued)*

Under the equity method, the investment in joint venture/associate is carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the joint venture/associate. Goodwill relating to a joint venture/associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

The share of profit of joint ventures/associates is shown on the face of the consolidated statement of comprehensive income. This is the profit attributable to equity holders of the joint venture/associate and therefore is profit after tax and minority interests in the subsidiaries of the joint ventures/associates.

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

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

Upon loss of significant influence over the joint venture/associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the joint venture/associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as an aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes an analysis of the need of separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of an aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed by the Group. If this consideration is lower than the fair value of net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Consolidation (continued)***Business combinations (continued)*

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

Acquisition of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control (entities under the Government's control) are accounted for using the pooling of interest method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill, if any, inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

These consolidated financial statements are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Change in ownership interests in subsidiaries

In transactions where part of the interest in existing subsidiary is either sold or acquired, but control is retained, the differences between the carrying values of net assets attributable to interests in subsidiaries acquired or disposed and the consideration given or received for such increases or decreases are charged or credited to retained earnings.

Assets classified as held for sale and discontinued operations

Assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through the continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, incomes and expenses from discontinued operations are reported separately from normal income and expenses, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (net of tax) is reported separately in the consolidated statement of comprehensive income.

Property, plant and equipment once classified as held for sale are not depreciated.

Mineral resources exploration and development assets (oil and gas and mining assets)*Expenditures for acquisition of subsurface use rights*

Expenditures for acquisition of subsurface use rights (exploration and production) comprise signature bonuses, historical costs, obligatory expenditures for ecological and social programs and are capitalized within intangible assets as subsurface use rights at the stage of exploration and evaluation. Similar costs incurred before subsurface rights were acquired shall also be capitalized as field subsurface use rights at the exploration and evaluation stage if reasonable assurance exists that relevant rights shall be obtained by the Group's entity. Expenditures for acquisition of subsurface use rights are accounted for on a field-by-field basis. Each field is tested for impairment on an annual basis. If no future activity is planned, the remaining balance of the license costs is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'), amortization ceases. Starting from the commercial production in fields subsurface use rights (remaining costs) shall be transferred to the property, plant and equipment and shall be amortized using unit-of-production method on actual production based on the total amount of proved reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Mineral resources exploration and development assets (oil and gas and mining assets) (continued)***Exploration and evaluation expenditures (construction in progress)*

Exploration and evaluation expenditures include geological and geophysical costs; costs directly related to test wells; overburden operations; administrative and other expenses on evaluation, which could be related to a certain field. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. Except for geological and geophysical costs, exploration and evaluation expenditures are capitalized within property, plant and equipment as construction-in-progress, accounted for on a field-by-field basis and are not amortized. If mineral resources are not found, this could be an indication of impairment. All capitalized costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery.

When this is no longer the case, the costs are written off. If mineral resources are determined and development is sanctioned, relevant costs are then transferred to oil and gas or mining assets subclasses.

Development and production expenditures (oil and gas or mining assets)

Development and production expenditures comprise previously capitalized (and reclassified in the beginning of production) expenditures for acquisition of subsurface use rights and exploration and evaluation costs; drilling of producing wells regardless of the drilling results; construction of testing grounds; development of ground technological constructions required for production, collection and preparation of mineral resources at fields; other costs incurred in the process of organization of commercial production at fields; capitalized discounted costs for wells conservation and site restoration. Development and production expenditures are capitalized within property, plant and equipment (oil and gas and mining assets), and are accounted for by fields. Development and production expenditures are depreciated using a unit-of-production method as follows: (1) costs for acquisition of subsurface use rights including discounted decommissioning costs are depreciated over total proved reserves, (2) the remaining field development expenditures are depreciated over proved developed reserves. Certain oil and gas property and mining assets (surface structures and equipment) with useful lives significantly differing from those of the fields are depreciated on a straight-line basis over their useful lives.

Depreciation of oil and gas and mining assets (within property, plant and equipment and intangible assets)

Oil and gas and mining assets are depreciated using a unit-of-production method based on actual production from the beginning of commercial production at fields. Certain oil and gas property (surface structures and equipment) with useful lives significantly differing from those of the fields are depreciated on a straight-line basis over their useful lives. The cost of acquisition of subsurface use rights including discounted decommissioning costs are depreciated over total proved reserves. The other field development costs are amortized over proved developed reserves.

Property, plant and equipment

On initial recognition, property, plant and equipment is measured at cost. Subsequently, property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Property, plant and equipment, other than oil and gas assets, principally comprise the following classes of assets, which are depreciated on a straight-line basis over the expected useful lives:

Pipelines and refinery assets	4-100 years
Buildings and premises	5-100 years
Railway tracks and infrastructure	10-80 years
Mining assets	40 years
Machinery, equipment and vehicles	2-50 years
Other	3-40 years

When items of property, plant and equipment are subject to major inspection, the cost is recognised in the carrying amount of property, plant and equipment as a replacement if the recognition criteria set out in IAS 16 are satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property, plant and equipment (continued)**

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the reporting period the asset is derecognised.

Residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment loss. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with the finite useful life principally comprise the following classes of assets which are depreciated on a straight-line basis over the expected useful lives:

Licenses	2-20 years
Software	2-10 years
Subsurface use rights	18-45 years
Other	2-20 years

Indefinite-lived intangible assets are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount.

Impairment of non-financial assets

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Group makes an estimate of its recoverable amount.

An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and a provision is made to reduce the asset to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment provisions may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment provision is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment provision was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment provision been recognized for the asset in prior years. Such reversal is recognized in profits and losses.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of non-financial assets (continued)**

The following process is applied in assessing impairment of goodwill:

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Financial assets

The Group's investments are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial investments after initial recognition. All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Group.

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

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

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

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

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profits and losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of financial assets (continued)***Assets carried at amortized cost (continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profits and losses to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit and loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit and loss. Reversals of impairment losses on debt instruments are reversed through profit and loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profits and losses.

Derivative financial instruments

In the course of its ordinary activity the Group operates with different derivative financial instruments, including futures, forwards, swaps and options at currency and capital markets, crude oil forward and swap contracts to hedge its risks associated with commodity prices fluctuations. Such derivative financial instruments are held primarily for trading purposes, are initially recognized according to recognition policies of financial instruments and are subsequently measured at fair value. Fair value is determined based on registered market quotations and pricing models, that take into account spot price and strike price of the respective instruments and other factors. Derivative financial instruments are accounted for as an asset (unrealised gain), when fair value is positive and as liability (unrealised loss), when fair value is negative. Gains and losses from operations with these instruments are recognized in the consolidated statement of comprehensive income.

Inventories

Inventories are valued at the lower of cost or net realisable value. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. Inventories of Oil and Gas and Energy operating segments are valued on a first-in first-out ("FIFO") basis. All other inventories are valued on the weighted-average cost basis.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits, short-term and highly liquid investments with original maturity of not more than three months readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Loans and borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Loans and borrowings (continued)**

Issued financial instruments or their components are classified as borrowings, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Government, amounts due to credit institutions, which are initially recognized at fair value of amounts obtained less costs directly attributable to the transaction. Subsequently obtained amounts are recognized at amortized cost.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

Convertible debt instruments

The component of the convertible debt instrument that exhibits characteristics of a liability is recognized as a liability in the balance sheet, net of transaction costs. The fair value of the liability component is determined using a market rate for an equivalent non convertible bond; and this amount is classified as a financial liability measured at amortized cost until it is extinguished on conversion or redemption.

Options on remaining minority interest arising on business combination

If, as a part of a business combination, the Group becomes a party to a put-option on remaining non-controlling share in the acquired business, the Group assesses whether being a party to such option gives it access to benefits and risks associated with ownership of such non-controlling share.

When it is determined that the put-option on the remaining shares gives access to benefits and risks of share ownership, the business combination is accounted for on the basis that the underlying shares subject to the put option have been acquired. Fair value of the liability to the minority shareholders under the put option is recognized as a part of the cost of the business combination. Any difference between that cost, and the share of the net assets that would otherwise have been regarded as being attributable to the non-controlling interest, is reflected within goodwill. Any dividends subsequently declared and paid to such non-controlling shareholders prior to the exercise of the option are charged directly to profits and losses.

The financial liability is subsequently measured in accordance with the requirements of IAS 39. Changes in the fair value of a financial liability as well as any finance charges are recorded directly in consolidated statement of comprehensive income.

Options on purchased interest arising on acquisition of investments

If, while acquiring investments, the Fund issues a call option to a third party on acquired interest in the business, the Fund assesses whether being a party to such option gives to a third party access to benefits and risks associated with ownership of such interest.

If a call-option does not provide a third party with access to benefit and risk of ownership of an interest, a call option is not accounted for the purposes of determination of Fund's significant influence.

Fair value of the liability for the Fund under the option is recognized as a part of acquired investments. The financial liability is subsequently measured in accordance with the requirements of IAS 39 "Financial instruments: Recognition and Measurement". Changes in the fair value of a financial liability as well as any income or loss related to the realization of these options are recorded directly in consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Derecognition of financial assets and liabilities***Financial assets*

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

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

Financial liabilities

A financial liability is derecognized in the balance sheet when the obligation under the liability is discharged or cancelled or expires.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts;
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same;
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 40*.

Leases*Operating leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Finance leases

The Group recognises finance leases as assets and liabilities in the consolidated balance sheet at amounts equal at the commencement of the lease term to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine it; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Leases (continued)***Finance leases (continued)*

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to reporting periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

Provisions*Asset retirement obligation (decommissioning)*

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This asset is subsequently depreciated as part of the capital costs of the production and transportation facilities on a unit-of-production basis.

Changes in the measurement of an existing decommissioning provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or change in the discount rate, is accounted for so that:

- (a) changes in the provision are added to, or deducted from, the cost of the related asset in the current period;
- (b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the statement of comprehensive income; and
- (c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

Allowance for bank letters of credit and guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee contract is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees arrangements is taken to the statement of comprehensive income. The premium received is recognised in the profits and losses on a straight-line basis over the life of the guarantee.

Other provisions

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Employee benefits***Defined contribution plan*

The Group withholds 10% from the salary of its employees as the employees' contribution to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement.

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is expensed as incurred.

Defined benefit plan

In accordance with the Labour Union Agreements and other benefit rules the Group provides certain benefits to its employees upon their retirement ("Defined Benefit Plan").

The Group recognises actuarial gains and losses arising from the reassessment of the employee benefit liability in the period they are identified in profits and losses and recognises benefit costs and obligations based on estimates determined in accordance with IAS 19 "Employee benefits".

The obligation and cost of benefits under the Defined Benefit Plan are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing benefits is charged to profit and loss, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the defined benefit plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit plan obligation.

The defined benefit plan is unfunded.

Equity*Share capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as an increase in the retained earnings.

Non-controlling interest

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Fund. Losses of subsidiaries are attributed to the non-controlling interests even if this results in a deficit balance.

Dividends

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

Share based payments

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments of a subsidiary in which they are employed ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the instruments at the date on which they are granted. The fair value is determined using an appropriate pricing model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Equity (continued)***Share based payments (continued)*

The cost of equity-settled transactions is recognized, together with a corresponding increase in other equity reserves, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for such transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards on equity instruments that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Trade and other payables

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured.

Sale of goods

Revenue from the sale of crude oil, refined products, gas, uranium products and other goods is recognised when delivery has taken place and risks and rewards of ownership of the goods have passed to the customer.

Rendering of services

Revenue from rendering of services is recognized when the services have been performed.

In respect of services related to transportation, revenue is recognised by reference to the stage of completion of the transportation at the consolidated balance sheet date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. Prepayments received from customers relating to transportation services that have not been initiated are recognised as "advances received from customers" when received. Advances received from customers approximating the estimated future revenues relating to initiated deliveries are transferred to deferred income under the "Other current liabilities" item in the consolidated balance sheet. Deferred income is credited to revenue, as the service is provided.

Sales of air transportation tickets that result in award credits for customers, under the customer loyalty program, are accounted for as multiple element of revenue transactions at the fair value allocated between the services provided and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Establishment of tariffs

A number of subsidiaries of the Group are subjects to regulation by the Agency for Regulation of Natural Monopolies of the Republic of Kazakhstan ("ARNM"). This agency is responsible for approval of the methodology for tariff calculation and tariff rates, under which the subsidiaries derive a significant part of their revenues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Government grants**

Due to the fact that the Government of the Republic of Kazakhstan is a the sole shareholder of the Fund, the Group analyses all transactions with the Government to assess in which transactions the Government acts primarily in its capacity of a Shareholder. If it is determined that in a specific transaction the Government acts in its capacity of a Shareholder any gains or losses incurred by the Group as a result of such transaction are reflected directly in equity as either a contribution or withdrawal of a capital by a Shareholder.

If it is determined that in a specific transaction the Government does not act in its capacity of the Shareholder such transactions are accounted for using provisions of IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". In such circumstances, government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments. Grants related to income are presented separately in the consolidated statement of comprehensive income within revenues from operating activities.

Expense recognition

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate on the accrual basis.

Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the profits and losses except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in other comprehensive income. Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Excess profit tax (EPT) is treated as an income tax and forms part of income tax expense. In accordance with the subsoil agreements, the Group accrues and pays EPT, at specified rates of after tax profit which has been adjusted for specific deductions in accordance with the applicable subsoil agreements, when certain internal rates of return are exceeded.

The internal rate of return is calculated based on the cash flows from each subsoil agreement, adjusted for the national inflation rate. Deferred tax is calculated with respect to both corporate income tax (CIT) and EPT. Deferred EPT is calculated on temporary differences for assets allocated to contracts for subsoil use at the expected rate of EPT to be paid under the contract.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and
- investments in subsidiaries where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

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

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

Value added tax (VAT)

Tax authorities permit the settlement of sales and purchases VAT on a net basis. VAT recoverable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Related parties**

Related parties include the Group's Shareholder, key management personnel, associates and enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's shareholders or key management personnel.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements (*Note 41*) unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements. Where an inflow of economic benefits is probable, they are disclosed in the notes.

Subsequent events

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of assets, liabilities, revenues, expenses and contingent assets and liabilities during the reporting period. Actual outcomes could differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortization ("DD&A"). The Group estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under SPE methodology, the Group uses long-term planning prices, which are also used by management for investment decisions regarding development of fields. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A. The Group has included in proved reserves only those quantities that are expected to be produced during the initial license period. This is due to uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group's license periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any change in reserve estimates year on year could significantly affect prospective charges for DD&A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Uranium reserves**

Uranium reserves are a primary component of the Group's projected cash flow estimates that are used to assess the recoverable values of assets and to determine depreciation and amortization expense. In estimating the amount of uranium reserves, the Group obtains reports from geological experts who estimate the reserves based on the quantification methodology set out by the Kazakhstan State Commission on Mineral Reserves (SCR) to interpret geological and exploration data and determine explored reserves (proven reserves) and estimated reserves (probable reserves). The estimation of reserves is based on expert knowledge and estimation. The quantification of reserves involves a degree of uncertainty. The uncertainty is primarily related to completeness of reliable geological and technical information. In addition, the presence of reserves does not mean that all reserves will be able to be extracted on an economically effective basis. Uranium reserves are analyzed and revised on an annual basis. The quantity of reserves can be subject to revision as a result of changes in production capacities and changes in development strategy.

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group's obligations relate to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation could increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Group's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognised. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

The Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Group reviews site restoration provisions at each balance sheet date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration, and Similar Liabilities*. Estimating the future closure costs involved significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

Environmental remediation

The Group also makes estimates and judgments in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit.

Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan. Pursuant to a memorandum of understanding ("MOU") signed by KazMunayGas Exploration Production JSC ("KMG EP"), a subsidiary of NC KMG, with the Ministry of the Environment in July 2005, the KMG EP agreed to take responsibility for remediation of certain soil contamination and oil waste disposal which resulted from oil extraction dating back to the commencement of production. As at the date of these financial statements the scope and timing of the remediation plan has not been formally agreed with the Government. Accordingly, the liability has not been discounted. Because the original terms of the liability have not yet been established and management reasonably expects to execute the remediation plan over a period of up to ten years, the Group has classified this obligation as non-current except for the portion of costs expected to be incurred in 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Environmental remediation (continued)**

For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Further uncertainties related to environmental remediation obligations are disclosed in *Note 41*. Changes in the provision for environmental remediation obligations are disclosed in *Note 21*.

Reserve on construction of social assets

As of December 31, 2011, other provisions include provisions of subsidiaries for construction of Kazakhstan History Museum (NC KMG), Teleradio complex (NC KTZh) and Students' Palace (KAP) in Astana and reconstruction of "World Expo-Center" in Moscow under the Government's assignments for the total amount of 109,064 million Tenge (2010: 71,582 million Tenge). Upon the completion of the construction and reconstruction the assets will be transferred to the Government free of charge, so the Group determined that it has a constructive obligation of which the amount of future probable cash outflows is reliably measured. The estimated costs of the provision for the construction are 26,631 million Tenge, 55,744 million Tenge, 22,730 million Tenge and 3,959 million Tenge respectively (2010: 25,560 million Tenge, 27,130 million Tenge, 18,892 million Tenge and nil Tenge, respectively). The total estimated costs were recognized in the equity as distribution to the Shareholder. (*Note 17*).

Increase in the provisions in the amount of 37,481 million Tenge are mainly attributable to additional Government's assignments to supply teleradiocomplex building with media and technical equipment (28,614 million Tenge), to reconstruction of World Expo-Center as well as to the changes in initial valuation of provisions for construction of other projects.

Expenditures of 62,268 million Tenge and advances paid to suppliers in the amount of 12,537 million Tenge in 2010-2011 were recognized as other current assets. Changes to the initial estimate of the cost for the construction could have a significant impact on the amount of provision. The Group assessed the effect of the time value of money as not material.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in *Note 7 and 8*.

In 2011 the Group recognized an impairment of property, plant and equipment for 49,063 million Tenge (2010: 11,522 million Tenge) in the consolidated statement of comprehensive income (*Note 7*).

In 2011 the Group recognized an impairment of goodwill for 2,371 million Tenge (2010: nil) in the consolidated statement of comprehensive income (*Note 8*). Exploration and evaluation assets are tested for impairment at the moment of transfer to tangible and intangible processing assets or in the presence of impairment indicators.

Due to the suspension of exploration and evaluation activities on certain fields the Group recognized impairment of some of its exploration and evaluation assets in the amount of 20,859 million Tenge in 2011 (2010: 931 million Tenge) (*Note 7 and 8*). The Group also derecognized the loan of 7,812 million Tenge relating to the financing of the exploration and evaluation activities at one of its fields. In accordance with the financing arrangement, in the event of no commercial discovery the Group is released from its obligation to reimburse its share in the project financing.

Useful lives of items of property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Deferred tax assets**

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of recognized deferred tax assets as at December 31, 2011 was 56,813 million Tenge (2010: 194,713 million Tenge). Further details are contained in *Note 36*.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of the Group's international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

In assessing tax risks, management considers to be probable obligations the known areas of non-compliance with tax legislation, which the Group would not appeal or does not believe it could successfully appeal, if additional taxes are charged. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil agreements, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for taxes disclosed in *Note 21* relates mainly to the Group's application of Kazakhstan transfer pricing legislation to export sales of crude oil from 2002 to 2006. Further uncertainties related to taxation are disclosed in *Note 41*.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value of financial instruments reported in consolidated financial statements.

Employee benefit liability

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit liability and related current service cost (*Note 22*). This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future annual material assistance, future annual minimum salary, future average railway ticket price).

Impairment losses on loans to customers and credit institutions

The Group reviews its individually significant loans to customers and credit institutions at each reporting date to assess whether an impairment loss should be recorded in the consolidated statement of comprehensive income. In particular, judgement by management is required in estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgement about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Impairment losses on loans to customers and credit institutions (continued)**

The collective assessment takes account of data from loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risks and the performance of different individual groups). The impairment loss on loans to customers and credit institutions is disclosed in more detail in *Note 10* and *Note 11*.

Allowances on doubtful accounts receivable

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. At December 31, 2011, allowances for doubtful accounts have been created in the amount of 74,923 million Tenge (2010: 78,582 million Tenge) (*Notes 13 and 15*).

5. ACQUISITIONS**Acquisitions of 2011***Acquisition of share in Ural Group Limited BVI ("UGL")*

On April 15, 2011, KMG EP acquired 50% of the common shares of UGL from Exploration Venture Limited. UGL holds 100% equity interest in Ural Oil and Gas LLP ("UOG"), which has an exploration license for the Fedorovskiy hydrocarbons field located in the Western Kazakhstan region. In May 2010, the exploration license was extended until May 2014.

The 50% stake in UGL was acquired for cash consideration of 164,497 thousand US Dollars (or 23,907 million Tenge at the transaction date exchange rate) gross of withholding tax. Of the total consideration 46,687 thousand US Dollars (or 6,784 million Tenge) was attributed to the loans receivable from a joint venture, which was initially recognized at fair value and subsequently measured at amortized cost using effective interest method.

Investments in UGL are recognized as an investment in a joint venture in the consolidated financial statements of the Group.

The Group's share of UGL assets and liabilities at the acquisition date at fair value was as follows:

<i>In millions of Tenge</i>	Fair values at the acquisition date
Non-current assets	28,536
Other current assets	104
Cash and cash equivalents	232
Total assets	28,872
Non-current liabilities	11,464
Current liabilities	285
Total liabilities	11,749
Net assets	17,123

The fair value of non-current assets includes the exploration license of UOG of 17,460 million Tenge.

Acquisition of AktauNefteService LLP and Karpovskiy Severnyi JSC

On June 10, 2011, NC KMG acquired 100% interest in AktauNefteService LLP ("ANS") for cash of 334 million US Dollars (or 48,590 million Tenge at the transaction date exchange rate). Main activity of ANS, which has five subsidiaries, is the provision of services (drilling, repairs, transportation and other) to the crude oil production companies in the Western Kazakhstan region. ANS's major client is MangistauMunaiGas JSC, a 50% joint venture of NC KMG.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. ACQUISITIONS (continued)****Acquisition of 2011 (continued)***Acquisition of AktauNefteService LLP and Karpovskiy Severnyy JSC (continued)*

On December 23, 2011, KMG EP acquired a 100% interest in Karpovskiy Severnyy JSC ("KS JSC"). KS JSC is an oil and gas company, which has a license for the exploration of the Karpovskiy Severnyy gas condensate field located in the Western Kazakhstan region. The interest in KS JSC was acquired for cash consideration of 8,486 million Tenge. KMG EP paid 8,076 million Tenge and recognized a payable of 410 million Tenge. The exploration license, upon fulfillment of certain conditions prior to the end of 2011, was extended to December 2014 from December 2012.

The fair value of non-current assets includes the exploration license of KS JSC of 6,899 million Tenge and other exploration and evaluation assets of 3,151 million Tenge.

The fair values of identifiable assets, liabilities and contingencies of ANS and KS JSC as at the acquisition date were as follows:

<i>In millions of Tenge</i>	AktauNefteService LLP	Karpovskiy Severnyy JSC
Property, plant and equipment and intangible assets	33,456	–
Other non-current assets	–	10,100
Inventories	9,988	–
Trade accounts receivable and other current assets	8,847	6
Cash and cash equivalents	1,660	–
Total assets	53,951	10,106
Other non-current liabilities	7,002	296
Deferred tax liability	3,813	1,321
Loans and other current liabilities	6,468	3
Total liabilities	17,283	1,620
Net assets	36,668	8,486
Goodwill arising on acquisition (Note 8)	11,922	–
Cash consideration	48,590	8,486
Cash paid	(48,590)	(8,486)
Net cash acquired with the subsidiary	1,660	–
Net cash outflow	(46,930)	8,486

If the acquisitions took place as at January 1, 2011, the revenue and net profit of the Group for 2011 would have not changed significantly.

The goodwill of 11,922 million Tenge comprises the value of expected synergies arising from the acquisition as ANS provides significant portion of its services to MangistauMunaiGas JSC, a subsidiary of NC KMG's joint venture – Mangistau Investments B.V. Goodwill is included in "Oil&Gas segment" (Note 8) and tested for impairment jointly with the Group's investment in Mangistau Investments B.V.

Acquisition of Kvarz LLP and MK KazSilicon LLP and DP Ortalyk LLP

In November 2011, NAC KAP acquired 100% interest in Kvarz LLP and MK KazSilicon LLP. Kvarz LLP has a subsoil use contract for mining of vein quartz at Sarykulsokoe field, which is located in Almaty region of Kazakhstan. The principal business activities of Kvarz LLP include mining and processing of vein quartz and processing of mineral raw materials. Principal business activities of MK KazSilicon LLP include production and realization of metallurgical and polycrystalline silicon and recycling of silicon production waste. As the vein quartz, mined and processed by Kvarz LLP, is subsequently processed by MK KazSilicon LLP for production of silicon metal, the companies operate as a single generating unit. These entities were acquired for cash of 4,751 million Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. ACQUISITIONS (continued)****Acquisitions of 2011(continued)***Acquisition of Kvarz LLP and MK KazSilicon LLP and DP Ortalyk LLP (continued)*

In December 2011, NAC KAP acquired 100% ownership interest in DP Ortalyk LLP. The principal business activities of DP Ortalyk LLP include the provision of services on mining, processing of chemical concentrate of uranium and services on mining preparation works at the Central Mynkuduk mine, which is located in South-Kazakhstan region of Kazakhstan. The mineral rights for exploration and mining of uranium deposits at the Central site of Mynkuduk mine was acquired by NAC KAP in 2010. DP Ortalyk LLP was acquired for cash of 21,125 million Tenge.

The fair value of identifiable assets, liabilities and contingencies of these entities as at the acquisition date was as follows:

<i>In millions of Tenge</i>	Kvarz LLP and MK KazSilicon LLP	DP Ortalyk LLP
Property, plant and equipment and intangible assets	7,660	7,410
Other non-current assets	–	864
Inventories	539	1,367
Other current assets	218	1,305
Cash and cash equivalents	5	1,348
Total assets	8,422	12,294
Other non-current liabilities	30	
Deferred tax liability	1,432	350
Loans and other current liabilities	2,795	929
Total liabilities	4,257	1,279
Net assets	4,165	11,015
Goodwill arising on acquisition (Note 8)	586	10,110
Cash consideration	4,751	21,125
Cash paid	(4,751)	(21,125)
Net cash acquired with the subsidiary	5	1,348
Net cash outflow	(4,746)	(19,777)

If the acquisitions took place as at January 1, 2011, the revenue and net profit of the Group for 2011 would have not changed significantly.

The goodwill of 10,696 million Tenge comprises the value of expected synergies arising from the acquisition as the acquired companies own processing facilities in mining industry. The goodwill is included in "Mining and industrial segment (Uranium production)".

Other acquisitions

In 2011, NC KTZh acquired 50.82% and 100% shares of Vostokmashzavod JSC and Almaty VKM Service LLP, respectively, for the total cash of 511 million Tenge. As a result of these acquisitions the Group recognized bargain purchase gain of 949 million Tenge, recorded in profit and loss, goodwill of 322 million Tenge and increase in non-controlling interest of 1,035 million Tenge.

On October 3, 2011, BTA Bank acquired a 100% interest in BTA Bank JSC Alemcards LLP ("Alemcards") for cash of 150 thousand Tenge. As a result of this acquisition the Group recognized bargain purchase gain of 519 million Tenge which was recorded in profit and loss.

As discussed in Note 17 in 2011 the Fund acquired 100% shares of National Geological Company "Kazgeologiya" in exchange for its own shares with the value of 76 million Tenge. The net assets of acquired entity comprised cash of 76 million Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. ACQUISITIONS (continued)****Acquisitions of 2011 (continued)***Acquisition of non-controlling interest in subsidiary of the Fund*

As discussed in Note 17 in 2011, the Fund acquired 39% shares of National Company Kazakhstan Engineering JSC in exchange of its own shares with the value of 6,388 million Tenge. As a result of the change in ownership the difference of 680 million Tenge between the carrying values of the net assets attributable to the acquired interests in the subsidiary of 5,708 million Tenge and the consideration paid of 6,388 million Tenge was recorded in the retained earnings in 2011.

Acquisition of non-controlling interest in subsidiary of NC KMG

In November 2011, NC KMG increased its ownership in Rompetrol Georgia by 1%, increasing it to 99%. As a result of the change in ownership the difference of 1,858 million Tenge between the carrying values of the net assets attributable to the acquired interests in the subsidiary of 1,778 million Tenge and the consideration paid of 80 million Tenge was recorded in the retained earnings in 2011.

Acquisitions of 2010*Acquisitions of financial organizations*

In January 2010, BTA Bank obtained 75% share in the equity of Accumulative Pension Fund Ular-Umit JSC ("Ular-Umit") and 75% share in equity of Pension Asset Management Company Zhetysu JSC ("Zhetysu") in accordance with agreements on discharge of liabilities of certain clients of BTA Bank. The main activity of Ular-Umit is attraction of pension contributions and managing pension payments to its depositors. The main activity of Zhetysu is pension assets investment management.

In January 2010, BTA Bank obtained a 100% share in Titan Incassatsiya LLP ("Titan Incassatsiya"). The main activity of Titan Incassatsiya is encashment and transfer of banknotes, coins and valuables.

On March 25, 2010, BTA Bank obtained a 75.28% share in the equity of Insurance Company Atlanta-Polis JSC ("Atlanta-Polis") by the decision of Specialized regional court of Almaty in consideration with the partial discharge of liabilities to BTA Bank of NSK-Capital LLP. The main activity of Atlanta-Polis is insurance.

During 2010, BTA Bank acquired a 100% interest in the equity of Logopark Hagibey LLC as a result of forfeiture of pledged property of one borrower. The main activity of Logopark Hagibey LLC is logistics.

On November 6, 2010, the FMSA took a decision to issue permission for voluntary reorganization through joining of Atlanta-Polis and Subsidiary Insurance Company of BTA Bank JSC, BTA Zabota ("BTA Zabota") to JSC Subsidiary Company of BTA Bank, BTA Insurance ("BTA Insurance"). On December 10, 2010 BTA Insurance within restructuring of the Group's insurance business based on transfer act assumed property, rights and liabilities of Atlanta-Polis and BTA Zabota.

Although BTA Bank did not own any shares in First Kazakhstan Securitisation Company and Second Kazakhstan Securitisation Company as at December 31, 2010 and for the year then ended, they are treated, in accordance with SIC-12 "Consolidation – Special Purpose Entities", as subsidiaries, because at those dates BTA Bank controlled and benefited directly from operations of these entities.

The information on fair value of identifiable assets and liabilities of Ular-Umit, Zhetysu, Atlanta-Polis, Titan-Inkassatsiya and Logopark Hagibey as at the purchase date is presented below:

	Ular Umit	Zhetysu	Atlanta-Polis	Titan-Inkassatsiya	Logopark Hagibey
Assets					
Cash and cash equivalents	134	62	33	56	–
Amounts due from credit institutions	206	–	–	–	–
Investments securities	6,242	4,248	806	–	–
Amounts receivable under reverse repurchase agreements	–	–	207	–	–
Trading securities	–	–	58	–	–
Property and equipment	886	20	107	357	2,755
Current income tax asset	576	273	–	–	–
Deferred tax asset	319	757	–	–	–
Other assets	206	54	487	147	145
	8,569	5,414	1,698	560	2,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. ACQUISITIONS (continued)****Acquisitions of 2010 (continued)***Acquisitions of financial organizations (continued)*

	Ular Umit	Zhetysu	Atlanta-Polis	Titan-Inkassatsiya	Logopark Hagibey
Liabilities					
Accounts payable	(1,422)	(11)	-	-	-
Amounts due to credit institutions	-	-	-	-	(4,845)
Other liabilities	(184)	-	(728)	(117)	-
	(1,606)	(11)	(728)	(117)	(4,845)
Net assets	6,963	5,403	972	443	(1,945)
Less: non-controlling interest	(1,741)	(1,351)	(240)	-	-
Goodwill on acquisition	-	-	-	-	1,945
Excess of the acquirer's share in net fair value of identifiable assets and liabilities of acquiree over the cost	(5,222)	(4,052)	(452)	(443)	-
Cash consideration	-	-	280	-	-

BTA Bank received share of ownership of Ular-Umit and Zhetysu as a discharge against certain debt before the Bank. Independent estimation of the fair value of identifiable assets and liabilities of acquired companies was not necessary, since BTA Bank's management believes that the carrying amount of identifiable assets and liabilities, which are liquid and had short maturities, approximately equals to their fair value.

BTA Bank made a decision to value non-controlling interests in Ular-Umit, Zhetysu and Atlanta-Polis based on proportional share of non-controlling interest in their identifiable net assets.

Total consideration paid included cash payment of 280 million Tenge.

Analysis of cash flows at acquisition:

Net cash acquired in the subsidiary	285
Cash paid	(280)
Net cash inflow	5

If the acquisitions took place as at January 1, 2010, the revenue and net profit of the Group for 2010 would have not changed significantly.

In July 2011, the share of BTA Bank participation in the capital of Logopark Hagibey LLC was sold in full. Income from disposal of Logopark Hagibey LLC amounting to 2,619 million Tenge was recognized in the consolidated statement of comprehensive income.

Acquisitions of NBK LLP ("NBK")

On September 24, 2010 KMG EP acquired a 100% interest in NBK. NBK is an oil and gas company, which has a license for the exploration and production of the West Novobogatinksoye oil field located in Atyrau oblast of the Republic of Kazakhstan. The acquired company was in the exploration stage and has rights to sell hydrocarbons received at test production from four successful exploration wells over the period of exploration. The interest in NBK was acquired for cash consideration of 35,000 thousand US Dollars (5,163 million Tenge). KMG EP paid 90% of the consideration and withheld the remaining 10%, subject to the vendor completing their obligations under the sale purchase agreement. Subsequent to the acquisition, NBK's exploration license was extended to September 2012 from September 2010.

Acquisitions of Sapa Barlau Service LLP ("SBS")

On September 24, 2010 KMG EP acquired a 100% interest in SBS. SBS is an oil and gas company, which has a license for the exploration of the East Zharkamys I field located in the Aktobe region of Kazakhstan. The interest in SBS was acquired for cash consideration of 4,410 million Tenge. KMG EP paid 90% of the consideration and withheld 10%, subject to the vendor completing their obligations under the sale purchase agreement. Subsequent to acquisition, SBS's exploration license was extended to November 2012 from November 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. ACQUISITIONS (continued)****Acquisitions of 2010 (continued)***Acquisitions of SapaBarlaw Service LLP ("SBS") (continued)*

The fair values of the identifiable assets and liabilities as of September 24, 2010 was as follows:

	NBK	SBS
Non-current assets	6,162	5,475
Current assets	12	3
Cash	-	2
	6,174	5,480
Non-current liabilities	992	875
Current liabilities	19	195
	1,011	1,070
Net assets	5,163	4,410
Total acquisition cost	5,163	4,410
Less: deferred payment liability	(516)	(441)
Net cash outflow	4,647	3,969

If the acquisitions took place as at January 1, 2010, the revenue and net profit of the Group for 2010 would have not changed significantly.

2010 acquisition of non-controlling interest in subsidiaries of NC KMG

During the year ended December 31, 2010 NC KMG acquired additional shares in Rompetrol Rafinare S.A., Rompetrol Well Services S.A., Rompetrol Bulgaria and Rompetrol Georgia. Details of these additional acquisitions are discussed below.

On January 27, 2010 NC KMG initiated a mandatory public offer for the acquisition from non-controlling shareholders of 132.77 million Rompetrol Well Services S.A. shares available on stock exchange, for a price of RON 0.43 per share. On February 23, 2010, NC KMG acquired additional 20.74% shares of Rompetrol Well Services S.A. for a total amount of RON 24.8 million (equivalent to 1,212 million Tenge at an average rate of currency exchange for 2010). After the public offer, the Group controls 73.01% of Rompetrol Well Services S.A.

On February 8, 2010, NC KMG initiated a mandatory public offer for the acquisition from non-controlling shareholders of 5,062.17 million Rompetrol Rafinare S.A. shares available on stock exchange, for a price of RON 0.0751 per share. After the closing of the offer period, on March 26, 2010, the Group acquired an additional 22.6% of the share capital of Rompetrol Rafinare S.A., for an amount of RON 358 million (or 16,740 million Tenge at an average rate for the year ended December 31, 2010).

As a result of the above-mentioned acquisitions:

- Non-controlling interest decreased by 65,335 million Tenge; and
- 47,302 million Tenge relating to the difference between the carrying values of net assets attributable to acquired interests in these subsidiaries and the consideration paid for such increases was allocated to retained earnings.

After the public offer, the Group controlled 98.6% of Rompetrol Rafinare S.A. The interest in Rompetrol Rafinare S.A. decreased as of September 30, 2010, to 54.62% through the conversion of the convertible debt instrument. (Note 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE****Discontinued operations**

"Zhilstroisberbank Kazakhstan" JSC and "Kazakhstan Fund of Guarantee of mortgage loans" JSC (2011)

On April 11, 2011, the Fund and the State Property and Privatization Committee of the Ministry of Finance of the Republic of Kazakhstan signed an Exchange Agreement (the "Exchange Agreement") for the transfer of the Group's shares of Zhilstroisberbank Kazakhstan JSC ("ZhSSB") and Kazakhstan Fund of Guarantee of mortgage loans JSC ("KFGML") in exchange for various railway and other fixed assets.

Upon the completion of this exchange transaction on April 12, 2011, the Fund recognized a loss of 25,827 million Tenge directly in equity (*Note 17*) being the difference between the book value of net assets of the disposed entities and the fair value of the assets received. The table shown below shows the main categories of assets and liabilities of disposed entities as of disposal date:

<i>In millions of Tenge</i>	Assets and liabilities as of transfer date
Property, plant and equipment and intangible assets	1,759
Loans to customers	67,222
Finance assets	34,763
Amounts due from credit institutions	4,269
Other non-current assets	181
Other current assets	1,504
Cash and cash equivalents	5,432
Total assets	115,130
Borrowings	12,000
Loans from the Government of the Republic of Kazakhstan	23,580
Amounts due to customers	47,041
Other non-current liabilities	554
Other current liabilities	1,258
Total liabilities	84,433
Net assets	30,697

Net loss attributable to the operations of ZhSSB and KFGML for the period from January 1, 2011 till the date of exchange amounted to 533 million Tenge (2010: loss of 200 million Tenge).

Net cash flows of ZhSSB and KFGML:

<i>In millions of Tenge</i>	From January 1, 2011 till the date of exchange	2010
From operating activity	1,483	(217)
From investing activity	(8,847)	(5,104)
From finance activity	3,201	3,400
Net cash outflow	(4,163)	(1,921)

GSM Kazakhstan (2011)

On December 21, 2011, Kazakhtelecom concluded an agreement to sell its 49% ownership in GSM (*Note 9*) to Sonera Holding B.V., a subsidiary of Swedish mobile operator Telia Sonera AB. The Board considered GSM met the criteria to be classified as held for sale as of December 31, 2011, for the following reasons:

- On December 21, 2011, a sale-purchase agreement was signed stating the selling price of 1,519 million US Dollars.
- On February 1, 2012, Kazakhtelecom completed the sale for consideration of 1,519 million US Dollars.

Investment in the associate was classified within assets held for sale as of December 31, 2011, in the consolidated balance sheet, and share in the associate's profit was classified as profit from discontinued operation in the consolidated statement of comprehensive income for 2011 and 2010.

<i>In millions of Tenge</i>	2011	2010
The carrying amount of the Group's investments in the associate, classified as held for sale	58,389	-
The share of the associate's profit classified as discontinued operation (<i>Note 9</i>)	33,024	26,039

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE (continued)****Discontinued operations (continued)***Mobile Telecom-Service LLP ("MTS") (2010)*

On December 14, 2009, Kazakhtelecom concluded an agreement to sell its ownership in Mobile Telecom-Service LLP to Tele2 Sverige AB, a Swedish mobile operator.

On March 17, 2010 the Group completed the sale of Mobile Telecom-Service LLP for consideration of 76,000 thousand US Dollars (equivalent to 11,175 million Tenge). The gain on sale amounted to 178 million Tenge.

The results of Mobile Telecom-Service LLP for the year are presented below:

<i>In millions of Tenge</i>	2010
Revenue	670
Cost of sales	(614)
Gross revenue	56
General and administrative expenses	(70)
Selling expenses	(74)
Operating loss	(88)
Finance costs	(127)
Finance income	1
Net foreign exchange gain	926
Other loss	(46)
Income before tax from a discontinued operation	666
Gain from sales of discontinued operations	178
Corporate income tax benefit	-
Income after tax for the year from a discontinued operation	844

Gain from sales of discontinued operations was as follows:

<i>In million Tenge</i>	2010
Cash received from Tele2 AB	11,176
Net assets disposed	(1,891)
Provision for loss from restructuring of receivables from MTS	(9,107)
Gain on sale	178

As Mobile Telecom-Service LLP was sold before December 31, 2010, assets and liabilities of disposal group classified as held for sale as of December 31, 2009 are no longer reflected in the consolidated balance sheet.

Cash inflow from sale:

<i>In million Tenge</i>	2010
Consideration received	11,176
Net cash disposed of with the discontinued operation	(218)
Net cash inflow	10,958

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE (continued)****Discontinued operations (continued)***Mobile Telecom-Service LLP ("MTS") (2010) (continued)*

The net cash flows incurred by Mobile Telecom-Service LLP are as follows:

<i>In millions of Tenge</i>	2010
Operating	(271)
Investing	(68)
Financing	71
Net cash outflow	(268)
Basic and diluted earnings per share, from discontinued operation, Tenge	75

Assets classified as held for sale*Net assets of Balkhashskaya TES (2011)*

On September 4, 2009 the Group signed sale and a purchase agreement with Korea Electric Power Corporation ("KEPCo") and Samsung C&T Corporation ("Samsung C&T Co"), under which the Group committed to sell 75% minus one share of Balkhashskaya TES JSC (Balkhashskaya TES). The Group's management has concluded that the sale of share would result in loss of control over Balkhashskaya TES. During 2010 and 2011 the sale of said share was not finalised as certain conditions were not met. These conditions are beyond the Group's control; however, the Group's management believes that these conditions did not affect the asset readiness for immediate sale in their current condition. Sale of abovementioned share of Balkhashskaya TES took place in April 2012 (Note 43). Accordingly, Balkhashskaya TES's assets and liabilities were classified as disposal groups in the Group's consolidated balance sheet as at December 31, 2010 and 2011.

The table shown below shows the main categories of assets and liabilities classified as held for sale:

<i>In millions of Tenge</i>	December 31, 2011	December 31, 2010
Assets		
Property, plant and equipment	2,763	2,524
Other non-current assets	4,320	10
Inventories	1	1
Other current assets	250	220
Cash and cash equivalents	2,792	1,097
Assets of the disposal group	10,126	3,852
Liabilities		
Deferred tax liability	129	4
Other current assets	1	44
Liabilities, related to assets of the disposal group	130	48
Net assets of the disposal group	9,996	3,804

Other assets classified as held for sale

As of December 31, 2011, other assets classified as held for sale comprised of other non-current assets in the amount of 1,632 million Tenge (2010: 3,089 million Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT

<i>In millions of Tenge</i>	Oil and gas assets	Exploration and evaluation assets	Pipelines and refinery assets	Buildings and premises	Railway tracks and infrastructure	Machinery, equipment and vehicles	Mining assets	Other	Construction in progress	Total
Net book value as at January 1, 2010	1,108,416	112,020	657,352	397,835	373,534	908,769	17,455	63,626	217,714	3,856,721
Foreign currency translation Additions	(8,103)	(514)	(2,043)	(1,594)	-	(471)	-	(119)	(215)	(13,059)
Acquisitions through business combinations (Note 5)	178,154	27,547	7,202	8,422	17	61,872	9,849	15,022	485,186	793,271
Disposals	-	6,395	-	969	-	89	-	398	3,118	10,969
Depreciation charge	(7,493)	(2,800)	(3,679)	(5,271)	(7,503)	(21,300)	-	(6,182)	(3,295)	(57,523)
Depreciation on disposals	(30,005)	-	(45,410)	(21,333)	(13,566)	(114,193)	(4,123)	(13,906)	-	(242,536)
Impairment provision, net of reversal	4,047	-	2,148	1,008	378	14,186	-	1,820	-	23,587
Transfer from/(to) assets classified as held for sale	(384)	(931)	19	(3,535)	2	(3,917)	-	(557)	(2,239)	(11,522)
Transfers from/(to) intangible assets, net	-	(1,261)	-	8	-	27	-	(443)	2	(1,667)
Other transfers and reclassifications	-	-	-	-	-	(19)	-	(300)	(4,240)	(4,559)
	91,989	-	44,330	52,539	36,767	162,033	-	(1,133)	(386,525)	-
Net book value at December 31, 2010	1,336,641	140,456	659,919	429,048	389,629	1,007,076	23,181	58,226	309,506	4,353,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

	In millions of Tenge							Total		
	Oil and gas assets	Exploration and evaluation assets	Pipelines and refinery assets	Buildings and premises	Railway tracks and infrastructure	Machinery, equipment and vehicles	Mining assets	Other	Constructi on in progress	
Net book value at January 1, 2011	1,336,641	140,456	659,919	429,048	389,629	1,007,076	23,181	58,226	309,506	4,353,682
Foreign currency translation	14,407	610	1,860	(561)	-	203	-	85	111	16,715
Additions	154,631	21,328	16,475	23,679	75	123,841	14,244	11,213	631,744	997,230
Acquisitions through business combinations (Note 5)	998	-	-	22,569	-	24,709	-	1,800	3,672	53,748
Disposals	(19,569)	(5,306)	(2,093)	(7,978)	(353)	(18,271)	-	(4,926)	(7,246)	(65,744)
Discontinued operations (Note 6)	-	-	-	(1,049)	-	(45)	-	(427)	(22)	(1,543)
Depreciation charge	(35,099)	-	(48,993)	(24,981)	(15,415)	(129,363)	(6,456)	(14,594)	-	(274,901)
Depreciation on disposals	8,595	-	1,273	2,220	87	13,467	-	3,177	-	28,819
Impairment provision, net of reversal	(9,948)	(15,155)	(2,873)	(10,323)	(769)	(4,524)	-	(171)	(5,300)	(49,063)
Transfer to assets classified as held for sale	-	-	(6,077)	(5,730)	(45)	(10,005)	-	(26)	(8,975)	(30,856)
Transfers from/(to) inventories, net	-	(1,156)	-	(370)	(5,527)	12,821	-	482	3,488	9,738
Transfer from/(to) intangible assets, net	-	-	-	-	-	426	-	(4)	(9,596)	(9,174)
Other transfers and reclassifications	73,738	(5,173)	34,081	47,975	128,450	224,432	4,116	4,704	(512,323)	-
Net book value at December 31, 2011	1,524,394	135,602	653,572	474,499	496,132	1,244,767	35,085	59,539	405,059	5,028,649
Historical cost	1,739,895	151,701	838,972	606,125	572,582	1,892,703	56,886	128,756	418,149	6,405,769
Accumulated depreciation and impairment	(215,501)	(16,099)	(185,400)	(131,626)	(76,450)	(647,936)	(21,801)	(69,217)	(13,090)	(1,377,120)
Net book value at December 31, 2011	1,524,394	135,602	653,572	474,499	496,132	1,244,767	35,085	59,539	405,059	5,028,649
Historical cost	1,514,281	141,400	847,254	539,969	453,752	1,549,041	38,526	120,452	317,429	5,522,104
Accumulated depreciation and impairment	(177,640)	(944)	(187,335)	(110,921)	(84,123)	(541,965)	(15,345)	(62,226)	(7,923)	(1,168,422)
Net book value at December 31, 2010	1,336,641	140,456	659,919	429,048	389,629	1,007,076	23,181	58,226	309,506	4,353,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**7. PROPERTY, PLANT AND EQUIPMENT (continued)**

Movement of exploration and evaluation assets is presented as follows:

<i>In millions of Tenge</i>	Oil and gas assets	Mining assets	Total
Net book value at January 1, 2010	108,242	3,778	112,020
Foreign currency translation	(514)	-	(514)
Change in estimate	-	(23)	(23)
Additions	26,000	1,570	27,570
Acquisitions through business combinations (Note 5)	5,474	921	6,395
Disposals	(2,158)	(642)	(2,800)
Impairment provision, net of reversal	(931)	-	(931)
Transfers to assets classified as held for sale	(1,261)	-	(1,261)
Net book value at December 31, 2010	134,852	5,604	140,456
Foreign currency translation	610	-	610
Additions	19,888	1,440	21,328
Disposals	(5,308)	-	(5,308)
Impairment provision, net of reversal	(15,155)	-	(15,155)
Transfers to inventories	-	(1,156)	(1,156)
Other transfers and reclassifications	(1,408)	(3,785)	(5,173)
Net book value at December 31, 2011	133,479	2,123	135,602
Historical cost	149,565	2,136	151,701
Accumulated impairment	(16,086)	(13)	(16,099)
Net book value at December 31, 2011	133,479	2,123	135,602
Historical cost	135,783	5,936	141,719
Accumulated impairment	(931)	(332)	(1,263)
Net book value at December 31, 2010	134,852	5,604	140,456

As at December 31, 2011 certain items of property, plant and equipment with net book value of 1,015,904 million Tenge (2010: 630,315 million Tenge) were pledged as collateral for some of the Group's borrowings.

As at December 31, 2011 the carrying amount of property, plant and equipment acquired under finance lease agreements was 33,993 million Tenge (2010: 27,253 million Tenge).

At December 31, 2011 the cost of fully amortised property, plant and equipment of the Group was 371,633 million Tenge (2010: 208,443 million Tenge).

In 2011, the Group capitalized borrowing costs at an average capitalization rate of 6.89% in the amount of 8,814 million Tenge (2010: rate of 4.75% in the amount 4,200 million Tenge).

Impairment of property, plant and equipment

In 2011, the Group recorded net impairment of 49,063 million Tenge which is mainly attributable to impairment of property, plant and equipment of NC KMG subsidiaries, in particular KazTransOil JSC (KTO), for the total amount of 13,470 million Tenge, TRG for the total amount of 10,344 million Tenge and KMG-Service for the total amount of 5,220 million Tenge (2010: 14,736 million Tenge mainly attributable to impairment of property, plant and equipment of KMG subsidiaries, Kazakhstan Petrochemical Industries JSC, for the total amount of 7,690 million Tenge and KazMunaiGaz Refinery and Marketing JSC ("KMG RM") for the total amount of 2,095 million Tenge). In 2011, KMG recognized impairment of exploration and evaluation assets relating to Kurmangazy, Tyub-Karagan and other fields for the total amount of 20,859 million Tenge, which was reduced by the amount of a derecognized loan of 7,812 million Tenge (Note 4).

In 2011, KTO recognized an impairment loss of 13,470 million Tenge relating to the assets of Batumi Oil Terminal and Batumi Sea Port. The recoverable amount of CGUs of these assets was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a ten-year period. Cash flows beyond the ten-year timeframe are extrapolated by applying a flat growth rate of 1.77%. The Group used WACC of 16.19% to discount cash flows. Further details are provided in Note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**7. PROPERTY, PLANT AND EQUIPMENT (continued)***Impairment of property, plant and equipment (continued)*

In 2011, TRG recognized an impairment loss of 10,576 million Tenge relating to construction in progress and warehouses due to the suspension of construction plans and absence of the market for the sale of such assets. Management assessed that the assets are not recoverable through normal operating activity or sale.

8. INTANGIBLE ASSETS

<i>In millions of Tenge</i>	Licenses	Software	Goodwill	Marketing related intangible assets	Sub-surface use rights	Other	Total
Net book value at January 1, 2010	35,467	23,705	127,809	27,208	9,350	34,654	258,193
Foreign currency translation	(12)	(121)	(263)	(182)	-	(232)	(810)
Additions	1,997	6,495	-	-	2,396	3,519	14,407
Acquisitions through business combinations (Note 5)	-	6	1,945	-	6,207	-	8,158
Disposals	(39)	(1,032)	-	-	(6)	(2,512)	(3,589)
Amortization charge	(3,501)	(7,756)	-	(193)	(51)	(5,154)	(16,655)
Accumulated amortization on disposals	11	850	-	-	-	48	909
Transfers to property, plant and equipment	(1)	(27)	-	-	-	-	(28)
Transfers from property, plant and equipment	163	4,112	-	-	-	312	4,587
Other transfers	307	89	-	-	-	(395)	-
Net book value at December 31, 2010	34,392	26,321	129,491	26,833	17,896	30,239	265,172
Foreign currency translation	(13)	267	(812)	197	-	(221)	(582)
Change in accounting estimate	-	-	-	-	(44)	-	(44)
Additions	1,817	10,653	-	-	7,429	5,261	25,160
Acquisitions through business combinations (Note 5)	84	25	22,940	-	16,568	27	39,644
Disposals	(103)	(1,050)	(1,944)	(2)	(339)	(516)	(3,954)
Discontinued operations (Note 6)	(82)	(134)	-	-	-	(1,203)	(1,419)
Amortization charge	(4,790)	(8,572)	-	(19)	(72)	(3,347)	(16,800)
Accumulated amortization on disposals	87	855	-	-	-	257	1,199
Impairment provision, net	(1,939)	-	(2,371)	-	(5,704)	(548)	(10,562)
Transfers to property, plant and equipment	-	(1,992)	-	-	-	-	(1,992)
Transfers from property, plant and equipment	3,698	6,665	-	-	-	804	11,167
Other transfers	2	167	(6)	(3)	-	(160)	-
Net book value at December 31, 2011	33,153	33,205	147,298	27,006	35,734	30,593	306,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. INTANGIBLE ASSETS (continued)**

<i>In millions of Tenge</i>	Licenses	Software	Goodwill	Marketing related intangible assets	Sub-surface use rights	Other	Total
Historical cost	54,214	68,200	177,683	27,565	41,643	43,241	412,546
Accumulated amortization and impairment	(21,061)	(34,995)	(30,385)	(559)	(5,909)	(12,648)	(105,557)
Net book value at December 31, 2011	33,153	33,205	147,298	27,006	35,734	30,593	306,989
Historical cost	48,574	54,713	200,968	27,705	18,029	40,232	390,221
Accumulated amortization and impairment	(14,182)	(28,392)	(71,477)	(872)	(133)	(9,993)	(125,049)
Net book value at December 31, 2010	34,392	26,321	129,491	26,833	17,896	30,239	265,172

As at December 31, 2011, the subsurface use rights comprise the net book value of oil and gas and mining exploration and evaluation assets in the amount of 26,833 million Tenge and 576 million Tenge, respectively (2010: 15,948 million Tenge and 1,948 million Tenge, respectively).

Impairment testing of goodwill

Carrying amount of goodwill as at December 31 is allocated to each of the group of cash-generating units as follows:

Cash-generating units	2011	2010
Refining and petrochemistry	123,140	122,879
Oil terminal and sea port	-	2,355
Other	11,922	-
<i>Total oil and gas</i>	135,062	125,234
<i>Total mining (Uranium production)</i>	10,696	-
Corporate business	421	2,975
Retail business	331	810
<i>Total financial institutions and innovation institutions</i>	752	3,785
<i>Total other</i>	788	472
Total goodwill	147,298	129,491

Goodwill impairment losses recognised in the consolidated statement of comprehensive income were mainly attributable to impairment in oil and gas segment in the amount of 2,371 million Tenge (2010: nil)

Key assumptions used in calculation of goodwill recoverable amount

The recoverable amount of goodwill has been determined based on the accounting policies described in Note 3.

The Group uses the following rates and periods for calculation of goodwill recoverable amounts for the oil and gas segment:

	Petrochemistry and refining		Oil terminal and sea port	
	2011	2010	2011	2010
Discount rate	10.4%-12.8%	7.9%-12.8%	19.98%	19.98%
Anticipated growth rate	3.3%	1.5%-3.3%	-	-
Period, years	5	5	10	10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. INTANGIBLE ASSETS (continued)****Impairment testing of goodwill (continued)***Key assumptions used in calculation of goodwill recoverable amount (continued)*

Key assumptions used in calculation of recoverable amount for oil segments are as follows:

- Gross profit;
- Tariffs;
- Oil and cargo shipment volumes;
- Discount rate;
- Anticipated growth rates used to extrapolate cash flows during the planning period;
- Capital expenditures for 2012 – 2015.

Gross profit

Gross profit is based on average values achieved in the two years preceding the start of the budget period. These values increased over the budget period for anticipated efficiency improvements.

Tariffs

Batumi Sea Port and Batumi Oil Terminal set tariffs for shipment of cargo and oil individually for each customer based on volumes of shipment, relationships history and market trends at the date of conclusion of shipment contract.

Oil and cargo shipment volumes

Oil and cargo shipment volumes – shipment volumes are based on industry data.

Discount rates

Discount rates reflect the current market assessment of the risks specific to each cash-generating unit. The discount rate was estimated based on calculation of a weighted average cost of capital. This rate was further adjusted to reflect the market assessment of any risk specific to a cash generating unit for which future estimates of cash-flows have not been adjusted.

Anticipated growth rates

Growth rates are based on published industry data.

Capital expenditures

Capital expenditures represent expenditures required to maintain the existing conditions of the assets, no modernization or restructuring of the assets were considered.

Sensitivity to changes in assumptions

With respect to the assessment of the recoverable amount for cash generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, except for the following cash generating units: Petrochemistry and refining, Oil terminal and sea port. As at December 31, 2010, the recoverable amount approximated to their carrying amount, which means that any adverse changes in key assumptions could have caused an impairment loss to be recognised for these units.

As of December 31, 2011, the break-even point for the current model is achieved by decreasing operating expenses by 65% and more for Petrochemistry and Refining cash generating units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES**

Investments in joint ventures and associates comprised the following as at December 31:

<i>In millions of Tenge</i>	2011	2010
Joint ventures:		
TengizChevroil LLP	236,733	235,340
KazRosGas JSC	164,438	130,733
Ekibastuzskaya GRES-1 LLP ("GRES-1")	121,037	105,595
Mangistau Investments B.V.	112,314	31,454
KazGerMunay LLP	83,828	79,998
Beineu-Shymkent Pipeline LLP	70,348	-
Kazakhoil-Aktobe LLP	60,766	45,246
Forum Muider BV	31,681	34,341
Ekibastuzskaya GRES-2 LLP ("GRES-2")	23,766	19,361
Valseira Holdings B.V.	17,654	16,040
Ural Group Limited BVI ("UGL") (Note 5)	17,703	-
Other	57,070	37,117
Less: Impairment	(855)	(856)
	996,483	734,369
Associates:		
PetroKazakhstan Inc. ("PKI")	99,671	112,606
Shekerbank JSC	82,824	80,267
GSM Kazakhstan LLP ("GSM") (Note 6)	-	53,786
JV KATCO LLP	45,327	29,556
Caspian Pipeline Consortium LLP	16,811	16,280
JV Betpakdala LLP	15,093	14,208
BTA Bank (Ukraine)	14,759	16,672
Other	58,939	47,357
Less: Impairment	(34,925)	(9,024)
	298,499	361,708
	1,294,982	1,096,077

Ownership in joint ventures and associates as at December 31 is as follows:

	% in share capital	
	2011	2010
Joint ventures:		
TengizChevroil LLP	20.00%	20.00%
KazRosGas JSC	50.00%	50.00%
Ekibastuzskaya GRES-1 LLP ("GRES-1")	50.00%	50.00%
Mangistau Investments B.V.	50.00%	50.00%
KazGerMunay LLP	50.00%	50.00%
Kazakhoil-Aktobe LLP	50.00%	50.00%
Forum Muider BV	50.00%	50.00%
Ekibastuzskaya GRES-2 LLP ("GRES-2")	50.00%	50.00%
Valseira Holdings B.V.	50.00%	50.00%
Beineu-Shymkent Pipeline LLP	50.00%	-
Ural Group Limited BVI ("UGL")	50.00%	-
Associates:		
PetroKazakhstan Inc. ("PKI")	33.00%	33.00%
Shekerbank JSC	33.98%	33.98%
GSM Kazakhstan LLP ("GSM")	-	49.00%
JV KATCO LLP	49.00%	49.00%
BTA Bank (Ukraine)	49.99%	49.99%
Caspian Pipeline Consortium LLC	20.75%	20.75%
JV Betpakdala LLP	30.00%	30.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

33% interest in PetroKazakhstan Inc. ("PKI") was pledged as collateral for a loan, which was obtained for its acquisition. However, the pledged shares may not be exercised within the first 7 years of the financing from the acquisition date (July 4, 2006).

On December 5, 2011 the shareholders of PKI approved a capital dividend in the amount of 198 million US Dollars. In 2011, the Group recognized a capital dividend as dividends receivable in the amount of 29,383 million Tenge with a corresponding decrease in investment (2010: 132 million US Dollars equivalent to 19,457 million Tenge).

On January 18, 2011, in accordance with the agreement between the Republic of Kazakhstan and Government of the People's Republic of China on the cooperation in construction and operation of gas pipeline Kazakhstan-China, a new joint venture Beineu-Shymkent Pipeline LLP was established. The Group has 50% interest in this new joint venture. The Group contributed cash of 71,329 million Tenge in 2011.

In 2011, the Group acquired 50% of common shares of UGL (*Note 5*) for 17,123 million Tenge.

The year 2010*Acquisition of GRES-1*

On December 9, 2009 the Fund has entered into an agreement with Ekibastuz Holdings B.V. and Kazakhmys PLC on acquisition of a 50% share in Ekibastuz GRES-1 LLP. On December 11, 2009, the Fund has paid an advance of 680,854 thousand US Dollars (equivalent to 101,502 million Tenge as at the date of payment) for these shares.

On 12 July 2010, the Fund has completed a transaction on acquisition of a 50% share in Ekibastuz GRES-1 LLP.

Changes in investments in joint ventures and associates are as follows:

<i>In millions of Tenge</i>	2011	2010
Balance as at January 1	1,096,077	1,095,299
Share of income of associates and joint ventures	611,177	423,159
Dividends received	(457,327)	(321,476)
Change in dividends received	(9,984)	(4,769)
Acquisitions	100,891	111,942
Foreign currency translation	6,940	(6,351)
Disposals	(711)	(203,286)
Transfers to assets classified as held for sale (<i>Note 6</i>)	(25,366)	-
Other comprehensive loss	(2,741)	-
Other changes in equity	-	(822)
(Impairment) / recovery	(23,974)	2,381
Balance as at December 31	1,294,982	1,096,077

In 2011 the Group recognized an impairment loss of investments in Shekerbank (Turkey) in the amount of 21,641 million Tenge as a result of valuation of investment's recoverable amount based on fair value less costs to sell.

In 2010 the Group reduced the allowance for impairment of investments in PJSC "BTA Bank" (Ukraine) in the amount of 2,402 million Tenge as a result of valuation of investment based on a five-year period financial plan approved by the management of the associate as well as in connection with mitigation of political risks in Ukraine in 2010.

The following tables illustrate the summarized financial information of the Group's investment in joint ventures and associates at December 31 (Group's proportional share):

<i>In millions of Tenge</i>	2011	2010
Total assets and liabilities of joint ventures and associates at December 31		
Total assets	2,549,904	2,292,773
Total liabilities	(1,253,869)	(1,200,110)
Net assets	1,296,035	1,092,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

<i>In millions of Tenge</i>	2011	2010
Total revenue and net profit in joint ventures and associates for the year		
Revenue	1,913,974	1,538,332
Net profit	611,177	422,491

As at December 31, 2011 the Group's share in unrecognized accumulated losses of joint ventures and associates amounted to 68,889 million Tenge (2010: 88,680 million Tenge).

10. LOANS TO CUSTOMERS

As at December 31, loans to customers comprised of the following:

<i>In millions of Tenge</i>	2011	2010
Loans to large entities	2,018,017	1,996,095
Loans to individuals	640,839	663,885
Loans to small and medium business	282,042	247,664
Net investments in finance lease	44,237	37,489
Other loans	17,085	6,936
Total loans	3,002,220	2,952,069
Less: impairment allowance	(1,262,590)	(1,175,076)
Loans to customers, net	1,739,630	1,776,993
Less: current portion	(667,100)	(562,849)
Non-current portion	1,072,530	1,214,144

Movements in the loan impairment allowance were as follows for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
Allowance at January 1	1,175,076	1,167,076
Charged	395,089	146,369
Written-off	(78,196)	(4,269)
Recovered	(246,718)	(117,366)
Foreign currency translation	19,220	(16,698)
Discontinued operations	(1,881)	(36)
Allowance at December 31	1,262,590	1,175,076

The following table provides information on the credit quality of the loan portfolio at December 31:

<i>In millions of Tenge</i>	2011	2010
Loans for which no impairment has been identified:		
Standard loans	1,182,107	1,110,700
Less: impairment allowance	(69,605)	(22,540)
Standard loans, net of impairment allowance	1,112,502	1,088,160
Impaired loans:		
Individually impaired	1,638,280	1,300,610
Less: impairment allowance	(1,187,207)	(801,370)
Individually impaired loans, net of impairment allowance	451,073	499,240
Overdue loans:		
- less than 90 days	11,910	49,073
- over 90 days, but less than 1 year	70,934	193,136
- over 1 year	98,989	298,550
Less: impairment allowance	(5,778)	(351,166)
Overdue loans, net of impairment allowance	176,055	189,593
Total impaired loans	627,128	688,833
Total loans	1,739,530	1,776,993

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. LOANS TO CUSTOMERS (continued)**

The components of net investments in finance lease as at December 31 are as follows:

<i>In millions of Tenge</i>	2011	2010
Within one year	31,089	20,875
Later than one year, but not later than five years	15,815	21,974
After five years	7,080	4,602
Minimum lease payments	53,984	47,451
Less unearned finance income	(9,747)	(9,962)
Less impairment allowance	(2,637)	(1,553)
Net investment in finance leases	41,600	35,936

As at December 31 the ageing analysis of loans to customers, is as follows:

<i>In millions of Tenge</i>	2011	2010
Maturities less than 1 year	667,100	562,849
Maturities over 1 year	1,072,530	1,214,144
	1,739,630	1,776,993

11. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amount due from credit institutions comprised the following at December 31:

<i>In millions of Tenge</i>	2011	2010
Bank deposits	791,225	1,053,077
Amounts due from credit institutions	319,765	354,699
Less: impairment allowance	(62,789)	(64,125)
Amounts due from credit institutions, net	1,048,201	1,343,651
Less: current portion	(700,529)	(964,085)
Non-current portion	347,672	379,566

<i>In millions of Tenge</i>	2011	2010
10 largest local banks	806,766	1,157,640
Other local credit institutions	39,776	31,975
International credit institutions	201,659	154,036
	1,048,201	1,343,651

<i>In millions of Tenge</i>	2011	2010
Ratings from AAA (Aaa) to AA-(Aa3)	67,725	8,186
Rating from A+(A1) to A-(A3)	79,330	2,486
Rating from BBB+(Baa1) to BBB(Baa2)	91,557	36,085
Rating from BBB-(Baa3) to BB-(Ba3)	303,988	144,570
Rating from B+(B1) to B-(B3)	445,673	1,030,995
Rating from CCC+(Caa1) to CC(Ca)	-	7,059
Rating is not defined	59,928	114,270
	1,048,201	1,343,651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. AMOUNTS DUE FROM CREDIT INSTITUTIONS (continued)**

<i>In millions of Tenge</i>	2011	2010
Amounts due from credit institutions, denominated in Tenge	619,650	647,703
Amounts due from credit institutions, denominated in US Dollars	417,535	687,971
Amounts due from credit institutions, denominated in other currencies	11,016	7,977
	1,048,201	1,343,651

As at December 31, 2011 the weighted average interest rate for amounts due from credit institutions was 6.96% (2010: 5.92%).

The movements in allowance for impairment of amounts due from credit institutions were as follows:

<i>In millions of Tenge</i>	2011	2010
Allowance at January 1	64,125	63,658
Charged	1,357	31,167
Foreign currency translation	(1,504)	(924)
Recovered	(758)	(22,063)
Written-off	(431)	(7,713)
Allowance at December 31	62,789	64,125

As at December 31, 2011 amounts due from credit institutions include cash of 43,346 million Tenge pledged as collateral for certain Group's borrowings (2010: 39,963 million Tenge) (Note 18).

12. OTHER FINANCIAL ASSETS

Financial assets comprised the following at December 31:

<i>In millions of Tenge</i>	2011	2010
Note receivable from joint venture participant	19,499	20,357
Note receivable from associate participant	19,221	17,987
Available for sale financial assets	517,112	691,102
Equity securities	260,569	489,893
Bonds of Kazakhstan financial agencies	132,516	57,170
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	79,592	102,663
Corporate bonds	39,999	38,056
Bonds of international financial organizations	7,442	5,984
NBRK notes	-	1,054
Other debt securities	5,017	3,776
Less: Impairment allowance	(8,023)	(7,494)
<i>including financial assets subject to repurchase agreement</i>	15,597	8,700
Held to maturity financial assets	124,044	77,623
Bonds of Kazakhstan financial agencies	111,828	54,916
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	10,778	11,422
Corporate bonds	1,044	8,330
NBRK notes	-	114
Other debt securities	528	3,496
Less: Impairment allowance	(134)	(655)
Securities purchased under reverse repurchase agreements	5,915	6,250
Securities purchased under reverse repurchase agreements	5,915	6,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. OTHER FINANCIAL ASSETS (continued)**

<i>In millions of Tenge</i>	2011	2010
Financial assets at fair value through profit and loss	38,816	23,781
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	18,257	1,987
Bonds of Kazakhstan financial agencies	8,673	2,888
Unquoted investments in venture capital organizations	7,026	2,928
Unquoted equity share investments	3,215	4,497
Corporate bonds	1,200	11,454
Other equity securities	-	27
Other debt securities	445	-
Trading securities	70,476	121,203
Bonds of Kazakhstan financial agencies	24,731	9,160
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	14,771	35,768
Corporate bonds	9,373	31,878
Treasury bills of foreign states	-	8,863
Other equity securities	20,946	30,035
Other debt securities	655	5,499
Derivative financial instruments	35,824	5,556
Options	33,581	5,114
Currency swaps	1,653	-
Other	590	442
Total financial assets	830,907	963,859
Less: current portion	(336,025)	(445,354)
Non-current portion	494,882	518,505

As at December 31, 2011 the interest rates for available-for-sale financial assets, held to maturity financial assets and trading securities were in the ranges from 0.5% to 13%, from 0.93% to 15% and from 3.6% to 13%, respectively (2010: from 0.01% to 14%, from 3.6% to 15% and from 6.5% to 6.8%).

<i>In millions of Tenge</i>	2011	2010
Financial assets denominated in Tenge	618,812	618,839
Financial assets denominated in US Dollars	171,300	326,217
Financial assets denominated in other currency	4,971	13,247
	795,083	958,303

The changes in allowance for impairment of other financial assets are as follows:

<i>In millions of Tenge</i>	2011	2010
Allowance at January 1	8,149	6,370
Charge	3,482	4,567
Written-off	(3,105)	(4,120)
Discontinued operations	(693)	-
Foreign currency translation	858	-
Recovered	(534)	(668)
Allowance at December 31	8,157	8,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. OTHER FINANCIAL ASSETS (continued)*****Equity securities (available for sale financial assets) – shares of «Toshiba Nuclear Energy Holdings (US) Inc.» and «Toshiba Nuclear Energy Holdings UK Ltd»***

In 2007, NAC KAP purchased 400 Class A ordinary shares of Toshiba Nuclear Energy Holdings US, Inc. ("TNEH-US") for 400,000 thousand US Dollars from Toshiba Nuclear Energy Investments US Inc. In addition, KAP purchased 140 Class A ordinary shares of Toshiba Nuclear Energy Holdings UK, Ltd ("TNEH-UK") for 140,000 thousand US Dollars from and Toshiba Nuclear Energy Investments UK Ltd. Through the purchase of 400 Class A ordinary shares of TNEH-US and 140 Class A ordinary shares of TNEH-UK KAP acquired a 10% interest in these entities. TNEH-US and TNEH-UK, own 100% interest in Westinghouse Group ("Westinghouse").

In connection and simultaneously with the acquisition of interest in TNEH-US and TNEH-UK, NAC KAP entered into a put option agreement (the "Put Option"). The Put Option provides NAC KAP with an option to sell its shares to Toshiba Corporation for 100% of the original purchase price of 540,000 thousand US Dollars for the first 67% of shares and 90% of the original purchase price for the remaining 33% of shares resulting in a total estimated exercise price of 522,180 thousand US Dollars, if certification is not received from Westinghouse of fuel assembly production by Ulba Metallurgical Plant (a subsidiary of NAC KAP). If the certification is not provided, NAC KAP may exercise the Put Option during the period between March 31, 2010 and February 28, 2013.

In connection and simultaneously with the acquisition of interest in TNEH-US and TNEH-UK, NAC KAP entered into a call option agreement (the "Call Option"). The Call Option provides Toshiba Corporation with the right to demand from NAC KAP the sale of its TNEH-US and TNEH-UK shares if the Committee on Foreign Investment in the United States decides that NAC KAP is no longer a strategic partner. In such case, the fair value of NAC KAP's shares will be determined by an independent international appraiser.

The Group has classified this investment as available for sale as this best reflects the intention of the Group and ability to hold the investment for the long term. Investments in TNEH-US and TNEH-UK are carried at cost because these investments are equity in a private company for which fair value cannot be reliably measured.

As of December 31, 2011 carrying value of investments was 66,005 million Tenge (2010: 66,005 million of Tenge).

Equity securities (available for sale financial assets) – shares of Kazakhmys PLC

On October 5, 2010 the Group has acquired 11% of ordinary shares of Kazakhmys PLC. Consideration paid amounted to 198,028 million Tenge. Kazakhmys PLC is the largest copper producer and the owner of coalmines and power stations in Kazakhstan.

Fair value of equity securities of Kazakhmys PLC as at December 31, 2011 was determined based on published quotations on active market and amounted to 124,876 million Tenge (2010: 216,937 million Tenge).

Equity securities (available for sale financial assets) – shares of Kazkommertsbank JSC and Halyk Bank of Kazakhstan JSC***Loss of significant influence over Kazkommertsbank JSC and Halyk Bank of Kazakhstan JSC***

In accordance with the option agreements concluded by the Fund and major shareholders upon the acquisition of shares of Kazkommertsbank JSC ("Kazkommertsbank") and Halyk Bank of Kazakhstan JSC ("Halyk Bank") in 2009, the major shareholders obtained the right to purchase shares of these banks owned by the Fund at any time during a period from the first till fifth anniversary of the acquisitions (call options). The options became exercisable in the first half of 2010, which resulted in the loss the Fund's influence over the banks. As a result, the Fund lost significant influence in these associates and reclassified these investments into financial assets available for sale and recognized gain of 19,881 million Tenge in profit and loss in 2010. At December 31, 2011 the Fund's ownership interest in these banks remained unchanged. As at December 31, 2011 fair value of shares of Halyk Bank of Kazakhstan and Kazkommertsbank JSC amounted to 30,149 million Tenge (2010: 132,204 million Tenge) and 36,306 million Tenge, respectively (2010: 73,159 million Tenge).

In March 2011, Holding Group ALMEX JSC and Halyk Bank of Kazakhstan signed an agreement on assignment of right of demand for partial exercise of option on ordinary shares of Halyk Bank of Kazakhstan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. OTHER FINANCIAL ASSETS (continued)***Equity securities (available for sale financial assets) – shares of Kazkommertsbank JSC and Halyk Bank of Kazakhstan JSC (continued)**Loss of significant influence over Kazkommertsbank JSC and Halyk Bank of Kazakhstan JSC (continued)*

In accordance with this agreement on March 30, 2011 Halyk Bank of Kazakhstan realized its right for partial execution of option and acquired 213,000,000 of its ordinary shares. Furthermore, Holding Group ALMEX JSC exercised an option and redeemed 46,064,909 ordinary shares of Halyk Bank of Kazakhstan JSC. Total realizable value of treasury shares amounted to 32,849 million Tenge.

After selling of Halyk Bank of Kazakhstan JSC ordinary shares with a fair value at the date of disposal of 93,263 million Tenge, the Fund ceased recognition of the relevant option obligation on purchasing of ordinary shares, the fair value of this option on the date of exercise amounted to 60,021 million Tenge. An allowance of 6,474 million Tenge on revaluation of available-for-sale investments on ordinary shares of Halyk Bank of Kazakhstan JSC was reclassified into profit or loss. The resulting net loss on disposal of financial assets was recorded in the profit and loss in the amount of 6,867 million Tenge.

Fair value of equity securities of Kazakhmys PLC, Halyk Bank of Kazakhstan JSC and Kazkommertsbank JSC as at December 31, 2011 was determined based on published quotations on active market.

13. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following at December 31:

<i>In millions of Tenge</i>	2011	2010
Advances paid for non-current assets	184,242	150,814
Long-term VAT recoverable	71,760	64,849
Long-term inventory	11,160	8,989
Assets for sale to the Government	9,011	-
Assets to be transferred under finance lease agreements	8,380	3,139
Restricted cash	7,699	1,678
Other	24,339	19,542
Less: Impairment allowance	(15,874)	(26,326)
	300,717	222,685

Movements in impairment allowance for VAT recoverable are as follows:

<i>In millions of Tenge</i>	2011	2010
At January 1	26,326	18,930
Charge for the year	744	7,396
Written off	(512)	-
Recovered	(10,684)	-
Allowance at December 31	15,874	26,326

As at December 31, 2011 advances paid for non-current assets, mainly, comprise of the following advances:

Atyrau Refinery LLP (subsidiary of NC KMG) prepaid 44,254 million Tenge to Sinopec Engineering for construction of the aromatic hydrocarbons plant (2010: 48,920 million Tenge);

EP KMG prepaid 17,992 million Tenge for construction of wells; (2010: 12,992 million Tenge);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**13. OTHER NON-CURRENT ASSETS (continued)**

Real Estate Fund Samruk-Kazyna paid advances of 3,547 million Tenge to construction companies (advances for objects under construction that will be leased) (2010: 23,135 million Tenge). The Group concludes agreements with construction companies (the "Contractor") on acquisition of residential and non-residential premises and parking lots in Astana and Almaty. In accordance with terms of the agreements, the Group is committed to make prepayments to the Contractors and the Contractors are committed to complete the construction in accordance with the set deadlines. The Group becomes the owner of the respective premises upon completion of the construction by the Contractor. Completion of the prepaid properties is expected during the years 2011-2012;

NC KTZh paid advances for construction of the "Uzen – state border with Turkmenistan" and "Khorgoz – Zhetigen" railway lines in the amount of 4,261 million Tenge (2010: 9,654 million Tenge), 23,337 million Tenge for cars and locomotive supply expenses (2010: nil), and 10,719 million Tenge for the purchase of spare parts for assembly of locomotives (2010: 12,789 million Tenge);

KEGOC prepayments for construction of substation, transmission lines and modernization of electricity network projects in the amount of 26,389 million Tenge (2010: 4,573 million Tenge);

Remaining advances paid for the total amount of 53,743 million Tenge (2010: 38,751 million Tenge) mainly represent prepayments for supply of property, plant and equipment and completion of construction works.

In 2011, the ultimate Shareholder issued the NC KTZh with a decree in which it requested that the Fund, at the end of the construction phase, sell certain assets, constructed within railway lines construction projects, to the ultimate Shareholder at a yet to be agreed amount. The sale is expected to occur in 2013 and while the sales price is yet to be agreed, it is expected to be at a minimum, the carrying value of the said assets. In these consolidated financial statements such assets have been presented within other non-current assets.

14. INVENTORIES

Inventories comprised the following at December 31:

<i>In millions of Tenge</i>	2011	2010
Refined products for sale	69,242	51,994
Oil and gas industry materials and supplies	47,007	31,674
Work in process	44,299	32,937
Crude oil	42,221	44,377
Owned bid security	38,115	31,907
Uranium products	30,244	35,504
Production materials and supplies	29,762	18,763
Fuel	18,663	9,796
Gas refinery products	18,516	26,895
Goods for resale	17,081	21,052
Railway materials and supplies	14,149	14,397
Electric transmission equipment spare parts	3,364	4,234
Telecommunication equipment spare parts	2,962	3,273
Uranium materials and supplies	1,318	981
Other materials and supplies	14,249	26,102
Less: write-down to net realizable value	(15,735)	(12,287)
	375,457	341,599

15. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

Trade accounts receivable comprised the following at December 31:

<i>In millions of Tenge</i>	2011	2010
Trade accounts receivable	297,310	271,391
Less: allowance for doubtful debts	(20,758)	(19,785)
	276,552	251,606

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS (continued)**

Other current assets comprised the following at December 31:

<i>In millions of Tenge</i>	2011	2010
Advances paid and deferred expenses	109,634	105,398
Asset to the advantage of the Shareholder (Note 4)	74,805	14,479
Dividends receivable (Note 9)	34,645	24,288
Prepayment to the Shareholder on dividends	9,077	7,056
Other taxes prepayment	8,258	24,960
Obligatory reserve with the National Bank of RK	3,364	1,212
Assets to be transferred under finance lease agreements	2,546	2,075
Amounts due from employees	2,509	1,971
Restricted cash	651	2,474
Other accounts receivable	45,508	53,311
Other	22,505	34,051
Less: impairment allowance	(38,291)	(32,471)
	275,211	238,804

At December 31, 2011 the Group's receivables amounting to 26,926 million Tenge were pledged under loan agreements (2010: 16,835 million Tenge).

Changes in the allowance for impairment of trade accounts receivable and other current assets were as follows:

<i>In millions of Tenge</i>	2011	2010
Reserve at January 1	52,256	43,182
Change in accounting estimate	(10)	-
Charge for the year	13,366	19,423
Foreign currency translation	(228)	(1,094)
Write-off	(39)	(11,409)
Recovered	(5,787)	(3,576)
Transfers to assets classified as held for sale (Note 6)	(217)	-
Loss of control over subsidiary	(292)	5,730
Allowance at December 31	59,049	52,256

As at December 31, 2011 and 2010 trade accounts receivable and other current assets were not interest bearing.

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

<i>In millions of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
2011	276,552	166,358	69,140	28,226	2,303	1,502	9,023
2010	251,806	167,415	48,976	6,590	9,030	2,991	16,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprised the following at December 31:

<i>In millions of Tenge</i>	2011	2010
Bank deposits – US Dollars	254,521	306,707
Bank deposits – Tenge	173,636	211,972
Bank deposits – other currency	11,834	9,562
Current accounts with banks – Tenge	845,206	697,078
Current accounts with banks – US Dollars	268,722	305,639
Current accounts with banks – other currency	22,598	47,061
Cash on hand	63,802	61,205
Cash in transit	381	236
	1,640,700	1,639,460

As at December 31, 2011 Group's cash in the amount of 3,881 million Tenge represent guarantee payments under loans and are restricted in use. (2010: 1,295 million Tenge).

Short-term deposits are placed for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. As at December 31, 2011 the weighted average interest rate for time deposits with banks was 1.47% (2010: 1.21%).

17. EQUITY**17.1 Share capital**

During 2011 and 2010 the Fund issued shares, which were contributed as follows:

Payment for shares	Number of shares authorized and issued	Par value, in Tenge	Share capital, in Millions of Tenge
As at December 31, 2009	3,464,910,202		3,748,299
Contributions in cash	14,144,838	10,000; 5,000; 1,000	141,447
Contributions of property	21,627	100,000	2,163
As at December 31, 2010	3,479,076,667		3,891,909
Contributions in cash	1,451,337	1,000,000; 100,000; 1,000	147,552
Contributions of property	44,813	100,000; 10,000; 1,945; 1,000	4,458
Contributions of state-owned shares	64,638	100,000; 34,647; 1,353	6,464
As at December 31, 2011	3,480,637,455		4,050,383

As at December 31, 2011 3,480,637,455 shares (2010: 3,479,076,667 shares) were fully paid.

In 2011, 44,813 shares issued by the Fund were paid by the transfer of other property by the Government with fair value of 4,458 million Tenge (2010: 2,163 million Tenge).

In 2011, 64,438 shares issued by the Fund were paid by the transfer of state-owned shares of National Geological Company Kazgeologiya JSC (100%) and National Company Kazakhstan Engineering JSC (39%). The total fair value of the contribution amounted to 6,464 million Tenge in 2011 (2010: nil).

17.2 Discount on loans from the Government and on bonds purchased by the Government (National Bank)

During 2011, the Fund received loans from the Government, bearing lower-than-market interest rates (*Note 19*). Bonds discount at initial recognition in the amount of 21,793 million Tenge was recognized in the consolidated statement of changes in equity (2010: 111,144 million Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. EQUITY (continued)****17.3 Dividends****2011**

On April 4, 2011, the Government approved the order of distribution of the Fund's net income for 2009 amounting to 7,056 million Tenge. This amount was paid on November 26, 2010 according to the Decision of the Board of Directors of the Fund dated September 18, 2010.

2010

On March 26, 2010, the Government approved the order of distribution of the Fund's net income for 2008 amounting to 8,646 million Tenge. This amount was paid on December 15, 2009 according to the Decision of the Board of Directors of the Fund dated September 30, 2009.

17.4 Other transactions with the Shareholder

In accordance with a swap agreement signed in 2010 between the Committee of State Property and Privatization ("Committee") and the Fund, the Fund transfers to the Committee shares of Social-Entrepreneurship Corporations ("SEC") and National Innovation Fund JSC in exchange for the State's 42% interest in Pavlodar Petrochemical Plant JSC ("PPP"), 1.67% interest in Kazakh British Technical University ("KBTU"), 90% interest in Karagandagiproshtakht JSC and other real estate and property.

In 2010 the Fund transferred shares of SEC and NIF to the state ownership and received shares of PPP, KBTU and Karagandagiproshtakht LLP and other real estate and property. The management considers these transactions as contributions from and distributions to the Shareholder. Therefore, the transfer of SEC and NIF and receipt of shares of PPP, KBTU and Karagandagiproshtakht and other real estate and property, was recorded as a distribution of retained earnings of 55,569 million Tenge and a disposal of non-controlling interest of 22,584 million Tenge, that represents difference between fair value of disposed net assets of SEC and NIF and received shares of PPP, KBTU and Karagandagiproshtakht and other assets.

Prior to the receipt of 42% shares of PPP from the Shareholder, the Group acquired 58% of shares of PPP through its subsidiary NC KMG (*Note 5*). Non-controlling interest of 5,253 million Tenge was charged to retained earnings.

On April 11, 2011 the Shareholder and the Fund concluded another swap agreement. In accordance with this agreement, the Fund transfers shares of its subsidiaries, Zhilstroisberbank Kazakhstan JSC and Kazakhstan Fund of Guarantee of mortgage loans JSC, in exchange for state owned property (*Note 5*). During 2011 the Fund transferred shares of the subsidiaries and received the property according to the swap agreements signed in 2011 and 2010. Therefore, the transfer of Zhilstroisberbank Kazakhstan JSC and Kazakhstan Fund of Guarantee of mortgage loans JSC and receipt of property, were recorded as a distribution to Shareholder of 20,692 million Tenge, that represents difference between the fair value of disposed net assets of subsidiaries and received property.

17.5 Change in ownership interests of subsidiaries – capital contribution by non-controlling interest**2011***Alliance Bank JSC*

On 25 August 2011, the shareholders of Alliance bank approved a reduction in the minimum guaranteed dividend of preferred shares from 2,680 Tenge per share to 100 Tenge per share.

Accordingly, the liability component was remeasured at the discounted net present value of the revised minimum guaranteed dividends of 100 Tenge per share at the effective interest rate of the instrument. The change in the liability component amounting to 19,461 million Tenge is recorded as an increase in non-controlling interest.

National Atomic Company Kazatomprom JSC

According to the terms of the sale agreement of 49% share in Semizbai-U LLP (*Note 20*) combined instrument that contained equity component and debt component was initially recognized. In connection with revision of strategic plan of Semizbai-U LLP caused by decrease of market price on uranium products the instrument was revalued at the net present value and resulted in equity component equal to zero. Change of the equity component resulted in increase of retained earnings by 5,833 million Tenge and corresponding decrease in non-controlling interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. EQUITY (continued)****17.5 Change in ownership interests of subsidiaries – capital contribution by non-controlling interest (continued)***Other changes in ownership of subsidiaries*

During 2011 other changes in ownership interests of subsidiaries as a result of contributions by non-controlling interest increased retained earnings by 104 million Tenge and non-controlling interest by 1,488 million Tenge.

2010*JSC National Innovational Fund ("NIF")*

During 2010, the Government made an additional contribution to NIF, that resulted in a decrease of the Fund's share from 100% to 51.98%. As a result the non-controlling interest increased by 12,324 million Tenge and the difference of 9,488 million Tenge between the non-controlling interest and the carrying value of the net assets disposed was charged to retained earnings.

Alliance Bank

Under the debt restructuring plan of Alliance Bank, in March 2010 the Fund purchased additional common and preferred shares issued by the bank. Concurrently, the Fund transferred to the bank's creditors 33% of the bank's ordinary and preferred shares resulting in a decrease in the Fund's interest in the bank to 67% of ordinary and preferred shares. As the result of this transaction the Fund recorded an increase in retained earnings in the amount of 59,747 million Tenge and a corresponding decrease in the carrying value of the non-controlling interests in these consolidated financial statements.

Temirbank JSC ("Temirbank")

As part of BTA Bank debt restructuring plan approved in March 2010, the Fund acquired newly issued ordinary shares of Temirbank JSC, a subsidiary of BTA Bank. Concurrently, the Fund transferred to the bank's creditors 20.12% of the Temirbank's shares resulting in the Fund's interest in the bank of 79.88%. As result of the transaction, the Fund recorded a decrease in retained earnings in the amount of 27,596 million Tenge and a corresponding increase in the carrying value of the non-controlling interests in these consolidated financial statements.

BTA Bank

As part of BTA Bank debt restructuring plan approved in March 2010, the Fund has acquired newly issued ordinary shares of BTA Bank. Concurrently, the Fund has provided 17.80% of the bank's ordinary shares to the creditors of BTA Bank, resulting in the Fund's share in BTA Bank of 82.20%. As a result of the transaction the Fund has recognized a decrease of retained earnings of 111,579 million Tenge and respective increase of the non-controlling interest in the consolidated financial statements.

National Company Kazakhstan Engineering JSC

During 2010 the Government made a contribution to the share capital of National Company Kazakhstan Engineering JSC, that resulted in a decrease of the Fund's share from 100% to 61%. As a result of the transaction non-controlling interest increased by 5,432 million Tenge and difference between the non-controlling interest and the carrying value of net assets disposed totaling to 712 million Tenge was charged to retained earnings.

Convertible debt instrument and related litigations of NC KMG

As of December 31, 2009 NC KMG had an outstanding balance of 3,353 million Tenge of a convertible debt instrument issued by a significant subsidiary of TRG – Rompetrol Rafinare S.A. to the Romanian State. The nominal value of liabilities equaled to 570.3 million Euro (112,280 million Tenge). The instrument had seven years maturity and expired on September 30, 2010. Fair value of the debt component at the initial recognition was determined as the discounted future contractual cash payments under the instrument. Under the share ownership as of December 31, 2009 NC KMG would have lost control over Rompetrol Rafinare S.A., if the entire debt instrument was settled at September 30, 2010 by issuance of new shares to the Romanian State, without any further action by TRG and/or Rompetrol Rafinare S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. EQUITY (continued)****17.5 Change in ownership interests of subsidiaries – capital contribution by non-controlling interest (continued)****2010 (continued)***Convertible debt instrument and related litigations of National company KazMunayGas ("NC KMG") (continued)*

In order to increase its interest in Rompetrol Rafinare S.A., during the first half of 2010 NC KMG made a public offer to all shareholders. In August 2010 Rompetrol Rafinare S.A. increased its share capital by issuance of new shares amounting to RON 329,492,067 (equivalent to 78 million Euro at the date of subscription), all of which were subscribed and fully paid for by TRG, further increasing the Group's interest in Rompetrol Rafinare S.A. Of these proceeds from the share issuance, during August 2010, Rompetrol Rafinare S.A. repaid 54 million Euro (equivalent to 10,464 million Tenge) out of the total debt of 570.3 million Euro in relation to the convertible debt instrument to the Romanian State. In September 2010, Rompetrol Rafinare S.A. paid the last coupon, amounting to 17 million Euro (equivalent to 3,315 million Tenge), leading to a nil balance of a liability component of the convertible debt instrument.

On September 30, 2010, the Extraordinary General Meeting of the shareholders of Rompetrol Rafinare S.A. approved the conversion of the unredeemed convertible debt instrument into shares, the corresponding share capital increase and the exact numbers of shares to be received by the Romanian State for the convertible debt it held, calculated based on the exchange rate in force on such date, together with a share premium calculated as a difference between exchange rates valid on September 30, 2010 and on issuance date on September 30, 2003. This resulted in a non-controlling interest of the Romanian State of 44.70%.

These transactions resulted in a decrease of the retained earnings by 113,467 million Tenge and increase of non-controlling interests by 103,003 million Tenge.

In August 2010, the Romanian State, represented by the Ministry of Public Finance of the Romanian State, initiated a legal action against the decision of Rompetrol Rafinare S.A. to increase the share capital and convert the convertible debt instrument partially in cash and partially by issuance of shares.

Constanta Tribunal dismissed the Romanian State request: (a) for some of the annulment reasons considering that the Romanian State lacks the capacity to stand trial, arguing that state did not have the capacity of shareholder when such acts were adopted, (b) for some of the annulment reasons considering that they were not grounded. MFR submitted a final appeal which is pending with Constanta Court of Appeal, having the next hearing on May 14, 2012. Due to the change of Romanian State in the end of April 2012, the case was suspended up to 6 months period. If the Romanian State prevails and the increase in share capital is rejected in the court, the Group would lose control over Rompetrol Rafinare S.A.

Furthermore, on November 17, 2010 the Ministry of Public Finance of the Romanian State issued a Summons and Forced Execution Title for the amount of RON 2,205,592,436 (for presentation purposes EUR 516.3 million and, at the exchange rate as of December 31, 2010 is 100,797 million Tenge) as a result of the Romanian Authorities disagreement with the decision of NC KMG to partially settle the instrument by issuance of shares. Rompetrol Rafinare S.A. filed a claim against a forced execution requesting cancelation of the Summons and Forced Execution Title. On January 14, 2011, the Constanta Court of Appeal suspended the enforcement and any effects of the Forced Execution Title. The next hearings with respect to the annulment of the Forced Execution Title are scheduled for April 2012. Due to the change of the Romanian State in the end of April 2012, the case was suspended up to 6 months period.

In addition, on September 10, 2010 the Romanian authorities, represented by The National Agency for Fiscal Administration (ANAF), issued a decision for a precautionary seizure on all participations held by Rompetrol Rafinare S.A. in its affiliates as well as on all movable and immovable assets of Rompetrol Rafinare S.A. except for inventories. This measure is still in force and being challenged by NC KMG. As of reporting date the seizure has not been enforced as the Romanian authorities did not initiate forced execution procedures. Management believes that the enforcement of the seizure by the authorities would not be practicable.

Management believes that the legal actions against NC KMG have no legal grounds and NC KMG will succeed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. EQUITY (continued)****17.6 Change in ownership interests of subsidiaries – acquisition of non-controlling interest****2011***BTA Bank*

In April 2011, BTA Bank acquired additional shares of JSC Accumulative Pension Fund Ular-Umit ("Ular-Umit") and JSC Pension Asset Management Company Zhetysu ("Zhetysu"), increasing its stake in these institutions from 75.00% to 100.00%.

As a result of the above-mentioned acquisitions:

- Non-controlling interest decreased by 3,506 million Tenge; and
- 3,079 million Tenge relating to the difference between the carrying values of the net assets attributable to acquired interests in these subsidiaries and the consideration paid was allocated to retained earnings.

On April 29, 2011, the Committee for the Control and Supervision of Financial Market and Financial Institutions of the National Bank of Kazakhstan (the "Committee") adopted a resolution to grant a permission for voluntary reorganization of Ular-Umit and JSC APF BTA Kazakhstan, a subsidiary company of BTA Bank ("BTA Kazakhstan"), by merging BTA Kazakhstan to Ular-Umit. Ular-Umit on the basis of the act of transfer and acceptance took over the property, rights and obligations of BTA Kazakhstan. The process of pension funds merging was performed through a placement of shares to existing shareholders in proportion to the ratio of sale price of BTA Kazakhstan shares to an issue price of Ular-Umit shares. The share exchange procedure was initiated in May and completed in September 2011. As a result, the share of BTA Bank in the share capital of Ular Umit decreased from 100.00% to 92.38%.

NC KMG

In November 2011, NC KMG increased its ownership in Rompetrol Georgia by 1%, increasing it to 99%. As a result of the change in ownership the difference of 1,858 million Tenge between the carrying values of the net assets attributable to the acquired interests in the subsidiary of 1,778 million Tenge and the consideration paid of 80 million Tenge was recorded in the retained earnings in 2011.

National Company Kazakhstan Engineering JSC

In accordance with the Regulation of the Government of the Republic of Kazakhstan No.1356 dated November 19, 2011 state-owned shares of National Company Kazakhstan Engineering JSC were transferred to the Fund (*Note 17.1*) which resulted in an increase of the Fund's ownership share from 61% to 100%. As a result non-controlling interest decreased by 5,708 million Tenge and difference between the non-controlling interest and the carrying value of net assets amounting to 680 million Tenge was charged to retained earnings.

2010*NC KMG*

During the year ended December 31, 2010, NC KMG acquired additional shares in Rompetrol Rafinare S.A., Rompetrol Well Services S.A., Rompetrol Bulgaria and Rompetrol Georgia. Details of these additional acquisitions are discussed below.

On January 27, 2010 NC KMG initiated the mandatory public offer for the acquisition of 132.77 million Rompetrol Well Services S.A. shares available on stock exchange from non-controlling shareholders, for a price of RON 0.43 per share. On February 23, 2010 NC KMG acquired additional 20.74% shares of Rompetrol Well Services S.A. for a total amount of RON 24.8 million (equivalent to 1,212 million Tenge at an average rate of currency exchange for 2010). After the mandatory public offer, NC KMG controls 73.01% of Rompetrol Well Services S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. EQUITY (continued)****17.6 Change in ownership interests of subsidiaries – acquisition of non-controlling interest (continued)****2010 (continued)***NC KMG (continued)*

On February 8, 2010 NC KMG initiated a mandatory public offer for the acquisition of 5,062.17 million Rompetrol Rafinare S.A. shares available on stock exchange from non-controlling shareholders, for a price of RON 0.0751 per share. After the closing of the offer period, on March 26, 2010, NC KMG acquired an additional 22.14% of the share capital of Rompetrol Rafinare S.A., for an amount of RON 358 million (equivalent to 16,740 million Tenge at an average rate for 2010). After the mandatory public offer, NC KMG controlled 98.6% of Rompetrol Rafinare S.A. The interest in Rompetrol Rafinare S.A. decreased as of September 2010 to 54.62% through the conversion of the convertible debt instrument.

As a result of the above-mentioned acquisitions:

- Non-controlling interest decreased by 65,335 million Tenge; and
- 47,302 million Tenge relating to the difference between the carrying values of the net assets attributable to acquired interests in these subsidiaries and the consideration paid for such increases was allocated to retained earnings.

17.7 Acquisition of treasury shares by subsidiary*KMG EP*

In 2011, KMG EP increased its treasury stock by 938,479 preferred shares repurchased for 15,746 million Tenge (2010: 1,346,213 preferred shares repurchased for 24,532 million Tenge). The carrying value of the acquired non-controlling interest was 14,892 million Tenge as of December 31, 2011 (2010: 20,535 million Tenge). The difference of 854 million Tenge between the amount paid and carrying value of acquired non-controlling interest was recognized in retained earnings in 2011 (2010: 3,997 million Tenge).

17.8 Other distributions to the Shareholder*Construction of social buildings*

During the year, ended December 31, 2011, other distributions to the Shareholder represent an obligation, under a Government decree, in relation to the construction of the following objects in Astana city: Kazakhstan History Museum, "Building for a teleradio-complex, Student's Palace" and reconstruction of the World Expo-Center (the Expo-Center") in Moscow. The Group has recognized a constructive obligation of which the amount of future probable cash outflows is reliably measured (*Note 4*). During 2011, the Group made a provision of 3,959 million Tenge for the reconstruction of the Expo-Center and increased provision for construction of the social buildings in Astana by 33,568 million Tenge (2010: 71,582 million Tenge) which were recognized in equity as distribution to the Shareholder.

Sponsorships under the Shareholder's request

In accordance with the Resolution of the Government, the Group provided sponsorship totaling to 5,000 million Tenge for financing restoration of accommodations, engineering and social infrastructure damaged as a result of floods during spring 2011 at the West-Kazakhstan oblast. As a result, the Group recognized other distributions to the Shareholder of 5,000 million Tenge.

17.9 Currency translation reserves

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not Tenge and whose financial statements are included in the consolidated financial statements in accordance with the accounting policy disclosed in *Note 3*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. EQUITY (continued)****17.10 Other capital reserves**

Other capital reserves include the effect of cash flow hedge accounting to record any fair value gains or losses on the designated derivative financial instruments in a hedging reserve within equity. These gains or losses are subsequently recycled to the profit and loss as transactions are settled.

Other capital reserves also include remuneration of employees for the services rendered in the form of share-based payments with equity instruments of a subsidiary in which they are employed. The cost of equity-settled remunerations is recognized, together with a corresponding increase in other equity reserves, over the period in which performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

17.11 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net profit attributable to ordinary equity holders of the parent (after adjusting for interest on convertible preferred shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

<i>In millions of Tenge</i>	2011	2010
Net profit from continuing operations attributable to ordinary equity holders of the parent	297,544	518,308
Net profit from a discontinued operation attributable to ordinary equity holders of the parent	32,491	26,683
Net profit attributable to ordinary equity holders of the parent for basic earnings calculation	330,035	544,991
Weighted average number of ordinary shares for basic and diluted earnings per share	3,479,495,342	3,456,629,660

17.12 Book value of shares

In accordance with the decision of the Exchange Board of the Kazakhstan Stock Exchange JSC ("KASE") dated October 4, 2010 financial statements shall disclose book value per share (ordinary and preferred) as of the reporting date, calculated in accordance with the KASE rules.

<i>In millions of Tenge</i>	2011	2010
Total assets	13,413,405	12,815,308
Intangible assets	(306,989)	(265,172)
Total liabilities	(7,683,802)	(7,392,894)
Net assets for ordinary shares	5,422,614	5,157,242
Number of ordinary shares as of December 31	3,480,637,455	3,479,076,667
Book value per ordinary share, Tenge	1,558	1,482

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. BORROWINGS**

Borrowings, including accrued interest, comprised the following at December 31:

<i>In millions of Tenge</i>	2011	2010
Fixed interest rate borrowings	3,156,776	2,602,400
Weighted average interest rate	8.19%	8.38%
Variable interest rate borrowings	1,040,000	1,479,726
Weighted average interest rate	6.16%	5.14%
	4,196,776	4,082,126
Less: amounts due for settlement within 12 months	(550,740)	(854,117)
Amounts due for settlement after 12 months	3,646,036	3,228,009

<i>In millions of Tenge</i>	2011	2010
US Dollar-denominated borrowings	3,582,382	3,664,005
Tenge-denominated borrowings	469,198	301,487
Other currency-denominated borrowings	145,196	116,634
	4,196,776	4,082,126

Under the terms and conditions of certain borrowing agreements, respective subsidiaries of the Group are obliged to comply with certain covenants. At December 31, 2011 and 2010, Group management believes that the Group's subsidiaries complied with all the covenants.

19. LOANS FROM THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN

Loans from the Government of the Republic of Kazakhstan comprised the following at December 31:

<i>In millions of Tenge</i>	2011	2010
Loans from the Government of the Republic of Kazakhstan	869,715	878,957
	869,715	878,957
Less: amounts due for settlement within 12 months	(438,968)	(473,195)
Amounts due for settlement after 12 months	430,747	405,762

2011

As of December 31, 2011 the loans from the Government of the Republic of Kazakhstan comprised a loan obtained by BTA bank, under repurchase agreements under the pledge of debt securities of the Fund, from National Bank of the Republic of Kazakhstan in the amount of 430,928 million Tenge (2010: 465,746 million Tenge). As of December 31, 2011 the amortized cost of these debt securities was 424,638 million Tenge (2010: 349,721 million Tenge).

In accordance with the Law of the Republic of Kazakhstan "On Republican budget for 2011-2013" dated November 29, 2010, in 2011 the Fund obtained loans from the Ministry of Industry and New Technologies of the Republic of Kazakhstan. The total amount of loans is 46,600 million Tenge with interest rates ranging between 0.1% and 0.5%. Loans were granted for the period ranging from 10 to 25 years.

When initially recognized, these loans were measured at fair value equal to 24,807 million Tenge using appropriate market interest rate and subsequently are carried at amortized cost. The difference between nominal cost of loans and their fair value in the amount of 21,793 million Tenge was recognized in the consolidated statement of changes in equity. As of December 31, 2011 the amortised cost of borrowings was 25,135 million Tenge (2010: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. LOANS FROM THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN (continued)****2010**

In 2010 the Fund placed 220,000,000 coupon bonds with nominal value of 1,000 Tenge per bond for the total amount of 220,000 million Tenge. The maturity of bonds is 15 years, coupon interest at the amount of 0.4% shall be paid semi-annually. All bonds were purchased by the National Bank of the Republic of Kazakhstan. Amounts obtained from placement of these bonds were used for acquisition of shares of Kazakhmys PLC in the organized market. The difference between nominal cost of loans and their fair value at the amount of 102,732 million Tenge was recognized in the consolidated statement of changes in equity as additional contribution of Shareholder. As of December 31, 2011, the carrying value of the loans was 123,409 million Tenge (2010: 118,596 million Tenge).

In accordance with the Law of the Republic of Kazakhstan "On Republican budget for 2010-2012" dated December 7, 2009, in December 2010 the Fund obtained 2 loans from the Ministry of Industry and New Technologies of the Republic of Kazakhstan with interest rates ranging between 0.25% and 0.5%. Loans were granted for the period from 11 to 20 years and intended to provide loans to subsidiaries for the purpose of granting housing loans to certain categories of citizens (15,163 million Tenge) and to finance project "Construction and operation of new railway line "Railway station Shar – Ust-Kamenogorsk" (3.640 million Tenge). The interest rates should not exceed 1% per annum and 0.5% per annum, respectively.

When initially recognized, these loans were measured at fair value equal to 10,391 million with the recognition of discount in the amount of 8,412 million Tenge in the consolidated statement of changes in equity as additional contribution of the Shareholder. As of December 31, 2011 the carrying value of borrowings was 10,924 million Tenge (2010: 10,391 million Tenge).

In addition, on December 31, 2010 loans from the Government of the Republic of Kazakhstan included 480,000 and 149,900,000 coupon bonds totaling to 629,900 million Tenge with 0.02% and 1% interest rates purchased by National Bank of Kazakhstan discount recognized in retained earnings. Amounts obtained from realization of these bonds have the purpose to purchase 50% share in Ekibastuz GRES-1 LLP and refinancing of acquisition of 50% share in Bogatyr Comir LLP under the Stabilization plan. As at December 31, 2010, carrying value of the borrowings amounted to 209,796 million Tenge (2009: 191,991 million Tenge).

Also, as of December 31, 2011, loans from the Government of the Republic of Kazakhstan comprised non-current borrowings received from the state budget to support certain industries, including textile, gas processing and chemical industries. The interest rates for the loans are from 0.1% to 8.4% reflecting the purpose of the loans.

20. OTHER NON-CURRENT LIABILITIES

As of the reporting date other non-current liabilities included the following:

Payables for acquisition of participation in a project

On October 31, 2008 all participants of NCP signed an agreement according to which all project participants except for KMG Kashagan B.V. agreed to partially sell their interest in the project on proportional basis in order to increase the interest of KMG Kashagan B.V. in NCP from 8.33% to 16.81% retrospectively from January 1, 2008. The acquisition cost consisted of fixed amount of 1.78 billion US Dollars (263 billion Tenge) plus annual interest at LIBOR + 3%, which annually is capitalised with the principal amount. The given debt obligation is pledged by the additional 8.48% interest acquired. As at December 31, 2011, the carrying value of pledged assets (property, plant and equipment, and exploration and evaluation assets) was 622,925 million Tenge (2010: 530,100 million Tenge).

As at December 31, 2011 amortised cost of this liability amounted to 320,927 million Tenge (2010: 314,566 million Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**20. OTHER NON-CURRENT LIABILITIES (continued)***Disposal of 49% share in Semizbai-U LLP*

In 2008, NAC KAP entered into an agreement ("Agreement") with Beijing Sino-Kaz Uranium Resources Investment Company Limited ("Sino-Kaz Company") for the sale of a 49% share in Semizbai-U LLP for cash consideration of 234 million US Dollars (or 28,274 million Tenge), which represents the current value of future cash outflows. The Group retains 51% share in Semizbai-U LLP.

According to the Agreement Sino-Kaz has the right to distribute in proportion to share participation the minimum net income from 2010 through 2033, which represents the repayment of the financial liability recorded in this transaction. This distribution is required for minimum payments of contractual amounts. These payments are guaranteed by NAC KAP. This financial liability was measured at fair value as at the date of its initial recognition.

NAC KAP also entered into put option that gives Sino-Kaz Company the right to sell its 49% share in Semizbai-U for NAC KAP at a price equal to consideration paid by Sino-Kaz Company, less the current cost of net income distributed by Sino-Kaz Company. Realisation of this put option depends on the following events: (a) Kazakhstan Government terminates subsurface use contract for any of uranium deposits belonging to Semizbai-U; (b) uranium export by Semizbai-U is either forbidden, or embargo is applied; (c) any other reasons arising in connection with nonfulfillment by Semizbai-U any other agreements in accordance with arrangements of the parties.

Terms of the Agreement commit Sino-Kaz Company to purchase all uranium produced by Semizbai-U LLP which will be processed to uranium dioxide (pellets and powder) by Ulba Metallurgical Plant JSC (a subsidiary company of NAC KAP), for use in Chinese atomic power plants. China Guandong Nuclear Power Corporation, the parent company of Sino-Kaz Company, committed to certify the technologies used at Ulba Metallurgical Plant JSC for production of uranium dioxide pellets and powder for use on Chinese atomic power plants, within two years from the date of the Agreement. In 2010 the certification was successfully accomplished. In October 2011, the first batch of dioxide pellets produced by Ulba Metallurgical Plant JSC was shipped to China. In addition, in 2011, a contract was concluded for 2012-2014 for the shipment of dioxide pellets to China.

As at December 31, 2011 amortised cost of this liability amounted to 40,746 (2010: 40,292 million Tenge).

Liabilities related to preferred shares of Alliance Bank

On December 15, 2009, creditors of Alliance Bank, which owned the bank's liabilities of 95.1% of the total financial debt, approved the plan of the bank's debt restructuring. The restructuring was successfully finalized on March 26, 2010 and in exchange for restructured debt the Bank issued to creditors new debt securities, and preference shares with the fair value of a liability component in the amount of 20,135 million Tenge. The liability component of preference shares was recognised at fair value at initial recognition and arose due to preference shares having a minimum guaranteed dividend of 2,680 Tenge per share. On 25 August 2011, the shareholders approved a reduction in the minimum guaranteed dividend of preferred shares from 2,680 Tenge per share to 100 Tenge per share.

The liability component was remeasured at the discounted net present value of the revised minimum guaranteed. The change in the liability component amounting to 19,464 million Tenge is recorded as an increase in equity. As at December 31, 2011, the amortized cost of these liabilities was 762 million Tenge (2010: 22,230 million Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**21. PROVISIONS**

Provisions comprised the following at December 31:

<i>In millions of Tenge</i>	Asset retirement obligations	Provision for environmental liability	Provision for taxes	Provision for bank letters of credit and guarantees	Other	Total
Provision at December 31, 2009	28,686	30,927	34,635	59,127	7,439	160,814
Foreign currency translation	-	(43)	(53)	(218)	(13)	(327)
Change in estimate	1,323	813	(1,340)	-	6,222	7,018
Unwinding of discount	2,417	20	1	-	18	2,456
Provision for the year	3,054	995	8,414	329	82,360	95,152
Additions through business combinations (Note 5)	-	11	-	-	-	11
Discontinued operation	-	-	-	(3)	-	(3)
Use of provision	(1,499)	(2,212)	(8,921)	3,143	(3,002)	(12,491)
Reversal of unused amounts	-	(942)	(7,803)	(61,838)	(86)	(70,669)
Provision at December 31, 2010	33,981	29,569	24,933	540	92,938	181,961
Foreign currency translation	59	(71)	218	16	18	240
Change in estimate	(2,509)	152	-	126	2,809	578
Unwinding of discount	2,357	62	-	-	1,115	3,534
Provision for the year	3,026	565	15,315	5,844	40,322	65,072
Additions through business combinations (Note 5)	-	-	-	-	580	580
Discontinued operation	-	-	-	(301)	-	(301)
Use of provision	(863)	(1,284)	(5,812)	(58)	(8,014)	(16,031)
Reversal of unused amounts	(9)	(555)	(11,718)	(31)	(1,148)	(13,461)
Provision at December 31, 2011	36,042	28,438	22,936	6,136	128,620	222,172

Current portion and long-term portion are segregated as follows:

<i>In millions of Tenge</i>	Asset retirement obligations	Provision for environmental liability	Provision for taxes	Provision for bank letters of credit and guarantees	Other	Total
Current portion	748	1,967	22,344	3,699	122,850	151,608
Long-term portion	35,294	26,471	592	2,437	5,770	70,564
Provision at December 31, 2011	36,042	28,438	22,936	6,136	128,620	222,172
Current portion	745	3,170	23,886	30	87,574	115,405
Long-term portion	33,236	26,399	1,047	510	5,364	66,556
Provision at December 31, 2010	33,981	29,569	24,933	540	92,938	181,961

A description of these provisions, including critical estimates and judgments, is included in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**22. EMPLOYEE BENEFIT LIABILITY****State contribution scheme**

The Group pays social tax according to the current statutory requirements in the Republic of Kazakhstan. Social tax and payroll are expensed as incurred.

The Group also withholds and contributes up to 10% from salaries of its employees as the employee contribution to their cumulative pension funds. These amounts are expensed in the period they are incurred.

Defined benefit plan

Employee benefit liabilities under this plan are payable in accordance with labour union agreements concluded between certain subsidiaries of the Group (National Company "KazMunayGas" JSC, National Company "Kazakhstan Temir Zholy" JSC, Kazakhtelecom JSC, Samruk-Energy JSC and Kamkor LLP) and employees of those subsidiaries.

The total liability for the Group's Defined Benefit Plan comprised the following as at December 31:

	2011	2010
Present value of defined benefit plan liability	41,539	32,233

A reconciliation of the present value of the defined benefit plan liability with specified payments is as follows for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
Total liability at the beginning of the year	32,233	26,708
Current service cost	2,296	4,158
Past service cost	2,145	2,598
Interest cost	2,880	2,615
Benefits paid during the year	(4,136)	(4,756)
Unrecorded past service cost	80	132
Actuarial loss recognized during the year	6,041	778
Total liability at the end of the year	41,539	32,233
Liability falling due within one year	(3,631)	(3,735)
Liability falling due after one year	37,908	28,498

Actuarial loss recognised for the years ended 31 December 2011 and 2010 results primarily from changes in assumptions relating to future salary increases.

Current service cost, interest cost, past service cost and actuarial loss in the aggregate amount of 13,442 million Tenge were recorded in the consolidated statement of comprehensive income within personnel costs (2010: 10,281 million Tenge).

Estimates of the Group's liabilities were made on the basis of published statistical data regarding mortality and actual Group's data concerning number, age, gender and years of employee service. Other principal assumptions at the balance sheet date, calculated as weighed average for all plans, were as follows:

	2011	2010
Discount rate	7.93%	7.31%
The expected rate of future annual material assistance increases	9.21%	5.63%
The expected rate of future annual minimum salary increases	6.35%	5.21%
The expected rate of future annual railway ticket price increases	2.53%	4.77%

The Defined Benefit Plans are unfunded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**23. AMOUNTS DUE TO CUSTOMERS**

<i>In millions of Tenge</i>	2011	2010
Time deposits:	515,066	444,233
Legal entities	91,683	75,958
Individuals	410,304	363,692
Government organizations	13,079	4,583
Current accounts:	205,535	164,662
Legal entities	125,895	99,937
Individuals	66,346	56,287
Government organizations	13,294	8,438
Guarantees and other deposits with restrictive covenants:	16,043	11,511
Legal entities	10,331	5,955
Individuals	5,595	5,451
Government organizations	117	105
Amounts due to customers	736,644	620,406

24. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following as at December 31:

<i>In millions of Tenge</i>	2011	2010
Advances received and deferred income	160,225	124,627
Other taxes payable	121,471	105,586
Due to employees	69,041	41,387
Other	57,412	68,850
	408,149	340,430

As at December 31, 2011 and 2010 other current liabilities were not interest bearing.

25. REVENUE

Revenue comprised the following for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
Sales of refined products	1,848,428	1,407,134
Railway cargo transportation	599,435	489,574
Sales of crude oil	470,620	461,608
Interest revenue	267,951	296,001
Sales of uranium products	263,813	181,542
Oil and gas transportation	222,720	243,028
Sales of gas products	192,154	157,099
Telecommunication services	164,564	144,353
Air transportation	111,009	98,212
Electricity complex	95,111	85,230
Electric energy transmission services	58,463	44,910
Railway passenger transportation	54,308	50,297
Postal services	19,328	17,263
Other revenue	327,132	197,332
Less: sales taxes and commercial discounts	(292,110)	(264,368)
	4,402,926	3,609,215

Other revenue

Other revenue comprises primarily revenue from commissions, revenue from the sale of inventories and rendering of other supplementary services to third parties provided together with main services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**26. GOVERNMENT GRANTS**

According to Resolution of the Government of the Republic of Kazakhstan No. 1188, dated November 11, 2004 "On the approval of subsidies for carrier losses connected with the provision of passenger transportation", beginning from January 1, 2005, National Company "Kazakhstan Temir Zholy" JSC ("NC KTZh") started receiving government grants as a compensations of carriers' losses for socially important destinations. There are no unfulfilled conditions or contingences attached to these grants. The amount of subsidy for the year ended December 31, 2011 was 18,454 million Tenge (2010: 15,409 million Tenge).

According to the Resolution of the Government of the Republic of Kazakhstan No. 1039, dated October 7, 2004 "On the approval of subsidies for telecommunication operators losses connected with the provision of universal telecommunication services in rural areas", beginning from 4th quarter of 2004, Kazakhtelecom JSC started receiving government grants as compensation of operators' losses for socially important destinations. There are no unfulfilled conditions or contingencies attached to these grants. The amount of subsidy for the year ended December 31, 2011 was equal to 5,575 million Tenge (2010: 5,227 million Tenge).

In accordance with Resolution of the Government of the Republic of Kazakhstan No. 915 dated August 17, 2002, the Government provides subsidies to companies rendering air passenger services on unprofitable routes from Astana to other cities in Kazakhstan. The subsidy is based on the excess of flight costs over revenue earned. The amount of subsidy for the year ended December 31, 2011 was 377 million Tenge (2010: 678 million Tenge).

27. COST OF SALES

Cost of sales comprised the following for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
Materials and supplies	1,786,569	1,340,201
Personnel costs	437,999	365,425
Interest expense	264,994	228,454
Depreciation, depletion and amortization	247,398	214,446
Production services rendered	97,432	61,928
Repair and maintenance	91,137	74,592
Mineral extraction tax	89,104	79,335
Rent	31,506	15,195
Other	148,083	135,588
	3,194,222	2,515,164

28. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised the following for the years ended 31 December:

<i>In millions of Tenge</i>	2011	2010
Personnel costs	162,375	147,275
Sponsorship and charitable donations	59,216	24,627
Consulting services	46,744	39,934
Taxes other than income tax	42,527	31,276
Depreciation and amortization	28,901	29,629
Fines and penalties	13,595	5,258
Allowance for doubtful debts	5,025	14,183
Other	80,200	80,043
	438,583	372,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**29. TRANSPORTATION AND SELLING EXPENSES**

Transportation and selling expenses comprised the following for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
Rent tax	149,793	98,007
Transportation	104,907	87,483
Custom duties	51,665	7,590
Personnel costs	18,900	17,960
Depreciation and amortization	11,688	13,209
Commission fees to agents and advertising	11,174	10,800
Other	19,051	17,969
	367,178	253,018

In July 2010, the Government made certain amendments to the customs legislation which resulted in the customs duties paid by the oil production subsidiaries of the Group at 20 US Dollars per ton of crude oil exported in 2010.

Effective January 1, 2011, customs duties paid by the Kazakhstani crude oil production subsidiaries increased to 40 US Dollars per ton from 20 US Dollars per ton of crude oil.

30. IMPAIRMENT LOSS

Impairment loss comprised the following for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
Impairment of loans to customers	146,974	12,074
Impairment of property, plant and equipment and intangible assets	57,254	11,245
Impairment/(Reversal) of investments in joint ventures and associates	23,974	(1,741)
Impairment of financial assets	2,910	3,056
Impairment of goodwill	2,371	—
Impairment of amounts due from credit institutions	599	14,811
Other	(2,047)	9,908
	232,035	49,353

31. OTHER OPERATING INCOME

Other operating income for the year ended December 31, 2011 includes mainly net income from operations with financial instruments carried at fair value through profit and loss in the amount of 32,337 million Tenge (2010: income at 52,517 million Tenge), income from change in the cost of recovery bonds of BTA Bank 12,265 million Tenge (2010: nil), net income from transactions with foreign currencies in the amount of 1,422 million Tenge (2010: 12,874 million Tenge), as well as other non operating income such as income from fines and penalties, income from disposal of other non current assets.

32. OTHER OPERATING EXPENSES

Other operating expenses are mainly presented by other operating expenses of second tier banks, including provision for letters of credit and guarantees in the amount of 5,852 million Tenge (2010: reversal of provision for total amount of 61,748 million Tenge).

Fair value of liabilities of BTA Bank and Alliance Bank as of the date of acquisition was identified assuming best estimate of results from the future debt restructuring of the banks. Other operating expenses for 2010 includes the effect of finalization of the debt restructuring totaling 285,339 million Tenge, that represents the difference between actual gains from debt restructuring and its estimation as of the date of acquisition, including effect of finalization of debt restructuring of BTA Bank of 273,826 million Tenge and effect of finalization of debt restructuring of Alliance Bank of 11,513 million Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**32. OTHER OPERATING EXPENSES (continued)**

The above effect includes fair value of recovery notes of BTA Bank of 116,144 million Tenge that are part of new liabilities after debt restructuring. These securities provide their holders right to receive in cash 50% of actual recovery of impaired assets consisting of impaired assets for recovery, legal claims recovery and tax assets. As of the date of acquisition of BTA Bank (February 2, 2009) fair value of those recovery notes could not be estimated, and, accordingly, those notes were recognized at zero value. Difference of 169,195 million Tenge occurred, mainly, due to difference between discount rates applied to estimate fair value of new liabilities as of the date of acquisition of banks and date of actual debt restructuring, and differences between expected and actual distribution of options between creditors.

Actual results of subsidiary banks' debt restructuring are presented below:

BTA Bank

On May 28, 2010, creditors of BTA Bank JSC, holding 92.03% of the total bank's liabilities, approved debt restructuring plan. On September 1, 2010 BTA Bank successfully completed the process of debt restructuring. As a result of debt restructuring, BTA Bank canceled all previously issued bonds and other liabilities, and has issued new bonds with the fair value of 722,374 million Tenge and paid to creditors 945 million US Dollars in cash, equivalent of 139,010 million Tenge. The sum of distribution amounted to 861,384 million Tenge and net gain on debt restructuring totaled to 853,914 million Tenge.

Also, under the debt restructuring plan, in August 2010 the Fund acquired 44,175,794,956 common shares as a result of converting all of BTA Bank's previously issued debt securities within BTA Bank's first and second bond programs belonging to the Fund. Fair value of converted bonds totaled to 671,472 million Tenge. On August 20, 2010 BTA Bank acquired from the Fund for 1 Tenge 8,179,148,436 of own common shares, which were allocated on August 26, 2010 to creditors on restructuring without repayment. Transaction resulted in the Fund's share on BTA Bank of 81.48% of ordinary shares.

Alliance Bank

On December 15, 2009 creditors of the Alliance Bank JSC, holding 95.1% of the total bank's liabilities, approved debt restructuring plan. On March 26, 2010 the Bank successfully completed the process of restructuring its debt. As a result of debt restructuring, the Bank issued to creditors new debt securities with fair value of 170,078 million Tenge and preferred shares with fair value of debt component of 20,135 million Tenge. Additionally, the bank paid to creditors 73,558 million Tenge. The sum of distribution amounted to 263,771 million Tenge and net gain on debt restructuring totaled to 324,745 million Tenge.

Also, under the debt restructuring plan, in March 2010 the Fund acquired newly issued 4,000,000 common shares and 1,567,164 preferred shares of Alliance Bank for the total amount of 129 billion Tenge. Shares were acquired for cash consideration of 24 billion Tenge and conversion of Alliance Banks bonds of 105 billion Tenge to equity. In accordance with the debt restructuring plan the Fund allocated to the bank's creditors 33% of the bank's common and preferred shares, that resulted in the Fund's share of 67% in common and preferred shares issued.

Temirbank

In March 2010 creditors of the Temirbank JSC, holding 93.7% of the total bank's liabilities, approved debt restructuring plan. On June 30, 2010, Temirbank successfully completed the process of restructuring its debt. According to the restructuring plan, Temirbank's Eurobonds included in liabilities under restructuring were substituted with new Eurobonds with fair value of 98,228 million Tenge and were partially repaid in cash of 22,651 million Tenge. Bank's gain on debt restructuring totaled to 93,768 million Tenge.

Under the debt restructuring plan the Fund acquired 75,933,000 newly issued shares of Temirbank JSC for the total amount of 107,825 thousand Tenge and 15,905,000,000 newly issued ordinary shares of the bank for the total amount of 23,380 million Tenge. External creditors were granted with 19.57% of newly issued shares of Temirbank, that resulted in Fund's share of 79.90%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**33. FINANCE COSTS**

Finance costs comprised the following for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
Interest on loans and debt securities issued	164,602	146,652
Unwinding of discount on provisions and other payables	7,299	7,474
Interest on finance lease obligations	2,814	3,105
Other	19,500	10,759
	194,215	167,990

34. FINANCE INCOME

Finance income comprised the following for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
Interest income on amounts due from credit institutions and cash and cash equivalents	47,119	63,808
Dividend income	6,294	3,637
Income from loans and financial assets	4,688	2,117
Other	8,747	6,044
	66,848	75,606

35. SHARE OF INCOME IN ASSOCIATES AND JOINT VENTURES

Share of income in associates and joint ventures comprised the following for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
TengizChevroil LLP	303,405	192,855
Mangistau Investments B.V.	80,859	23,735
PetroKazakhstan Inc.	48,591	47,732
KazGerMunay LLP	40,117	23,523
KazRosGas JSC	39,396	46,372
JV Katco	19,811	16,802
KazakhOil-Aktobe LLP	15,519	8,015
Ekibastuzskaya GRES-1 LLP ("EGRES-1")	15,443	4,093
Halyk Bank JSC	-	2,265
Kazkommertsbank JSC	-	1,602
Other	48,036	30,126
	611,177	397,120

36. INCOME TAX EXPENSES

Income tax expense comprised the following for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
Current income tax expenses:		
Corporate income tax	116,679	130,600
Withholding tax on dividends and interest income	57,920	51,011
Excess profit tax	20,830	12,119
Deferred income tax expense/ (benefit):		
Corporate income tax	172,038	(166,173)
Withholding tax on dividends and interest income	209	1,137
Excess profit tax	207	49
Income tax expenses	367,883	28,743

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**36. INCOME TAX EXPENSES (continued)**

The main part of deferred income tax expense in 2011 is represented by BTA Bank's income tax expenses (159,644 million Tenge), which arose as a result of increase in unrecognized tax losses carry-forward.

As of December 31, 2011 and 2010, in the Republic of Kazakhstan income tax loss carry forward is allowed for the ten years period from the origin date of the loss.

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate (20% in 2011 and 2010) to income tax expense was as follows for the years ended December 31:

<i>In millions of Tenge</i>	2011	2010
Accounting profit before income tax from continued operations	686,021	636,411
Accounting profit before income tax from discontinued operations	32,491	26,883
Income tax expense on accounting profit	143,702	132,619
Tax effect of items, which are not deductible or assessable for taxation purposes	67,450	42,985
Excess profit tax	20,830	12,119
Withholding tax on dividends	1,433	7,082
Bargain purchase gain on acquisition	191	–
Effect of changes in income tax rates	–	10,715
Effect of different corporate income tax rates	(1,892)	5,707
Losses from impairment of non-current assets	–	2,039
Share of nontaxable profit of subsidiaries and associates	(18,403)	(14,989)
Income tax accounted at different rate	(61,384)	(41,402)
Other differences	6,377	40
Change in unrecognized deferred tax assets	209,579	(128,172)
Corporate income tax expense reported in the consolidated statement of comprehensive income	367,883	28,743

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**36. INCOME TAX EXPENSES (continued)**

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

In millions of Tenge	2011					2010				
	Corporate Income Tax	Excess Profit Tax	Withholding Tax	Total	Corporate Income Tax	Excess Profit Tax	Withholding Tax	Total		
Deferred tax assets										
Property, plant and equipment	2,677	-	-	2,677	4,607	-	-	4,607		
Tax loss carryforward	403,077	-	-	403,077	357,561	-	-	357,561		
Employee related accruals	6,790	646	-	7,436	7,338	635	-	7,973		
Impairment of financial assets	201,583	-	-	201,583	(9,211)	-	-	(9,211)		
Environmental liability	2,190	-	-	2,190	-	-	-	-		
Other accruals	39,843	3,034	-	42,877	98,493	2,421	-	100,914		
Other	12,559	-	-	12,559	27,965	368	-	28,333		
Less: unrecognized deferred tax assets	(545,731)	-	-	(545,731)	(255,096)	-	-	(255,096)		
Less: deferred tax assets offset with deferred tax liabilities	(68,032)	(1,823)	-	(69,855)	(38,596)	(1,772)	-	(40,368)		
Deferred tax assets	54,956	1,857	-	56,813	193,061	1,652	-	194,713		
Deferred tax liabilities										
Property, plant and equipment	293,173	1,823	-	294,996	244,778	3,367	-	248,145		
Undistributed earnings of joint ventures	-	-	35,510	35,510	-	-	35,079	35,079		
Other	37,008	2,007	-	39,015	14,556	-	-	14,556		
Less: deferred tax assets offset with deferred tax liabilities	(68,032)	(1,823)	-	(69,855)	(38,596)	(1,772)	-	(40,368)		
Deferred tax liabilities	262,149	2,007	35,510	299,666	220,738	1,595	35,079	257,412		
Net deferred tax liabilities	(207,193)	(150)	(35,510)	(242,853)	(27,677)	57	(35,079)	(62,699)		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**36. INCOME TAX EXPENSES (continued)**

The movements in the net deferred tax liabilities were as follows for the years ended December 31:

In millions of Tenge	2011				2010			
	Corporate Income Tax	Excess Profit Tax	Withholding Tax	Total	Corporate Income Tax	Excess Profit Tax	Withholding Tax	Total
Balance at 1 January	27,677	(57)	35,079	62,699	194,703	(106)	34,163	228,760
Reporting currency translation	(82)	-	222	140	(1,728)	-	(221)	(1,949)
Charged to other comprehensive income	(66)	-	-	(66)	136	-	-	136
Acquisitions of subsidiaries (Note 5)	7,626	-	-	7,626	739	-	-	739
Charged to profit and loss	172,038	207	209	172,454	(166,173)	49	1,137	(164,987)
Balance at 31 December	207,193	150	35,510	242,853	27,677	(57)	35,079	62,699

As of 31 December, 2011, unrecognized deferred tax assets in the amount of 545,731 million Tenge, mainly, relate to tax loss carryforward of certain subsidiaries of the Fund (2010: 255,096 million Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**37. CONSOLIDATION**

Significant subsidiaries have been included in this consolidated financial statements are presented as follows:

	Ownership percentage	
	2011	2010
National Company "KazMunayGas" JSC ("NC KMG") and subsidiaries	100.00%	100.00%
National Company "Kazakhstan Temir Zholy" JSC ("NC KTZh") and subsidiaries	100.00%	100.00%
National Atomic Company "Kazatomprom" JSC ("NAC KAP") and subsidiaries	100.00%	100.00%
Kazakhtelecom JSC ("KTC") and subsidiaries	51.00%	51.00%
Samruk-Energy JSC ("Samruk-Energy") and subsidiaries	100.00%	100.00%
Kazakhstan Electricity Grid Operating Company JSC ("KEGOC") and subsidiaries	100.00%	100.00%
Air Astana JSC ("Air Astana")	51.00%	51.00%
BTA Bank JSC ("BTA Bank") and subsidiaries	81.48%	81.48%
Alliance Bank JSC ("Alliance Bank") and subsidiaries	67.00%	67.00%
Development Bank of Kazakhstan JSC ("DBK") and subsidiaries	100.00%	100.00%
Entrepreneurship Development Fund "Damu" JSC ("Damu Fund")	100.00%	100.00%
Kazyna Capital Management JSC and subsidiaries	100.00%	100.00%
Zhilstroisberbank Kazakhstan JSC	-	100.00%
Kazpost JSC	100.00%	100.00%
Doszhan Temir Zholy JSC	94.96%	94.96%
Repair Corporation "Kamkor" LLP and subsidiaries	-	100.00%
Investment Fund of Kazakhstan JSC	100.00%	100.00%
National Company "Kazakhstan Engineering" JSC ("Kazakhstan Engineering") and subsidiaries	100.00%	60.99%
Real Estate Fund "Samruk-Kazyna" JSC	100.00%	100.00%
Export-Credit Insurance Corporation "KazExportGarant" JSC (former "State Corporation for Insurance of Export Credit and Investments" JSC)	100.00%	100.00%
Kazakhstan Fund of Guarantee of mortgage loan JSC	-	100.00%
International Airport Aktobe JSC	100.00%	100.00%
Samruk-Kazyna Contract LLP	100.00%	100.00%
SK Pharmacy LLP	100.00%	100.00%
National Mining Company "Tau-Ken Samruk" and subsidiaries	100.00%	100.00%
Kazakh Research Power Engineering Institute named after Chokin JSC	50%+1	50%+1
United Chemical Company LLP and Subsidiaries	100.00%	100.00%
Samruk-Kazyna Invest LLP	100.00%	100.00%
KOREM JSC	100.00%	100.00%
International airport Atyrau JSC	100.00%	100.00%
Airport Pavlodar JSC	100.00%	100.00%
Kazakhstan Center of Investment Assistance "KazInvest" LLP	-	100.00%
Karagandagiproshaht and K LLP	90.00%	90.00%
Temirbank JSC	79.90%	79.90%
KGF SLP	100.00%	100.00%
KGF IM	100.00%	100.00%
KGF Management	100.00%	100.00%
NMC Kazgeology JSC	100.00%	-
SK Finance LLP	100.00%	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**38. SIGNIFICANT NON-CASH TRANSACTIONS**

During 2011 and 2010 the Group transferred to the Shareholder shares of subsidiaries in exchange for the Shareholder's owned shares and other property according to swap agreements (*Note 17.4*). These transactions have been excluded from the consolidated statement of cash flows.

As of December 31, 2011, payables for purchases of property, plant and equipment increased by 25,921 million Tenge (2010: 34,681 million Tenge). This transaction has been excluded from the consolidated statement of cash flows.

In 2011, the Group received purchases of property, plant and equipment with a value of 8,839 million Tenge (2010: 4,190 million Tenge) under finance lease agreements. This transaction has been excluded from the consolidated statement of cash flows.

During 2011 the Group received pledged collateral as a repayment of loans provided to customers. Fair value of those collateral amounted to 9,802 million Tenge (2010: 41,403 million Tenge). This transaction has been excluded from the consolidated statement of cash flows.

During 2011 the Fund received from the Government loans, bearing lower-than-market interest rates (*Note 19*). Discount at initial recognition in the amount of 21,793 million Tenge was recognized in the consolidated statement of changes in equity (2010: 111,144 million Tenge). This transaction has been excluded from the consolidated statement of cash flows.

In 2011, the Group capitalised borrowing costs of 7.626 million Tenge (2010: 571 million Tenge). This transaction has been excluded from the consolidated statement of cash flows.

During 2010 the Fund has completed acquisition of 50% stake in Ekibastuzskaya GRES-1 LLP (*Note 9*).

39. RELATED PARTY DISCLOSURES

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

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

The following table provides the total amount of transactions, which have been entered into with related parties as at December 31:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**39. RELATED PARTY DISCLOSURES (continued)**

<i>In millions of Tenge</i>		Associates	Joint ventures where the Group is a venturer	Other state – controlled entities	Other related parties
Due from related parties	2011	9,565	10,576	1,424	72
	2010	17,776	4,203	9,490	5,023
Due to related parties	2011	29,866	29,622	2,222	912
	2010	17,990	57,523	20,868	822
Sale of goods and services	2011	30,006	134,207	14,867	1,379
	2010	34,913	73,851	1,349	8,755
Purchase of goods and services	2011	77,657	226,160	15,337	24,427
	2010	56,319	76,863	11,311	732
Current accounts and deposits (liability)	2011	689	11	23,309	2,126
	2010	–	–	16,400	2,113
Current accounts and deposits (assets)	2011	14,968	–	526,898	537,254
	2010	3,930	–	512,421	579,431
Loans given	2011	10,824	6,783	2,508	43,803
	2010	9,765	512	778	51,788
Loans received (Note 19)	2011	1,225	–	881,252	151,278
	2010	1,882	–	842,091	52,015
Other assets	2011	32,263	10,420	146,913	12,817
	2010	–	–	112,228	23,391
Other liabilities	2011	472	41,181	17,655	45
	2010	–	–	–	–
Interest received	2011	2,451	114	8,477	15,282
	2010	6,218	377	3,674	23,270
Interest accrued	2011	189	4	55,912	9,897
	2010	1	–	2,801	992

As of December 31, 2011 there were current bank accounts and deposits in the amount of 535,117 million Tenge with Halyk Bank of Kazakhstan JSC, which is considered to be related party of the Group (2010: 561,921 million Tenge).

As of December 31, 2011 loans received from related parties comprised a payable to Halyk Bank of Kazakhstan JSC in the amount of 147,336 million Tenge (2010: 40,464 million Tenge) and loans given to Halyk Bank of Kazakhstan as of 31 December 2011 in the amount of 21,000 million Tenge (2010: 21,000 million Tenge), respectively.

The total amount of dividends from preferred shares received from Halyk Bank of Kazakhstan JSC in 2011 is 2,763 million Tenge (2010: 2,261).

As of December 31, 2011 some of the Group's borrowings of 65,969 million Tenge, were guaranteed by the Government of the Republic of Kazakhstan (2010: 39,451 million Tenge).

Total compensation to key management personnel included in personnel costs in the accompanying consolidated statement of comprehensive income was 8,596 million Tenge for the year ended 31 December 2011 (2010: 6,705 million Tenge). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**39. RELATED PARTY DISCLOSURES (continued)**

As noted above in *Note 26*, the Government provides certain subsidies to the Group's subsidiaries.

During 2011 the Fund received from the Government loans, bearing lower-than-market interest rates. Bonds discount at initial recognition in the amount of 21,793 million Tenge was recognized in the consolidated statement of changes in equity (2010: 111,144 million Tenge) (*Notes 17 and 19*).

40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of borrowings, cash and deposits as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the liquidity risk arising from all financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash, investments and borrowings are denominated.

The Group's exposure to interest risk relates primarily to the Group's long-term and short-term debt obligations with floating interest rates (*Note 18*).

The following table demonstrates the sensitivity of the Group's profit before income tax (through the impact on floating rate borrowings) and equity (through the impact on the fair value of investments available for sale) to a reasonably possible change in floating LIBOR interest rates, with all other variables held constant.

<i>In millions of Tenge</i>	Increase / (decrease) in basis points*	Effect on profit and loss	Other effect on equity
2011			
US Dollar	15/-15	(885)/885	(347)/395
Tenge	15/-15	251/(251)	(641)/644
2010			
US Dollar	+100 / -25	(9,633) / 2,408	(13) / 3
Tenge	+100 / -25	1,077 / (269)	(4,113) / 598

* 1 basis point = 0.01%

Currency risk

As a result of significant borrowings, lease liabilities and trade accounts payable, cash and cash equivalents and accounts receivable denominated in the US Dollars, the Group's consolidated balance sheet can be affected significantly by movement in the US Dollar / Tenge exchange rates.

The following table demonstrates the sensitivity of the Group's profit before income tax to a reasonably possible change in the US Dollar and Euro, with all the variables held constant.

<i>In millions of Tenge</i>	Increase / (decrease) in exchange rate	Effect on profit /loss
2011		
US Dollar	10.72%/(10.72%)	(149,189)/149,189
Euro	16.63%/(16.63%)	(11,293)/11,293
2010		
US Dollar	+11.56% / (11.56%)	(149,652) / 149,652
Euro	+16.65% / (16.65%)	(9,319) / 9,319

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Credit risk**

Credit risk arising from the inability of a party to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group to that party. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset. The Group considers that its maximum exposure is reflected by the amount of loans to customers (Note 10), amount due from credit institutions (Note 11), trade accounts receivable and other current assets (Note 15), other financial assets (Note 12), and VAT recoverable, net of allowances for impairment recognised at the reporting date.

Concentrations of credit risk may arise from exposures to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

Procedures are in force to ensure that sales are only made to customers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimised by the fact that the Group operates on a prepayment basis with the majority of its customers.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table shown below summarises the maturity profile of the Group's financial liabilities at December 31 based on contractual undiscounted payments.

<i>In millions of Tenge</i>	On demand	Due later than 1 month but not later than 3 months	Due later than 3 month but not later than 1 year	Due later than 1 year but not later than 5 years	Due after 5 years	Total
At December 31, 2011						
Loans from the Government	337,181	581	105,445	18,855	998,701	1,460,763
Borrowings	123,005	166,381	438,856	2,220,396	2,698,003	5,646,641
Finance lease liabilities	8	2,645	8,308	16,051	2,755	29,767
Due to customers	307,169	57,889	226,276	232,725	19,498	843,557
Trade and other payables	162,136	106,927	196,203	763	-	466,028
Derivatives	4,995	179	118	41,901	-	47,193
Income tax payable	98	459	2,428	-	-	2,985
Other current liabilities	29,582	20,990	71,205	393,896	189,220	704,893
	954,173	356,051	1,048,839	2,924,587	3,908,177	9,191,827
At December 31, 2010						
Loans from the Government	471,253	520	2,664	15,818	962,525	1,472,801
Borrowings	254,664	330,930	616,182	2,678,631	2,078,547	5,958,954
Finance lease liabilities	26	2,569	8,470	15,041	3,579	29,685
Due to customers	185,708	47,059	195,171	403,884	208,594	1,038,416
Trade and other payables	186,262	118,985	156,308	310	263	462,128
Derivatives	332	764	18	41,648	-	42,760
Income tax payable	861	238	3,213	-	-	4,312
Other current liabilities	58,852	17,590	51,046	364,810	47,670	539,978
	1,157,968	518,655	1,033,092	3,520,140	3,319,179	9,549,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Capital management**

The Group manages its capital primarily through capital management of its subsidiaries while conducting its oversight function. Major objective of the capital management is to ensure that subsidiaries of the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group manages capital of its subsidiaries by setting various performance indicators tailored to the business need and industry specific matters of each subsidiary. Key performance indicators ("KPI") used by the Group to manage capital of its subsidiaries are ratios of: Net Debt to Earnings before Taxes, Depreciation and Amortization, and Interest ("ND/EBITDA"); and Net Debt to Equity ("ND/E"). Net Debt is considered to be equal to all borrowings, debt securities, guarantee and finance lease liabilities of relevant subsidiaries reduced by value of cash and cash equivalents. Equity is considered to be equal to the entire equity of the subsidiary attributable to a majority shareholders.

Allowed maximum for the indicator is approved for each subsidiary based on the needs and specifics of its business and varies within following ranges (consolidated KPI's for the Group have been presented for reference purposes as the Group does not monitor KPI's on the consolidated level):

KPI	2011	2010
ND/EBITDA	3.32	4.04
ND/E	0.80	0.82
<i>In billions of Tenge</i>		
	2011	2010
Borrowings	4,197	4,082
Loans from the Government	870	879
Payable for the acquisition interest in project	321	315
Finance lease liabilities	23	24
Due to customers	737	620
Derivatives	14	78
Others	42	62
Less: Cash and cash equivalents	(1,641)	(1,639)
Net debt	4,563	4,421
Profit before income tax	686	636
Interest on loans and debt securities issued	165	147
Interest on finance lease obligations	3	3
Depreciation, depletion and amortization	289	257
Impairment loss	232	50
EBITDA	1,375	1,093
Total equity	5,730	5,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Fair values of financial instruments**

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

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

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

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

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

<i>In millions of Tenge</i>	Level 1	Level 2	Level 3	December 31, 2011
Financial instruments category				
Available-for-sale financial assets	294,763	155,293	-	450,056
Financial assets at fair value through profit and loss		24,162	14,654	38,816
Trading securities	70,456	20	-	70,476
Derivative financial assets	133	35,691	-	35,824
Derivative financial liabilities	297	13,628	-	13,925

<i>In millions of Tenge</i>	Level 1	Level 2	Level 3	December 31, 2010
Financial instruments category				
Available-for-sale financial assets	514,087	111,042	19	625,148
Financial assets at fair value through profit and loss	1,188	10,930	11,663	23,781
Trading securities	105,120	16,083	-	121,203
Derivative financial assets	-	5,505	-	5,505
Derivative financial liabilities	-	78,017	-	78,017

Reconciliation of the beginning balance and ending balance based on the Level 3 hierarchy of the fair value as at December 31, 2010 is presented as follows:

<i>In millions of Tenge</i>	Available-for-sale financial assets	Financial assets at fair value through profit / loss	Trading securities	Derivative Financial Assets	Total financial assets
As at January 1, 2010	13,373	4,411	5,832	-	23,616
Total profit / (loss) recognized in profit and loss	-	(1,248)	-	-	(1,248)
Acquisition	-	7,006	-	-	7,006
Sale	-	(5,970)	-	-	(5,970)
Repayment	(62)	-	-	-	(62)
Transfer from Level 1 and Level 2	19	1,349	-	-	1,368
Reclassifications to other assets	(298)	-	-	-	(298)
Others	(13,013)	6,114	(5,832)	-	(12,731)
As at December 31, 2010	19	11,662	-	-	11,681
Total profit / (loss) recognized in profit and loss	-	1,167	-	-	1,167
Acquisition	-	4,098	-	-	4,098
Sale	-	(1,226)	-	-	(1,226)
Repayment	-	-	-	-	-
Transfer from Level 1 and Level 2	-	-	-	-	-
Reclassifications to other assets	-	-	-	-	-
Others	(19)	(1,047)	-	-	(1,066)
As at December 31, 2011	-	14,654	-	-	14,654

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Fair values of financial instruments (continued)**

<i>In millions of Tenge</i>	2011	2010
Transfers from, Level 1 to Level 2		
Trading securities	-	507
Total	-	507

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments. The table does not contain fair value of non-financial assets and liabilities:

<i>In millions of Tenge</i>	<i>Carrying value</i>		<i>Fair value</i>	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Financial assets				
Loans to customers	1,739,630	1,776,993	1,748,226	1,799,697
Amounts due from credit institutions	1,048,201	1,343,651	1,048,736	1,343,651
Other financial assets	830,907	963,859	831,688	963,975
Trade accounts receivable	276,552	251,606	276,552	251,606
Cash and cash equivalents	1,640,700	1,639,460	1,640,700	1,639,460
Financial liabilities				
Borrowings	4,196,776	4,082,126	3,905,770	4,049,264
Loans from the Government of the Republic of Kazakhstan	869,715	878,957	966,438	929,163
Finance lease liabilities	22,758	24,196	22,758	24,196
Amounts due to the customers	736,644	620,406	750,940	620,406
Trade and other payables	442,640	460,387	442,640	460,387
Other non-current liabilities	426,703	432,261	426,703	432,261

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

41. COMMITMENTS AND CONTINGENCIES**Legal proceedings***BTA Bank*

BTA Bank is in the process of a legal dispute with Investment Holding Company CJSC ("IHC"), a Kyrgyzstan registered entity.

In June 2009, Central Asia Investment Company LLC ("CAIC"), a Kyrgyzstan registered entity and a 100% subsidiary of IHC, obtained a loan from its parent, IHC, of 8,670,000 pounds with an intended use to purchase Kyrgyzstan state securities, CAIC, in violation of the intended purpose of the loan from its parent, used these funds to purchase bonds of TuranAlem Finance B.V. ("TAF B.V."), BTA Bank's subsidiary, at significant discount on the market. The nominal value of the purchased bonds was 28,395,000 pounds and accrued interest was 2,023,143 pounds. CAIC defaulted on its loan payable to IHC. As a result, IHC filed a lawsuit against BTA Bank, BTA Bank Kyrgyzstan and TAF B.V. claiming a repayment of the full nominal value and interest accrued on debt securities of TAF B.V. In accordance with the decision of Bishkek's district court, Bishkek's municipal Court of appeals and the Supreme Court of Kyrgyzstan dated September 11, 2009 BTA Bank is obliged to pay the full amount and IHC started to collect the funds from BTA Bank, a guarantor on bonds of TAF B.V., including BTA Bank's shares in BTA Bank Kyrgyzstan and amounts due to BTA Bank from BTA Bank Kyrgyzstan. This decision was taken despite the fact that in September BTA Bank was negotiating its debt restructuring.

In December 2009, an officer of the court foreclosed on shares held by the Bank in BTA Bank CJSC, belonging to BTA Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENCIES (continued)****Legal proceedings (continued)***BTA Bank (continued)*

The management of BTA Bank believes that the decision of Kyrgyzstan courts was not in compliance with international laws and legislation between Kazakhstan and Kyrgyzstan. Moreover, the foreclosure was executed with violations of the Law of Kyrgyzstan.

On November 5, 2009 BTA Bank had filed a claim with the Kyrgyzstan Government for compensation of 30,418,143 pounds and 38,891,000 US Dollars for damages incurred as a result of illegal acts of Kyrgyz legal and government entities. Subsequently, a number of claims were filed to the Provisional Government of the Kyrgyz Republic regarding compensation of damage done.

Currently the National Security Service of Kyrgyz Republic initiated and transferred to the court a criminal case on illegal carve-out of shares of BTA Bank Kyrgyzstan CJSC that belong to BTA Bank.

Also, BTA Bank engaged a legal company - advisor to support arbitration proceedings initiated against the Government of the Kyrgyz Republic regarding compensation of damage done.

Taking into account the intention of the Government of the Kyrgyz Republic to endeavour best efforts to reinstate the legal rights of BTA Bank, BTA Bank and the legal adviser took measures to suspend the above international arbitration proceedings. The international litigations have been suspended until June 30, 2012.

As of the date of these consolidated financial statements the management of the Bank could not make a reasonable estimate of possible outcome of this litigation or amount of potential recovery.

Claims at the territory of the Republic of Georgia

In 2007-2009 BTA Bank issued loans to several companies in the Republic of Georgia for the construction of real estate and infrastructure facilities totalling to 173,000,000 US Dollars. The amount approved for financing of these companies totalled to 262,000,000 US Dollars.

One of the borrowers of BTA Bank at the territory of the Republic of Georgia filed a claim against BTA Bank demanding to reimburse for losses in the amount of 500,000,000 US Dollars for the damage caused to business reputation. This claim is in court of the first instance of the Tbilissi City Court and as such has not been examined. BTA Bank believes that the stated claims are not well grounded and should not be fulfilled in case of fair legal proceedings. Two statements for release of encumbrance from real estate pledged in favor of BTA Bank were filed to the Regular Arbitration Court for Civil Disputes. Plaintiffs requested to cancel the respective pledge agreements as well as replace the previously provided pledge for property belonging to other legal entities.

The Regular Arbitration Court for Civil Disputes sustained both statements of claim. Decisions of the court were reasoned by losses incurred by borrowers in connection with short-received amounts agreed by the borrowers with BTA Bank earlier. BTA Bank filed statements of claim to the relevant Georgian judicial agencies (Tbilissi City Court, Tbilissi Court of Appeals) with relevant jurisdiction protesting against the competency of the Regular Arbitration Court for Civil Disputes (objection to jurisdiction) as well as objecting to facts stated by the plaintiff on the merits of a dispute and requiring to set aside the awards. All applications of BTA Bank were dismissed by relevant judicial agencies of Georgia. The awards took effect and led to the loss by BTA Bank of a collateral amounting to 31,592,400 US Dollars.

Rompetrol Rafinare S.A. (subsidiary of NC KMG)

In 2010, various legal actions have been initiated by the Romanian State represented by the Ministry of Public Finance and ANAF against or in connection with the convertible debt instrument settlement by Rompetrol Rafinare S.A. in 2010. As discussed in Note 17.5, management believes the legal actions against the Group have no legal grounds and the Group will succeed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENCIES (continued)****Environment liabilities**

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Other than those amounts provided for in provisions (*Note 21*) management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Group's consolidated statement of comprehensive income or consolidated statement of cash flows.

Environmental obligations of NAC KAP

In accordance with "the Implementing Agreement between the Department of Energy of the United States of America and the Ministry of Energy, Industry and Trade of the Republic of Kazakhstan " dated December 19, 1999, the governments of the United States of America and Kazakhstan have assumed responsibility for decommissioning reactor BN – 350, which is owned by KAP, and for storing the reactor's nuclear fuel rods. Under the Agreement, the US Government has undertaken the responsibility to obtain financing from international organizations including Technical Assistance for CIS countries (TACIS) of the European Union, Precioso (France), Canberra (Belgium), and ALSTOM (France), and domestic not-for-profit organizations, Scientific Production Centre BYaT and KATEP JSC. The estimated commitments for decommissioning and reclamation of the atomic reactor BN-350 in its entirety are 35 billion Tenge. The Government of the Republic of Kazakhstan does not grant this amount; therefore, the issue on further financing of program of decommissioning BN-350 has not been solved yet.

Commodity price risk

The Group generates most of its revenue from the sale of commodities, primarily crude oil and oil products. Historically, the prices of these products have been volatile and have fluctuated widely in response to changes in supply and demand, market uncertainty, the performance of the global or regional economies and cyclicity in industries.

Prices may also be affected by government actions, including the imposition of tariffs and import duties, speculative trades, an increase in capacity or an oversupply of the Group's products in its main markets. These external factors and the volatility of the commodity markets make it difficult to estimate future prices.

A substantial or extended decline in commodity prices would materially and adversely affect the Group's business and the financial results and cash flows of operations. The Group does not hedge significantly its exposure to the risk of fluctuations in the price of its products.

Insurance matters

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

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expended to date and accrued at December 31, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENCIES (continued)****Taxation (continued)**

As at December 31, 2011 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for in these consolidated financial statements (*Notes 4 and 22*).

Allowances against assets placed with BTA Bank JSC

In September 2010, the Tax Committee of Astana initiated integrated tax audit of the Fund's activities for 2009. During the tax audit the tax authorities raise question on deductibility of Provisions for corporate income tax purpose for 2009. As at the date of these financial statements the Fund did not received the tax audit act yet.

The Decree of the Government No. 2275 dated December 30, 2009 approved the Rules of "allocation of assets and contingent liabilities to the category of doubtful and bad by the national management holding, and by legal entities that are mainly engaged in borrowing transactions and repurchase of accounts receivable and 100% of voting shares (share of participation) of such entities belong to the national management holding, and they have the right to deduct provision (reserve) expenses against doubtful and bad assets, contingent liabilities, apart from assets and contingent liabilities provided in favour of related parties, or third parties on obligations of related parties (apart from assets and contingent liabilities of credit cooperatives) ("Rules").

In accordance with the Rules, the Fund formed and deducted for corporate income tax purposes provisions on assets placed in BTA Bank JSC in the amount of 846,748 million Tenge

The Fund's management believes that as at December 31, 2011 its interpretation of applicable legislation (including Rules) is appropriate and the Fund's position on deduction of these provisions will be sustained. Accordingly, the Fund did not recognize any provisions associated with possible accruals by tax authorities in these consolidated financial statements.

Transfer pricing control

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on a market price determined in accordance with the arm's length principle.

The new law on transfer pricing came into effect in Kazakhstan from January 1, 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest at December 31, 2011.

As at December 31, 2011 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Tax commitments of Georgian entities

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

The Georgian subsidiaries of NC KMG have significant transactions with foreign subsidiaries of NC KMG as well as amongst each other. These transactions fall within the definition of transactions between related parties and may be challenged by tax authorities of Georgia.

Management of the Group believes that it has sufficient evidence to support that pricing of transactions between entities of NC KMG is at arm's length, however due to absent legislative basis for determination of market prices tax authorities might take position different from that of the NC KMG.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENCIES (continued)****Antitrust legislation**

The Group conducts transactions in refining and trading segments which are subject to antitrust and competition legislation control in the Republic of Kazakhstan and the European Union.

In 2011, the Group recorded a provision of 7,794 million Tenge (2010: nil) for losses relating to probable risks on non-compliance with the antitrust legislation in the Republic of Kazakhstan.

On January 9, 2012, following the deliberation in December 2011, the Romanian Competition Council decided that Rompetrol Downstream S.R.L., a subsidiary of TRG, breached article 5 of the Competition Law and article 101 of the Treaty for the Functioning of the European Union and imposed a fine in the amount of RON 159,553,612 (46.8 million US Dollars or 6,945 million Tenge at the year-end exchange rates). The Group believes that all the charges are without any legal merit as Rompetrol Downstream S.R.L. did not take part in the meetings in which this topic was discussed, did not receive correspondence in which it was announced that other firms actually took a decision in this respect, did not answer to the questions regarding its own conduct and had an independent conduct on the market – there was therefore no illegal cooperation by removing the risks of competition by adopting a joint plan.

Commitments under oilfield licenses and contracts

As of December 31, 2011 the Group had following commitments on fulfilment of minimal work programs with respect to the requirements of its oilfield licenses and related subsoil use contracts with the Government (in millions of Tenge):

Year	Capital expenditures	Operational expenditures
2012	151,538	36,011
2013	33,460	32,472
2014	154,287	52,906
2015	3,359	30,305
2016-2024	26,694	211,527
Total	369,338	363,221

Local market obligations

The Kazakhstan Government requires oil producers and oil trading companies to supply a portion of their crude oil and oil products to meet domestic energy requirement on an annual basis, mainly to maintain oil products supply balance on the local market and to support agricultural products producers during the spring and autumn sowing campaigns. Local market oil prices are significantly lower than export prices and even lower than the normal domestic market prices determined in an arm-length transaction. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Group, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Group's business, prospects, financial condition and results of operations.

In 2011, in accordance with its obligations, the Group delivered 2,811,271 tons of oil (2010: 3,159,150 tons) on the domestic market.

Other contractual commitments

As of December 31, 2011 the capital commitments of the Group under the contracts on acquisition of plant, property and equipment amounted to 46,567 million Tenge (2010: 61,397 million Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENCIES (continued)****Capital commitments***KTZh*

As at December 31, 2011, KTZh had committed to contracts for the construction of "Uzen – State border with Turkmenistan" and "Khorghos – Zhetigen" railways, the treatment-rehabilitation center in Astana, the primary backbone transport communication net, the plant for production of passenger wagons in Astana, the capital repair of railways, the activities related to expansion of Dostyk station, and the purchase of passenger wagons totaling 467,859 million Tenge (2010: 182,808 million Tenge). This amount includes commitments for purchase of passenger wagons from joint venture Electric locomotives assemble plant LLP for the amount of 296,299 million Tenge with supply till December 31, 2020 and also commitments for purchase of passenger wagons from joint venture Tulpar-Talgo LLP for the amount of 55,726 million Tenge with supply till December 31, 2014.

KMG RM and TRG

As of December 31, 2011 KMG RM's and TRG's capital commitments in oil peocessing projects were 419,530 million Tenge (2010: 146,102 million Tenge). Mainly, these contracts relates to the construction of aromatic hydrocarbons plant and the projects related to capacity increase and compliance of refinery with Euro standards.

Kashagan

At December 31, 2011 Kashagan had capital commitments to purchase, construct or develop undivided interest in exploration and appraisal assets and development oil and gas assets of 1,070,559 thousand US Dollars equivalent to 158,871 million Tenge (2010: 1,295,711 thousand US Dollars, or 190,981 million Tenge).

KEGOC

At December 31, 2011 KEGOC JSC had capital commitments on the projects of construction the electricity transmissions, transmission lines and electricity transmission rehabilitation project in the amount of 56,140 million Tenge (2010: 19,347 million Tenge).

Air-Astana

During 2008-2010 Air-Astana signed an agreement with Airbus and Embraer to purchase six and two narrow-body aircrafts with the last payments due in 2013 and 2012, respectively. The Group repays advance payments in accordance with agreed table of payments. The terms of the contracts do not allow disclosing information on the purchase cost of the aircrafts.

Kazyna Capital Management JSC

As at December 31, 2011 total investment commitments to investment funds amounted to 66,114 million Tenge (2010: 66,488 million Tenge). Financing under these commitments are to be made upon demand of investment funds over a investment period of between three and five years.

Real Estate Fund "Samruk-Kazyna" JSC ("Real estate Fund")

As at December 31, 2011 the Fund had contractual commitments amounting to 2,532 million Tenge under agreements with construction companies (2010: 31,910 million Tenge).

KazTransGas JSC ("KTG", subsidiary of NC KMG)

Under the terms of the concession agreement, KTG has an obligation to invest 30 million US Dollars each year for the improvement and repair of the gas transportation assets transferred and for investments in new gas transportation assets. In accordance with the terms of the concession agreement, KTG will be reimbursed for the net book value of the above investments at the time the concession agreement expires. As of December 31, 2011 KTG had approximately 34,102 million Tenge in contractual commitments related to this investment obligation (2010: 47,371 million Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENCIES (continued)****Capital commitments (continued)***Kyrgyz By-Pass (KTG)*

KTG is obliged, subject to certain conditions, which include tariff recovery, to design and construct the Kyrgyz By-Pass at a cost, which was estimated in the concession agreement, of approximately 90-100 million US Dollars (13,275 – 14,750 million Tenge). However, the new domestic tariffs which, per the concession agreement, are a precondition for the commencement of construction of the Kyrgyz By-Pass, have not been published as of December 31, 2011.

Operating lease commitments

Operating lease commitments relate mainly to aircraft lease with the lease term from 5 to 10 years. All operating lease contracts contain market review clauses in the event that Air Astana exercises option to renew. Air Astana does not have the option to purchase leased assets at the expiry of lease period.

As at December 31, operating lease commitments were as follows:

<i>In millions of Tenge</i>	2011	2010
Within one year	20,043	18,865
From one to five years	28,122	37,192
Over five years	12,493	8,187
Total	60,658	64,244

Operating lease commitments include fixed rental payments and certain portion of payments for technical support which vary according to flying hours.

The fixed and variable rental payments are denominated and settled in US Dollars. This currency is routinely used in international commerce for aircraft operating leases.

Kazakhtelecom license commitments

Under the terms of certain licenses on the provision of wireless telecom services, Kazakhtelecom has certain obligations in terms of coverage area of its network. Kazakhtelecom is obliged to expand the cellular telecommunication coverage to the regions along the major highways and small-sized towns and urban-type communities of the Republic of Kazakhstan. The Group's management believes that Kazakhtelecom is in compliance with the terms of the licenses.

Commitments to extend loans, guarantees, letters of credit and other commitments related to settlement operations

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities and are cancellable on certain conditions.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENCIES (continued)****Commitments to extend loans, guarantees, letters of credit and other commitments related to settlement operations (continued)**

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

<i>In millions of Tenge</i>	2011	2010
Contracted amount		
Loan, credit line and finance lease commitments	342,751	359,192
Guarantees	86,302	97,700
Letters of credit and other commitments related to settlement operations	110,038	112,781
Less: Guarantees and deposits with restrictive covenants	(9,559)	(7,895)
Less: Provision for bank letters of credit and guarantees (Note 21)	(6,136)	(540)

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded, as well the Group could request collateral for credit instruments.

Trust management

Certain subsidiaries of the Group provide trust management services to individuals, trust companies, pension funds and other organizations, specifically it manages assets or invests received funds into different financial instruments in accordance with customer instructions. The Group receives commission fee for such services. Assets received for trust management are not assets of the Group, accordingly, they are not reflected in its consolidated balance sheet. The Group does not bear credit risk when conducting such investments, since it does not issue guarantees against said investments.

General Prosecutor Office of the Republic of Kazakhstan criminal investigation (Kashagan)

On the November 9, 2007, the General Prosecutor Office of the Republic of Kazakhstan ("GPO") notified the previous operator of an ongoing criminal investigation in relation to the award of contracts in respect of the main onshore constructions: contract No. 2004-0504 to North Caspian Constructors N.V. ("NCC") and contract No. 2005-0584 to Overseas International Constructors GmbH ("OIC"). The criminal investigation was initiated by the GPO to ascertain whether the previous operator staff unreasonably overestimated the cost of construction and installation works for the oil and gas onshore processing facility by 336 million US Dollars or 49,526 million Tenge and misused its powers to enter into a fictitious contract with OIC to facilitate the embezzlement of the Contractor's assets. In particular the GPO resolved that a criminal case be initiated against the previous operator staff on Article 177 of the Republic of Kazakhstan Criminal code.

During 2008 a resolution was issued by the GPO for assignment of an expert judicial review due to the large scope of the contracts. The previous operator issued an appeal in November 2008 for withdrawing this resolution. The response received from the relevant department in early January 2009 was that currently they were evaluating the task and the resources it required to undertake the above judicial review. On July 13, 2009, the expert judicial review was completed and failed to provide sufficient information to the Finance Police to make any decision on the merits of the matter. The Finance Police then ordered that the expertise be repeated. To this end, the previous operator has supplied the relevant and requested documentation and continues to cooperate with the authorities.

Management of the Group believes that the allegations of GPO made are without merit. In the unlikely event that allegations are ultimately proved to be correct, management's assessment of the potential exposure is limited to the cost recoverability of the expenses incurred in relation to the OIC contract approximately equal to 112 million US Dollars or 16,621 million Tenge (Kashagan's share approximately equals to 18.8 million US Dollars or 2,790 million Tenge) and to the deductibility of the expenses for corporate income tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENCIES (continued)****The National Security Committee investigation**

In 2009, the National Security Committee of the Republic of Kazakhstan, under supervision of the General Prosecutor, commenced an investigation against the former Chief Executive Officer of KazAtomProm and other former employees of KazAtomProm and its subsidiaries. The investigation related to allegations mainly concerned with asset embezzlement and illegal sale of certain uranium deposits to affiliated offshore companies. On March 12, 2010 the court sentenced the former chief executive to 14 years imprisonment. The prosecutor's office announced in March 2010 that there was a new investigation into allegations that the former chief executive was involved in money laundering. Further investigations may be initiated. The management believes that these investigations and allegations do not have any effect on KazAtomProm's financial statements, as they are initiated against former management and not KazAtomProm.

Liabilities under Stabilization Plan

The Fund was assigned as the Government's main operator in implementation of the Stabilization Plan approved by the Government in 2008 (*Note 1*). As at December 31, 2011 commitments for measures on financial sector stabilization and small and medium business support were accomplished.

Settlement of real estate market issues

The Government made a decision to provide funds for stabilization of real estate market. The Government assigned the Fund to place deposits with second-tier banks and provide direct financing to construction companies. As at December 31, 2011 commitment to provide financing for completion of ongoing construction and acquisition of completed housing through the Fund and its subsidiaries amounted to 1,442 million Tenge (2010: 33,784 million Tenge).

Implementation of innovation, industrial and infrastructure projects

As at December 31, 2011 115,000 million Tenge were contributed to the share capital of Development Bank of Kazakhstan JSC for the purposes of financing of innovation, industrial and infrastructure projects. As at December 31, 2011 Fund's commitments to provide financing to innovation, industrial and infrastructure projects amounted to 5,000 million Tenge.

Approved projects for implementation of innovation, industrial and infrastructural projects amounted to 55,980 million Tenge. As at December 31, 2011 commitments of Development Bank of Kazakhstan JSC on financing of innovation, industrial and infrastructural projects amounted to 59,020 million Tenge.

42. SEGMENT REPORTING

For management purposes, the Group is organized into organizational business units based on their products and services, and has six reportable operating segments as follows:

Oil and Gas segment includes operations related to exploration and production of oil and gas, transportation of oil and gas and refining and trading of crude oil and refined products.

Mining and industrial segment is engaged in exploration, mining, processing and sales of uranium, beryllium, tantalum and other solid materials, military industry enterprises and civil machine industry, projects for the development of chemical industry and geological exploration.

Transportation segment includes operations related to railway and air transportation of cargo and passengers.

Telecommunication segment includes operation of fixed line communication, including local, long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and also rent of lines, data transfer services and wireless communication services.

Energy segment includes operations related to production and distribution of electricity, function of oversight over the input of electricity into the energy system and consumption of imported electricity, function of centralised operation and dispatch of facilities in the Unified Electricity System of the Republic of Kazakhstan.

Financial and Innovation Institutions segment includes operations related to development and stimulation of investment and innovation activities in all segments of the economy of Republic of Kazakhstan.

The operations of Samruk-Kazyna were included in the segment of Corporate center and projects.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**42. SEGMENT REPORTING (continued)**

Certain of the above-mentioned reportable segments have been formed by aggregation of smaller reportable segments in line with the organizational structure of the Group. Each reportable segment maintains its accounting records in line with IFRS. Financial performance of each segment prepared in line with IFRS is reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance.

The following table represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2011:

<i>In millions of Tenge</i>	Oil and Gas	Mining and Industrial	Transportation	Telecom-munication	Energy	Financial and Innovation Institutions	Corporate center and projects	Elimination	Total
Revenues from sales to external customers	2,600,312	335,347	780,775	184,564	129,312	288,065	74,551	-	4,402,928
Revenues from sales to other segments	26,750	18,231	11,743	5,075	11,508	69,814	112,801	(255,922)	-
Total revenue	2,627,062	353,578	802,518	189,639	140,820	357,879	187,352	(255,922)	4,402,928
Gross profit	789,342	92,218	252,800	55,400	32,153	38,819	33,844	(61,466)	1,233,110
General and administrative expenses	(160,072)	(21,691)	(78,008)	(22,018)	(12,854)	(105,684)	(44,108)	5,852	(438,683)
Transportation and selling expenses	(350,701)	(3,779)	(6,771)	(4,638)	(291)	(18)	(1,842)	862	(367,178)
Finance income	45,600	5,699	6,337	3,996	2,538	2,982	63,973	(64,267)	66,848
Finance cost	(171,313)	(12,309)	(22,865)	(9,503)	(7,468)	(1,438)	(176)	30,857	(194,215)
Share of income in associates and joint ventures	534,623	43,983	69	(3)	25,467	7,038	-	-	611,177
Foreign exchange gain / (loss), net	(9,987)	(414)	(1,709)	(107)	1,259	(12,913)	32	(54)	(23,893)
Depreciation, depletion and amortization	(146,708)	(16,328)	(63,643)	(38,931)	(14,437)	(6,623)	(318)	-	(287,988)
Impairment of loans issued	(14)	-	-	-	-	(146,816)	(943)	799	(146,974)
Impairment of loans issued to banks	-	-	-	-	-	(589)	(282,068)	282,068	(589)
Impairment of other assets	(60,583)	(3,320)	9,336	(2,554)	(17)	(26,853)	(307,193)	306,742	(84,462)
Provision charges	11,036	5,572	29,636	21	7,334	5,966	-	-	59,465
Income tax expense	(153,131)	(17,553)	(35,780)	(4,302)	(5,104)	(141,819)	(10,194)	-	(367,883)
Net profit for the period from continuing operations	482,548	80,591	129,152	18,096	38,515	(389,428)	(513,881)	472,555	318,138
Net profit for the period from discontinued operations	-	-	-	33,073	-	-	(532)	-	32,491
Total net profit for the period	482,548	80,591	129,152	51,119	38,515	(389,428)	(614,413)	472,555	350,629
<i>Other segment information</i>									
Total assets of the segment	6,181,016	653,786	1,767,920	461,835	661,962	3,628,629	4,125,542	(4,067,309)	13,413,405
Total liabilities of the segment	3,020,860	277,728	771,842	169,721	247,481	3,667,810	1,592,738	(2,064,376)	7,683,802
Allowances for doubtful accounts receivable	3,636	272	1,161	(281)	(206)	502	-	(59)	5,025
Investments in associates and joint ventures	919,154	105,018	4,940	24	176,741	89,105	-	-	1,294,982
Capital expenditures	455,531	33,919	347,228	46,824	73,631	31,020	27,471	(5,854)	1,019,770

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**42. SEGMENT REPORTING (continued)**

The following table represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2010:

In millions of Tenge	Oil and Gas	Mining and Industrial	Transportation	Telecommunications	Energy	Financial and Innovation Institutions	Corporate center and projects	Elimination	Total
Revenues from sales to external customers	2,083,257	229,817	656,331	161,629	110,651	306,601	60,929	-	3,609,215
Revenues from sales to other segments	15,696	16,870	85,779	4,699	11,140	76,055	282,647	(492,876)	
Total revenue	2,098,943	246,687	742,110	166,328	121,791	382,656	343,576	(492,876)	3,609,215
Gross profit	689,941	66,836	207,887	45,097	28,671	54,493	228,484	(206,014)	1,115,365
General and administrative expenses	(136,181)	(17,009)	(64,664)	(23,097)	(9,886)	(118,880)	(12,869)	12,381	(372,225)
Transportation and selling expenses	(236,739)	(2,727)	(6,035)	(4,365)	(369)	-	(1,458)	675	(253,018)
Finance income	56,671	5,536	4,390	3,263	4,323	769	46,978	(48,324)	75,606
Finance cost	(152,577)	(10,187)	(15,941)	(9,710)	(7,678)	(2,038)	-	30,141	(167,990)
Share of income in joint ventures and associates	343,176	37,690	245	-	7,542	8,567	-	-	397,120
Foreign exchange gain/(loss), net	(5,740)	406	(212)	592	866	21,909	585	330	18,736
Depreciation, depletion and amortization	(131,142)	(10,938)	(54,952)	(38,232)	(12,343)	(9,447)	(247)	18	(257,283)
Impairment of loans issued	(1,120)	-	-	-	-	(1,498)	(11,641)	2,185	(12,074)
Impairment of loans issued to banks	-	-	-	-	-	(2,056)	-	(12,755)	(14,811)
Impairment of other assets	(11,117)	(1,232)	(9,240)	(879)	504	(324)	(701,493)	700,603	(23,178)
Provision charges	33,536	20,361	30,706	40	1,180	(81,597)	-	-	24,226
Income tax expense	(132,675)	(13,244)	(44,637)	(5,190)	(4,661)	168,491	(15,407)	18,580	(28,743)
Net profit for the period from continuing operations	397,035	59,940	74,901	7,069	20,786	(159,939)	(309,535)	517,411	607,668
Net profit for the period from discontinued operations	-	-	-	26,883	-	(200)	-	-	26,683
Total net profit for the period	397,035	59,940	74,901	33,952	20,786	(160,139)	(309,535)	517,411	634,351
Other segment information									
Total assets of the segment	5,752,399	558,499	1,421,531	403,759	530,911	4,060,210	4,652,269	(4,585,270)	12,815,308
Total liabilities of the segment	3,021,046	258,947	619,613	156,669	198,983	3,709,837	1,478,114	(2,060,215)	7,392,894
Allowances for obsolete inventories, doubtful accounts receivable and doubtful VAT recoverable	3,214	108	1,031	2,240	(587)	9,403	-	(225)	14,184
Investments in associates and joint ventures	696,881	75,178	2,777	53,812	159,334	109,095	-	-	1,096,077
Capital expenditures	444,932	27,013	205,608	42,846	59,782	14,137	5,010	(469)	788,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**43. SUBSEQUENT EVENTS****Contribution to the share capital of the Fund**

In the first half of 2012, the Government has contributed to the charter capital of the Fund 36,154 million Tenge. Contributions have been made in the form of property and cash.

Operating activity

In February 2012, the Air Astana JSC signed an agreement with Boeing to purchase three Boeing-787 and four Boeing 767 aircraft. The fourth Boeing 767 is subject to purchase reconfirmation by the Air Astana JSC in September 2012. Air Astana JSC is committed to pre-delivery payments in accordance with the agreed payment schedule.

On February 20, 2012 a decision was made to suspend the activities of Kazakhstan Growth Fund (KGF). The issue of transfer of KGF investment portfolio and liabilities to a different fund is currently under consideration. In this connection, as at the suspension date the Group measured the fair value of investments to the fund under the net asset value method and recognized the loss from change in the fair value of investments in this fund in the amount of 472 million Tenge.

Since April 1, 2012 the Agency on Regulation of Natural Monopolies of the Republic of Kazakhstan conformed and approved to the Group an increase of tariffs on railway cargo transportation on average by 15%.

Since January 1, 2012 Air Astana increased fuel collection on international routes to 40% in connection with sharp rise in prices on aviation kerosene. Since April 5, 2012 with a purpose to compensate price increase on aviation kerosene the fuel collection is introduced, which will result in the increase in prices on air tickets for internal routes of the "Air Astana" airline on average by 16%.

Changes in the structure of the Group

On January 25, 2012, GSM Kazakhstan, the associate, declared dividends related to prior periods to be paid to the Group Kazakhtelecom JSC in the amount of 34,723 million Tenge during 2012, 8,681 million of which was received in March 2012.

On February 1, 2012, the Group Kazakhtelecom JSC completed the sale of its associate, GSM Kazakhstan, for consideration of 1,519 million US Dollars (equivalent to 225,739 million Tenge).

In April 2012, the transaction on sale of 75% of shares of Balkhashskaya TES was completed for the cash consideration in the amount of 7,557 million Tenge.

Loans

On January 19, 2012 the Fund issued loans to "Kazakhmys Finance PLC" in the amount of 200 million US Dollars for the financing of the project on development of copper minefields at Bozshakol, Kazakhstan. The loan was financed by proceeds of the loan facility of State China Development Bank in January of 2012.

Borrowings

In February 2012 NAC Kazatomprom JSC and Astana Solar LLP concluded loan agreement with Bank of Tokyo Mitsubishi UFJ for 80.4 million euro (equivalent to 15,962 million Tenge) for a period of 12 years for the purposes of financing equipment purchase for the strategic investment project.

Pavlodar Petrochemistry Plant JSC (a subsidiary of KMG) entered into loan agreements with Halyk Bank of Kazakhstan for the total amount of 20,969 million Tenge.

In February 2012, in order to promote financial stability of the Group, Management Board of the National Fund of the Republic of Kazakhstan (the "Board") made a decision to change the terms of bonds, received from the National Fund of the Republic of Kazakhstan and placed in National Bank of the Republic of Kazakhstan (*Note 19*). According to this decision the term of the bonds will be prolonged to 2062 and interest will be decreased to 0.01%.

Also, the Board made a decision to provide bonds to NC KMG from National Fund of the Republic of Kazakhstan in the amount of 2.5 billion US Dollars in 2013 with maturity in 2028 and 1.5 billion US Dollars in 2015 with maturity in 2035 with interest of 3%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**43. SUBSEQUENT EVENTS (continued)****Financial position of BTA Bank**

On January 18, 2012 BTA Bank defaulted on senior bonds, bonds with discount and subordinated bonds due to the fact that BTA Bank did not pay the amount of accrued interest on January 3, 2012.

On February 6, 2012 BTA Bank formed creditors committee. The committee includes Ashmore Investment Management Limited, Asian Development Bank, D.E. Shaw Oculus International Inc., D.E. Shaw Laminar International Inc., Gramercy Funds Management LLC, J.P. Morgan Securities Ltd., Nomura International plc, Swedish Export Credits Guarantee Board – EKN, The Royal Bank of Scotland plc (representative of RCTFF participants), and VR Capital Group Ltd.

On April 23, 2012 BTA Bank declared on suspension of payments related to recovery obligations, which conceives the event of default on these obligations. As a result, on April 28, 2012 BTA Bank received a notification from Bank of New York Mellon Corporate Trustee Services Limited acting as a trustee of recovery obligations owners on early settlement of recovery obligations with an initial total amount of 5,221,494,216 US Dollars.

On May 2, 2012 BTA Bank appealed to the Specialized finance court of Almaty with a request on the start of debt restructuring in accordance with the laws of the Republic of Kazakhstan. On May 8, 2012 the Specialized finance court of Almaty approved BTA Bank's request on debt restructuring. BTA Bank will receive a legal defense during the restructuring process in the Republic of Kazakhstan.

Other Events

As part of its common share and GDR buyback program, between January 1, 2012 and March 26, 2012, E&P KMG repurchased 2,197,086 GDRs and 2,028 common shares at an aggregate value of 5,499 million Tenge.

In the first quarter of 2012 the Temirbank repurchased 1,002,062 pieces of own preferred shares with the total carrying amount of 1,000 million Tenge for 772 million Tenge.

Since January 2012 Halyk Bank of Kazakhstan JSC and its subsidiaries - members of Halyk Group - are not related parties of the Group.

On January 19, 2012 the Decree of the Government of the Republic of Kazakhstan No. 139 approved final order of distribution of the Fund's net income for 2010 in the amount of 9,077 million Tenge and settled prepayment of dividends (*Note 15*).