

Sovereign Wealth Fund “Samruk-Kazyna” JSC

Consolidated Financial Statements
Year ended December 31, 2008
with Independent Auditors' Report

CONTENT

	Page
Independent Auditors' Report	
Consolidated Financial Statements	
Consolidated Balance Sheet.....	1-2
Consolidated Income Statement	3
Consolidated Statement of Changes in Equity.....	4
Consolidated Statement of Cash Flow	5-6
Notes to the Consolidated Financial Statements.....	7-61

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 (the "Group"), which comprise the consolidated balance sheet as of December 31, 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

The accompanying consolidated financial statements do not present the corresponding information as required by IAS 1.

Opinion

In our opinion, except for the effect on the consolidated financial statements of the matter referred to in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG LLP

Ernst & Young LLP



Elshad Aliyev
Audit Partner



Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP



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

Auditor Qualification Certificate
№0000553 dated 24 December 2003

19 June 2009

CONSOLIDATED BALANCE SHEET

As at December 31, 2008

<i>In thousands of Tenge</i>	Notes	2008
ASSETS		
Non-current assets		
Property, plant and equipment	6	3,984,170,539
Intangible assets	7	116,801,586
Investments in associates	8	177,487,307
Loans to customers	9	169,712,749
Amounts due from credit institutions	10	142,506,747
Deferred tax asset	35	13,321,196
Note receivable from the shareholder of a joint venture	21	9,431,009
Long-term financial assets	11	108,481,286
Long-term bank deposits	12	37,606,677
Other non-current assets	13	100,566,334
		4,860,085,430
Current assets		
Inventories	14	169,377,704
VAT recoverable		85,192,231
Income tax prepaid	35	32,593,045
Trade accounts receivable	15	151,983,234
Loans to customers	9	24,307,838
Amounts due from credit institutions	10	28,102,547
Short-term financial assets	11	91,169,145
Short-term bank deposits	12	590,785,603
Other current assets	15	132,008,589
Cash and cash equivalents	16	1,506,080,120
		2,811,600,056
Assets classified as held for sale		1,160,225
TOTAL ASSETS		7,672,845,711

Managing Director - Member of the Management Board



Kairat Aitekenov

Chief accountant

Almaz Abdrakhmanova

The accounting notes on pages 7 to 61 are an integral part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET (continued)

As at December 31, 2008

<i>In thousands of Tenge</i>	Notes	2008
EQUITY AND LIABILITIES		
Equity attributable to equity holder of the parent		
Share capital	17	3,458,923,009
Revaluation reserve for available-for-sale investments		(9,620,292)
Currency translation reserve		(28,242,096)
Other capital reserves		11,920,441
Retained earnings		270,036,775
		3,703,017,837
Minority interests		554,321,327
Total equity		4,257,339,164
Non-current liabilities		
Borrowings	18	1,694,800,480
Loan from Government	19	40,791,195
Payable for the acquisition interest in project	20	239,500,799
Payable to the shareholder of a joint venture	21	163,451,870
Finance lease liabilities	22	18,423,140
Provisions	23	74,531,968
Deferred tax liability	35	219,051,735
Employee benefit liability	24	21,058,786
Derivatives		7,466,031
Other non-current liabilities		28,887,895
		2,507,963,899
Current liabilities		
Borrowings	18	287,704,627
Loan from Government	19	796,024
Finance lease liabilities	22	6,372,272
Provisions	23	42,130,247
Employee benefit liability	24	1,439,383
Income taxes payable	35	67,371,986
Trade accounts payable		269,358,734
Put option liability	25	14,895,525
Derivatives		115,802
Other current liabilities	26	217,358,048
		907,542,648
Liabilities associated with assets classified as held for sale		-
Total liabilities		3,415,506,547
TOTAL EQUITY AND LIABILITIES		7,672,845,711

Managing Director - Member of the Management Board



Kairat Aitekenov

Chief accountant

Almaz Abdrakhmanova

The accounting notes on pages 7 to 61 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2008

<i>In thousands of Tenge</i>	Notes	2008
Revenue	27	3,340,461,948
Government grants	28	14,979,137
		3,355,441,085
Cost of sales	29	(2,003,875,432)
Gross profit		1,351,565,653
General and administrative expenses	30	(301,354,826)
Transportation and selling expenses	31	(216,001,926)
Gain on disposal of subsidiaries		2,839,531
Write-off of exploratory dry wells	6	(3,494,522)
Loss on disposal of property, plant and equipment, net		(1,228,925)
Impairment loss	32	(96,571,063)
Other operating income		10,197,386
Operating profit		745,951,308
Finance cost	33	(204,187,087)
Finance income	34	128,542,369
Share of income in associates		40,750,833
Net foreign exchange loss		(16,652,481)
Profit before income tax		694,404,942
Income tax expense	35	(233,370,426)
Profit for the year		461,034,516
Attributable to:		
Equity holder of the parent		352,336,455
Minority interests		108,698,061
		461,034,516

Managing Director - Member of the Management Board



 Karat Aitekenov



 Almaz Abdrakhmanova

Chief accountant

The accounting notes on pages 7 to 61 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2008

In thousands of Tenge	Notes	Attributable to equity holder of the parent						Total	Minority interests	Total
		Share capital	available-for-sale investments	Revaluation reserve for	Currency Translation reserve	Other capital reserves	Retained earnings			
Balance at December 31, 2007		-	(4,527,040)	(30,938,029)	13,514,781	2,579,057,178	2,557,106,890	453,714,830	3,010,821,720	
Net unrealized losses on available-for sale investments		-	(5,513,967)	-	-	-	(5,513,967)	(1,185)	(5,515,152)	
Net realized gains on available-for sale investments transferred to the income statement on disposal		-	420,715	-	-	-	420,715	-	420,715	
Net unrealized losses on derivative financial instruments, net of tax		-	-	-	(3,258,561)	-	(3,258,561)	-	(3,258,561)	
Foreign currency translation	17	-	-	2,695,933	-	-	2,695,933	84,051	2,779,984	
Total income and expense for the year recognized directly in equity		-	(5,093,252)	2,695,933	(3,258,561)	-	(5,655,880)	82,866	(5,573,014)	
Net profit for the year		-	-	-	-	352,336,455	352,336,455	108,698,061	461,034,516	
Total income and expense for the year		-	(5,093,252)	2,695,933	(3,258,561)	352,336,455	346,680,575	108,780,927	455,461,502	
Issue of share capital	17	3,458,923,009	-	-	-	(2,648,911,940)	810,011,069	-	810,011,069	
Dividends paid	17	-	-	-	-	(6,720,000)	(6,720,000)	(20,903,506)	(27,623,506)	
Recognition of share based payments		-	-	-	1,314,775	-	1,314,775	-	1,314,775	
Stock options exercised at subsidiaries		-	-	-	(1,830,926)	880,251	(950,675)	701,195	(249,480)	
Change in ownership interests of subsidiaries – acquisition of minority		-	-	-	-	(1,465,921)	(1,465,921)	(4,271,010)	(5,736,931)	
Change in ownership interests of subsidiaries - disposal of subsidiary		-	-	-	-	(70,768)	(70,768)	(3,329,866)	(3,400,634)	
Change in ownership interests of subsidiaries – acquisitions by minority		-	-	-	-	(78,200)	(78,200)	842,305	764,105	
Buy back of shares of subsidiary from the market performed by subsidiary		-	-	-	-	(521,318)	(521,318)	-	(521,318)	
Other distributions of subsidiaries		-	-	-	-	(2,288,590)	(2,288,590)	-	(2,288,590)	
Capital contribution by minority shareholder		-	-	-	-	-	-	18,786,452	18,786,452	
Increase in other capital reserves		-	-	-	2,180,372	(2,180,372)	-	-	-	
Balance at December 31, 2008		3,458,923,009	(9,620,292)	(28,242,096)	11,920,441	270,036,775	37,033,017,937	554,321,327	4,257,339,164	

Managing Director - Member of the Management Board

Chief accountant

Kairat Aitekenov

Almaz Abdrakhmanova



The accounting notes on pages 7 to 61 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2008

<i>In thousands of Tenge</i>	Notes	2008
Cash flows from operating activities:		
Profit before income tax		694,404,942
Adjustments for:		
Depreciation, depletion and amortization	6, 7	237,268,247
Share of income of associates	8	(40,750,833)
Finance costs	33	204,187,087
Finance income	34	(128,542,369)
Impairment loss	32	96,571,063
Long-term employee benefits	24	2,974,312
Write-off of exploratory dry wells	6	3,494,522
Provision charges	23	23,376,714
Derivatives		(1,491,931)
Loss on disposal of property, plant and equipment and intangible assets		1,228,925
Gain on disposal of subsidiaries		(2,839,531)
Allowance for doubtful debts on trade accounts receivable and other current assets	15	19,774,265
Allowance for doubtful debts on other financial assets	11	397,685
Allowance for VAT recoverable	13	980,196
Loss on revaluation of financial assets designated at fair value through profit and loss		14,563,823
Share-based payments expense		1,314,775
Provision for write-down of inventory	14	4,586,294
Realized loss on revaluation of available-for-sale assets		420,715
Unrealized foreign exchange gain		(2,285,622)
Operating profit before working capital changes		1,129,633,279
Decrease in other non-current assets		862,801
Increase in loans to customers		(117,561,605)
Increase in amounts due from credit institutions		(104,323,429)
Increase in securities held to maturity		(18,838,421)
Increase in securities purchased under agreements to resell		(21,069,901)
FA designated at fair value through profit and loss		(5,719,434)
Increase in inventories		(35,710,213)
Increase in VAT recoverable		(29,090,046)
Decrease in trade accounts receivable		76,874,020
Increase in other current assets		(23,708,962)
Increase in borrowings and Loans from Government		102,323,683
Increase in trade accounts payable		54,755,850
Decrease in other liabilities		(5,120,062)
Cash generated from operations		1,003,307,560
Income taxes paid		(396,780,141)
Interest paid		(117,671,040)
Interest received		87,363,357
Net cash flows from operating activities		576,219,736

Managing Director - Member of the Management Board



Kairat Aitekenov

Chief accountant

Almaz Abdrakhmanova

The accounting notes on pages 7 to 61 are an integral part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT (continued)

<i>In thousands of Tenge</i>	Notes	2008
Cash flows from investing activities:		
Placement of bank deposits, net		(51,574,281)
Purchase of shares of associates		(6,773,737)
Acquisition of subsidiaries, net of cash acquired	5	(78,479,031)
Acquisition of joint ventures, net of cash acquired	5	(41,316,086)
Acquisition of minority interests		(2,671,327)
Cash of subsidiaries being reclassified from disposal group		105,033
Purchase of property, plant and equipment		(693,543,201)
Purchase of intangible assets		(15,883,317)
Purchase of financial assets		(2,630,133)
Proceeds from sale of property, plant and equipment		31,157,988
Advances paid for non-current assets		(32,949,125)
Dividends received from associates	8	58,012,876
Proceeds from sale of subsidiaries		3,811,702
Proceeds from sale of minority interests		4,383,768
Stock options exercised		(249,480)
Contributions by minorities		14,220,213
Net cash flows used in investing activities		(814,378,138)
Cash flows from financing activities:		
Proceeds from borrowings		1,100,534,617
Repayment of borrowings		(773,682,701)
Repayment of finance lease liabilities		(5,307,833)
Redemption of shares of subsidiaries		(521,318)
Transactions with the shareholder		12,718,000
Dividends paid to minority shareholders of subsidiaries	17	(20,903,506)
Dividends paid to the shareholder		(6,720,000)
Other distributions of subsidiaries		(2,288,590)
Contributions to share capital		795,629,420
Net cash flows from financing activities		1,099,458,089
Effects of exchange rate changes on cash and cash equivalents		1,377,450
Net increase in cash and cash equivalents		862,677,137
Cash and cash equivalents at the beginning of the year		643,402,983
Cash and cash equivalents at the end of the year	16	1,506,080,120

Managing Director - Member of the Management Board



Kairat Aitekenov

Chief accountant

Almaz Abdrakhmanova

The accounting notes on pages 7 to 61 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Corporate Information

Sovereign Wealth Fund “Samruk-Kazyna” JSC (the “Company”, the “Fund” or “Samruk-Kazyna”) was established in accordance with the legislation of the Republic of Kazakhstan on November 3, 2008 in conjunction 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 “Government” or the “State”) to the Fund. The Government, represented by the State Assets and Privatization Committee of the Ministry of Finance is the sole shareholder of the Company (the “Shareholder”).

The Fund is a holding company for Kazakhstan state-owned enterprises listed in *Note 37* (hereinafter referred to as the “Group”). For management purposes, the Group is organized into organizational business units based on their products and services, and has five reportable operating segments (*Note 42*). 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. 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 within Kazakhstan, 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 increase and stimulation of investment and innovation activities in all segments of the economy of Republic of Kazakhstan.

The Government’s overall objective of the reorganization is to increase management efficiency and to optimise organisational structures in those entities in order to successfully achieve their strategic objectives set in the respective Government programs and development plans. The merger of Samruk and Kazyna and additional transfer represent a combination of businesses under common control, which is accounted for by the Fund as a pooling of interests as further described in *Note 2*.

The Company has its registered office in the Republic of Kazakhstan, Astana, 23, Kabanbay Batyr Avenue.

These consolidated financial statements were authorised for issue on June 19, 2009 by the Managing Director - Member of the Management Board and Chief Accountant of the Company.

Economic environment of the Group

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 Kazakhstan economy.

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan.

In case of further deterioration in the areas described above the negative effect on the Group’s operating results and financial position is not currently determinable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

Plan of stabilization of economic and financial systems for 2009-2010

In order to maintain stability of economic and financial system of the country during the world economic crisis the Government approved a Joint Action Plan of the Government of the Republic of Kazakhstan, the National Bank of the Republic of Kazakhstan the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations on stabilization of the economy and financial system for 2009-2010 (2008) by Decree #1085 dated November 25, 2008 ("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 innovation, industrial and infrastructure projects

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

Establishment of Tariffs

A number of subsidiaries of the Group are considered to be a natural monopoly, and as such, are regulated by the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies. 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.

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 thousand 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").

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 Group's 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*.

Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries and jointly controlled entities (*Note 36*).

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Except when acquired as a result of a transaction between entities under common control, subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. On acquisition of a subsidiary, the purchase consideration is allocated to the assets and liabilities on the basis of their fair value at the date of acquisition. The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholder's equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Principles of Consolidation (continued)

Interest in joint ventures

The Group's interest in jointly controlled entities are accounted for under the proportionate consolidation method, which involves recognizing a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. The joint venture is proportionally consolidated until the date on which the Group ceases to have joint control over the joint venture.

Formation of the Group

The Group was formed in 2008 by the merger of Sustainable Development Fund "Kazyna" JSC and Kazakhstan Holding Company for State Assets Management "Samruk" JSC and additional transfer of ownership in certain state owned entities from the State. As the Group has been formed through a reorganisation of entities under common control, these consolidated financial statements have been prepared using the pooling of interest method. As such, the financial statements, have been presented as if the transfers of controlling interests in the subsidiaries had occurred at the beginning of the earliest period presented (i.e. January 1, 2008), or, if later, on the date of the acquisition of the subsidiary by the transferring entities under common control. The assets and liabilities of the transferred subsidiaries were recorded in these consolidated financial statements at the carrying amount in the transferring entities' financial statements with a corresponding credit to equity. The par value of share capital has resulted through a combination of capitalization of retained earnings, cash and property contributions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New Accounting Developments

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

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

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

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

IFRIC 13 – *Customer Loyalty Programmes*. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. The Interpretation had no impact on the financial position or operating results of the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting developments (continued)

Adoption of these revised standards and interpretations did not have significant effect on the consolidated financial statements of the Group, except for the revised IAS 23 "Borrowing Costs", which was early adopted by the Group in 2007, which did have an effect on the financial performance and position of the Group disclosed in *Note 6*.

The Group has also early adopted the new IFRS 8 "Operating Segments", which resulted in modified disclosure on segment reporting (*Note 42*). Adoption of this standard did not have an effect on the financial performance and position of the Group.

IFRS and IFRIC Interpretations not yet effective

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

IFRS and IFRIC Interpretations not yet effective (continued)

- IFRS 1 Amendment "First-time Adoption of International Financial Reporting Standards";
- IFRS 2 "Share-based Payments – Vesting conditions and Cancellations";
- IFRS 3R "Business Combinations";
- IFRS 7 Amendment "Improving Disclosures about Financial Instruments";
- IFRS 8 "Operating Segments";
- IAS 1R and Amendment "Presentation of Financial Statements";
- IAS 27R "Consolidated and Separate Financial Statements";
- IAS 28 "Investments in Associates" Amendments, arising from amendments to IFRS 3 "Business Combinations";
- IAS 31 "Interest in Joint ventures" Amendments, arising from amendments to IFRS 3 "Business Combinations";
- IAS 32 Amendment "Financial Instruments: Presentation";
- IAS 39 "Financial Instruments: Recognition and Measurement";
- IFRIC 15 "Agreement for the Construction of Real Estate";
- IFRIC 17 "Distributions of Non-cash Assets to Owners";
- IFRIC 18 "Transfers of Assets from Customers".

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

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group adopted those amendments and improvements to IFRSs which are applicable to its operating activities in 2008.

Functional and Presentation Currency

The consolidated financial statements are presented in Tenge. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Group entities whose functional currency differ from Tenge translate their financial statements into Tenge for presentation purposes in these consolidated financial statements based on the provisions of International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rate for the period;
- Equity items other than net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the date of the balance sheet presented; and
- All resulting exchange differences are recognised as separate component of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Any exchange gains and losses arising from assets and liabilities denominated in foreign currencies subsequent to the date of the underlying transaction are credited or charged to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets measured at the fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

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 summarises the foreign currency exchange rates for Tenge:

	December 31, 2008
US dollar	120.77
Euro	170.89
Swiss Franc	114.43
Russian Ruble	4.11
Japanese Yen	1.34

Investments in Associates

The Group's investments in its associates are accounted for using the equity method of accounting. These are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group. The investment in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operations of the associates.

Business Combinations

Business combinations and acquisitions of interests in jointly controlled entities are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

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

Acquisition of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control (Government-controlled entities) 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 a transactions where part of the interest in existing subsidiary is either sold or acquired, but no change in control occurs, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and Natural Gas Exploration and Development Expenditure

License and property acquisition costs

Exploration license costs are capitalized within intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. 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 and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized within property, plant and equipment (construction work-in-progress) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried 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.

When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, except for expenditure related to development or delineation wells which do not find commercial quantities of hydrocarbons and are written off as dry hole expenditures in the period, is capitalized within property, plant and equipment.

Depreciation

Oil and natural gas properties are depreciated using a unit-of-production method. Certain oil and gas property with useful lives less than the remaining life of the fields are depreciated on a straight-line basis over useful lives of 4-10 years. The cost of producing wells is amortized over proved developed reserves. License and property acquisition, decommissioning and field development costs are amortized over total proved reserves.

Property, Plant and Equipment

On initial recognition, property, plant and equipment is measured at cost, or deemed cost in the case of some Group entities that had previously adopted IFRS for the first time. Subsequently, property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment, except for rail tracks and infrastructure, wagons, railcars, snow-blowers and locomotives, which are stated at revalued amount. 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	8-100 years
Railway tracks and infrastructure	10-80 years
Mining assets	40 years
Machinery, equipment and vehicles	3-50 years
Other	3-20 years

When items of property, plant and equipment are subject to major inspection, the cost is recognised in the carrying amount of the 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 the income statement in the year 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 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 statement of operations in the expense category consistent with the function of the intangible asset. 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.

Intangible assets include computer software, licenses, other intangible assets and goodwill. A more detailed description of intangibles assets as well as details of their amortization methods are explained in *Note 7*.

Goodwill

The excess of the cost of an acquisition over the Group's interest in the fair value of the net identifiable assets and liabilities acquired as at the date of the purchase is recorded as goodwill and recognized as an asset in the consolidated balance sheet.

After initial recognition, the Group measures goodwill acquired in a business combination at cost less any accumulated impairment losses.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group (a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and (b) recognizes immediately in profit or loss any excess remaining after that reassessment.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Non-Financial Assets (continued)

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 the consolidated income statement.

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.

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

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. The Group performs its annual impairment test of goodwill as at December 31.

Associates

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss of the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in profit or loss.

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 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 the statement of operations. Reversals of impairment losses in respect of equity instruments are not recognised in the statement of operations. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the consolidated income statement.

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, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement.

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 the consolidated income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement.

Derivative Financial Instruments and Hedging

The Group uses derivative financial instruments such as crude oil forward and swap contracts to hedge its risks associated with commodity prices fluctuations. Such derivative financial instruments are stated at fair value. These financial instruments were entered into solely for hedging purposes and were not used for trading or other speculative purposes.

The Group does not have derivatives qualified as effective cash flow hedge. All gains or losses arising from changes in fair value of existing derivative instruments are taken directly to net profit or loss for the period.

Non-current Assets Classified as Held for Sale

Assets are classified as non-current assets held for sale if they meet certain criteria:

- available for immediate sale in their present condition;
- commitment to a plan to sell;
- an active program to locate a buyer and other actions required to complete the plan are initiated;
- sale is highly probable, and is expected to qualify for recognition as a complete sale, within one year from the date of classification.

Non-current assets classified as held for sale are presented separately in the consolidated financial statements within current assets category on a face of the consolidated balance sheet.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current Assets Classified as Held for Sale (continued)

Non-current asset that ceases to be classified as held for sale are measured at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

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 operating segment 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 amount 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 income statement 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.

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.

Put-options Arising on Business Combination

If, as a part of a business combination, the Group becomes a party to a put-option on remaining minority 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 minority share.

When it is determined that the put-option on the remaining shares gives access to benefits and risks of 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 minority interest, is reflected within goodwill. Any dividends subsequently declared and paid to such minority shareholders prior to the exercise of the option are charged directly to the consolidated income statement.

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 income statement.

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 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 when the obligation under the liability is discharged or cancelled or expires.

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 income statement 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. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to 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 consolidated income statement; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Asset retirement obligation (decommissioning) (continued)

(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.

Other provisions

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

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

Employee Benefits

Defined contribution scheme

The Group withholds up to 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 scheme

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

The Group recognises actuarial gains and losses arising from the reassessment of the employee benefit liability in the period they are identified 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 Scheme 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 the consolidated income statement, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the 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 obligation.

The defined benefit scheme 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity (continued)

Minority interest

Minority interest represents the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiaries at the acquisition date and the minorities' portion of movements in equity since the date of the combination or formation. Minority interest is presented within the shareholders' equity. Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiaries unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are approved before or on the balance sheet date. Dividends are disclosed 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 at the date on which they are granted. The fair value is determined using an appropriate pricing model.

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 equity-settled 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 income statement 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 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 amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Revenue Recognition

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

Sale of goods

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

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 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" caption in the consolidated balance sheet. Deferred income is credited to earnings, as the service is provided.

Sales of air transportation tickets that result in award credits for customers, under the Group's customer loyalty program, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is 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

Agency revenues from sale of royalty in-kind

The Group acts as an agent of the Government of Kazakhstan, represented by its Ministry of Energy and Mineral Resources ("MEMR"), in trading crude oil received by MEMR from producers of crude oil as their payment for the royalty taxes in accordance with their respective profit sharing agreements ("PSA") and subsoil use agreements. The agency fee of the Group is defined as the difference between the selling price of crude oil received under this arrangement and a cost of such oil as defined in the respective PSA's subsoil use agreement negotiated by MEMR and producers. The agency fee is recognized as revenue when sales of crude oil take place.

Government Grants

Due to the fact that the Republic of Kazakhstan is a the sole shareholder of the Company, 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 a shareholder such transactions is 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 operations over the expected useful life of the relevant asset by equal annual instalments. Grants related to income are presented separately in the consolidated income statement 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 income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Excess profit tax is treated as an income tax and forms part of the income tax expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax (continued)

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 reverse 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)

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

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 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.

Offsetting

Assets and liabilities are only offset and reported at the net amount in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Subsequent Events

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 and liabilities at the date of the financial statements and reported amounts of revenues and expenses 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 balance sheet 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

The estimation of remaining oil and gas reserves is a material factor in the Group’s computation of depreciation, depletion and amortisation (“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 to make investment decisions about development of a field. 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. The Group’s proved reserves almost exclusively comprise proved developed reserves. 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 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 the 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 changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

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 obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings, infrastructure and recultivation of the contract territories for the exploration and development of oil and gas resources. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Asset Retirement Obligations (continued)

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 involves 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.

The long-term inflation and discount rates used to determine the balance sheet obligation at December 31, 2008 were in the ranges from 5.0% to 5.5% and from 7.0% to 9.25%, respectively. Movements in the provision for asset retirement obligations are disclosed in *Note 23*.

Environmental Remediation

The Group also makes judgments and estimates 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 (further "KMG EP"), subsidiary of "National Company "KazMunayGas" JSC (further "NC KMG") is a 100% subsidiary of the Fund), 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 2008. 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 detailed in *Note 41*. Movements in the provision for environmental remediation obligations are disclosed in *Note 23*.

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the assets' recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2008 the Group recognised an impairment loss of 14,371,108 thousand Tenge and income from reversal of impairment provision of 3,042,069 thousand Tenge.

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in the restructuring process, expectations of growth in the related industry, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or group of assets) requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of Property, Plant and Equipment (continued)

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

Useful Lives of Items of Property, Plant and Equipment

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

The agreement between Intergas Central Asia JSC with the Government described in *Note 41* is a concession arrangement scoped out of IFRIC 12 *Service Concession Arrangements* (because the grantor does not control the price at which the Group contracts with its major customers). Subsequently, additions or improvements to the assets managed and operated under the Agreement are capitalized and depreciated over an estimate of remaining useful life regardless of whether the term of the Agreement is shorter as the Government is obliged to acquire these assets at the net book value if the Agreement is not extended.

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 carrying value of recognized deferred tax assets as at December 31, 2008 was 8,648,317 thousand Tenge. Further details are contained in *Note 35*.

Taxation

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil agreements, the determination of expected outcomes from pending tax proceedings and the outcome of ongoing compliance audits by tax authorities. The provision for tax risks disclosed in *Note 23* relates mainly to the Group's application of Kazakhstan transfer pricing legislation to export sales of crude oil during the years 2002 to 2006. Further uncertainties related to taxation are detailed in *Note 41*.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognise, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. In 2008, the Group acquired interests in certain companies and at December 31, 2008, the Group has not completed the estimation of fair values of the identifiable assets, liabilities and contingent liabilities of some acquired businesses, and hence, recorded these acquisitions at their provisional amounts. Completion of the fair value determination in 2009 may result in significant adjustments to the reported amounts of identifiable assets, liabilities and contingent liabilities. More details are provided in *Note 5*.

Assets Classified as Held for Sale

The Group has certain assets classified as held for sale. In 2008 management approved a plan to sell these assets. The management initiated a plan to sell these assets and there is an active program to locate a buyer. The Group expects the sale to be completed by the end of 2009 through the tender procedures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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 24*). 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 balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, judgement by management is required in the 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.

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 9* and *Note 10*.

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. At December 31, 2008, allowances for doubtful accounts have been created in the amount of 54,815,603 thousand Tenge (*Notes 13 and 15*).

5. BUSINESS COMBINATIONS AND ACQUISITIONS OF JOINT VENTURES

Business Combinations

Acquisition of Batumi Industrial Holdings Limited ("BIHL")

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. BUSINESS COMBINATIONS AND ACQUISITIONS OF JOINT VENTURES (continued)

Business Combinations (continued)

Acquisition of Batumi Industrial Holdings Limited ("BIHL") (continued)

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

<i>In thousands of Tenge</i>	Fair values recognized on acquisition	Previous carrying value
Property, plant and equipment	20,003,778	13,328,666
Inventories	371,414	371,414
Trade accounts receivable	3,641,015	3,641,015
Other current assets	637,751	637,751
Short-term financial assets	97,714	97,714
Cash and cash equivalents	1,157,980	1,157,980
Total assets	25,909,652	19,234,540
Long-term borrowings	480,760	480,760
Short-term borrowings	1,953,213	1,953,213
Deferred income tax liabilities	484,015	484,015
Other non-current liabilities	1,155,884	1,155,884
Trade accounts payables	480,573	480,573
Other taxes payable	123,139	123,139
Other current liabilities	2,159,846	2,159,846
Total liabilities	6,837,430	6,837,430
Net assets	19,072,222	12,397,110
Minority interest (19.06 % of BTL) acquired	3,066,103	
Acquired interest in net assets	22,138,325	
Goodwill arising from acquisition (Note 7)	16,923,425	
Total acquisition cost	39,061,750	

Total acquisition cost comprises of a cash consideration of 39,061,750 thousand Tenge.

Cash outflow on acquisition:

<i>In thousands of Tenge</i>	
Net cash acquired with the joint-venture	1,157,980
Cash paid	(39,061,750)
Net cash outflow	(37,903,770)

From the date of acquisition, BIHL has contributed 1,527,517 thousand Tenge to the net profit of the Group. If the combination had taken place at the beginning of the year, the net profit for the Group would have been 461,546,122 thousand Tenge and revenue for the year ended December 31, 2008 would have been 3,342,923,689 thousand Tenge.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. BUSINESS COMBINATIONS AND ACQUISITIONS OF JOINT VENTURES (continued)

Acquisition of joint ventures

Acquisition of interest in Forum Muider

On December 23, 2008 the "Samruk – Energy" JSC (further "Samruk – Energy") acquired 50% interest in Forum Muider. Forum Muider is a company holding 100% interest in the charter capital of Bogatyr Komir and a range of companies incorporated in the Russian Federation and the Republic of Cyprus, which are not engaged in significant operations. Forum Muider is an entity jointly controlled by the Samruk - Energy and Urel Enterprises Limited, entity ultimately controlled by UC RUSAL. Bogatyr Komir is engaged in production of power-generating coal at Ekibastuz coal deposit at mines Bogatyr and Severnyi in Pavlodar Region of the Republic of Kazakhstan and sales of the coal to the power generation companies at the local market and in the Russian Federation.

Acquisition of Forum Muider has been accounted for using the purchase method of accounting. As at December 31, 2008, the Group was not able to complete a valuation of fair value of its interest in the acquired identifiable assets, liabilities and contingent liabilities. The acquisition has been accounted for using a provisional fair value at the acquisition date.

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

<i>In thousands of Tenge</i>	Provisional fair value	Carrying value
Property, plant and equipment	52,335,730	17,657,260
Other non-current assets	273,265	273,265
Inventories	729,608	729,608
Trade and other receivables	4,020,501	4,020,501
Cash and cash equivalents	1,074,568	1,074,568
Non-current assets held for sale	166,609	166,609
Total assets	58,600,281	23,921,811
Site restoration provision	681,827	681,827
Deferred income tax liabilities	6,310,091	1,208,141
Employee benefits obligations	297,868	297,868
Borrowings	3,588,441	3,588,441
Trade and other payables	5,327,447	5,327,447
Taxes payable	634,814	634,814
Total liabilities	16,840,488	11,738,538
Net assets	41,759,793	12,183,273
Minority interest in subsidiaries of Forum Muider	(250)	
Acquired interest in net assets	41,759,543	
Total acquisition cost	41,759,543	

Total cost of acquisition includes a cash payment in the amount of 41,747,543 thousand Tenge and costs directly attributable to the acquisition in the amount of 12,000 thousand Tenge.

Cash outflow on acquisition:

<i>In thousands of Tenge</i>	
Net cash acquired with the joint-venture	1,074,568
Cash paid	(41,747,543)
Net cash outflow	(40,672,975)

The Group's interest in revenue and profit of Forum Muider from the acquisition date is insignificant for these consolidated financial statements. If the combination had taken place at the beginning of the year, the net profit for the Group would have been 465,047,435 thousand Tenge and revenue for the year ended December 31, 2008 would have been 3,376,695,859 thousand Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. PROPERTY, PLANT AND EQUIPMENT**

The movement in property, plant and equipment for the year ended December 31, 2008 was as follows:

<i>In thousands of Tenge</i>	Oil and gas assets	Pipelines and refinery assets	Buildings and premises	Railway tracks and infrastructure	Machinery, equipment and vehicles	Mining assets	Other	Capital work-in-progress	Total
Net book value at December 31, 2007	1,044,744,626	486,614,065	289,750,054	367,760,848	682,735,410	-	39,655,219	263,950,102	3,175,210,324
Foreign currency translation	3,309,400	578,488	145,922	-	-	-	69,354	122,613	4,225,777
Additions	103,547,042	2,179,359	18,182,536	265,565	70,849,286	-	10,256,242	514,216,456	719,496,486
Acquisition of additional interest in North Caspian Project	280,816,885	-	-	-	-	-	-	-	280,816,885
Acquisitions through business combinations (Note 5)	-	-	7,910,822	-	15,830,206	34,678,470	13,695,862	224,148	72,339,508
Disposals	(9,984,941)	(3,828,886)	(13,113,272)	(6,977,382)	(15,282,886)	-	(4,268,491)	(5,568,794)	(59,024,652)
Depreciation charge	(73,169,666)	(30,612,685)	(16,566,745)	(15,608,694)	(82,039,095)	-	(7,906,466)	-	(225,903,351)
Depreciation on disposals	1,698,252	2,530,884	841,625	4,836,201	8,899,208	-	1,008,039	69,402	19,883,611
Impairment (provision) / reversal of provision, net	(1,593,566)	(4,621,581)	(6,067,406)	72,605	(782,116)	-	(628,737)	2,291,762	(11,329,039)
Transfers from assets classified as held for sale	95,535	-	7,887,147	-	697,479	-	355,416	-	9,035,577
Transfers to intangible assets	-	-	-	-	-	-	-	(580,587)	(580,587)
Transfers and reclassifications	138,273,157	34,483,439	46,385,332	23,138,360	145,159,621	-	9,171,202	(396,611,111)	-
Net book value at December 31, 2008	1,487,736,724	487,323,083	335,356,015	373,487,503	826,067,113	34,678,470	61,407,640	378,113,991	3,984,170,539
Cost	1,231,225,910	535,547,712	331,320,235	399,925,377	967,986,716	-	60,270,225	266,575,922	3,792,852,097
Accumulated depreciation and impairment	(186,481,284)	(48,933,647)	(41,570,181)	(32,164,529)	(285,251,306)	-	(20,615,006)	(2,625,820)	(617,641,773)
Net book value at December 31, 2007	1,044,744,626	486,614,065	289,750,054	367,760,848	682,735,410	-	39,655,219	263,950,102	3,175,210,324
Cost	1,747,282,988	568,960,112	407,531,187	416,373,420	1,219,733,963	34,678,470	89,713,978	378,113,991	4,862,388,109
Accumulated depreciation and impairment	(259,546,264)	(81,637,029)	(72,175,172)	(42,885,917)	(393,666,850)	-	(28,306,338)	-	(878,217,570)
Net book value at December 31, 2008	1,487,736,724	487,323,083	335,356,015	373,487,503	826,067,113	34,678,470	61,407,640	378,113,991	3,984,170,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2008 KMG Kashagan B.V., subsidiary of the NC KMG, acquired additional 8.48% interest in North Caspian Project ("NCP") from other NCP participants. The acquisition cost consisted of US\$ 1.78 billion plus two investment adjustments. The US\$ 1.78 billion is payable by three equal annual installments after the commencement of production operations at Kashagan (NCP field) (Note 20). The investment adjustments are represented by cash call payments made by each NCP participant with respect to its interest in NCP for the period from January 1, 2008 till November 4, 2008. KMG Kashagan B.V. made total payments of US\$ 377,198 thousand related to these investment adjustments. Total acquisition cost of US\$ 2,248,546 thousand was allocated as follows:

	In thousands of US Dollars	In thousands of Tenge
Property, plant and equipment (oil and gas assets)	2,334,499	280,816,885
Net working capital	(85,953)	(10,339,286)
	2,248,546	270,477,599

At December 31, 2008, oil and gas assets include a net book value of exploration and evaluation assets in the amount of 82,203,650 thousand Tenge. Additions of these assets during 2008 amounted to 39,495,395 thousand Tenge and disposals amounted to 816,959 thousand Tenge. Write-off of dry exploratory wells during the period amounted to 3,494,522 thousand Tenge.

At December 31, 2008, certain items of property, plant and equipment with a net carrying amount of 399,608,678 thousand Tenge were pledged as security for some of the Group's borrowings (Note 18).

At December 31, 2008, the carrying value of fixed assets under finance lease agreements included in property, plant and equipment amounted to 26,496,093 thousand Tenge.

In 2008, the Group capitalized borrowing costs at the average capitalization rate of 6.14% in the amount of 4,066,086 thousand Tenge related to construction of new assets that started in 2008.

7. INTANGIBLE ASSETS

The movement in intangible assets for the year ended December 31, 2008 was as follows:

In thousands of Tenge	Licenses	Software	Goodwill	Other	Total
Net book value as at December 31, 2007	33,785,552	18,178,408	41,704,012	31,744,446	125,412,418
Foreign currency translation	26,410	4,420	699,139	26,170	756,139
Additions	3,754,413	7,162,352	–	4,966,552	15,883,317
Acquisitions through business combinations (Note 5)	–	24,507	16,923,425	–	16,947,932
Disposals	(90,747)	(380,483)	–	(913,165)	(1,384,395)
Amortization charge	(4,981,405)	(4,417,063)	–	(1,966,428)	(11,364,896)
Accumulated amortization on disposals	80,805	200,961	–	6,016	287,782
Impairment provision	(4,079,876)	–	(29,215,642)	–	(33,295,518)
Transfers from held for sale	–	–	–	2,905,929	2,905,929
Transfers and adjustments	243,670	366,963	–	42,245	652,878
Net book value as at December 31, 2008	28,738,822	21,140,065	30,110,934	36,811,765	116,801,586
Cost	44,326,181	29,147,588	43,406,871	33,766,569	150,647,209
Accumulated amortization and impairment	(10,540,629)	(10,969,180)	(1,702,859)	(2,022,123)	(25,234,791)
Net book value as at December 31, 2007	33,785,552	18,178,408	41,704,012	31,744,446	125,412,418
Cost	48,259,912	36,575,454	55,366,926	40,792,156	180,994,448
Accumulated amortization and impairment	(19,521,090)	(15,435,389)	(25,255,992)	(3,980,391)	(64,192,862)
Net book value as at December 31, 2008	28,738,822	21,140,065	30,110,934	36,811,765	116,801,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INTANGIBLE ASSETS (continued)

Licenses mainly comprise of licenses in the telecommunication sector acquired by "Kazakhtelecom" JSC (further "Kazakhtelecom") and capitalized costs of licenses to explore natural resources acquired by NC KMG. Licenses are amortised on a straight line basis over the term of the license, which range from 3 to 20 years.

Software includes costs of purchased applications used in operations of the Group, which mainly relate to accounting software. Software is amortized on a straight line basis based on the expected useful life of the software or the term defined by relevant license, which range from 1 to 14 years.

Impairment Testing of Goodwill

Goodwill acquired through business combinations in 2008 and 2007 has been allocated primarily to the Rompetrol Group N.V. ("TRG"), BIHL and certain telecommunication businesses. These businesses are involved in oil and gas operations and telecommunication services. As of December 31, 2008, the majority of the carrying value of goodwill of 30,110,934 thousand Tenge is attributed to the TRG businesses which include 13,674,425 thousand Tenge of goodwill related to the Refining cash generating unit. The recoverable amount of goodwill was determined in accordance with the accounting policies described in Note 3. The discount rates used in calculation of fair value less cost to sell for TRG cash generating units, BIHL cash generating units and telecommunication cash generating units are from 7.5% to 11.3%, 17.55% and from 11.64% to 14.34%, respectively.

Change in any of the key assumptions could result in further impairment losses.

8. INVESTMENTS IN ASSOCIATES

Investments in associates comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008	
	Carrying amount	Ownership share
PetroKazakhstan Inc. ("PKI")	122,200,422	33.00%
GSM Kazakhstan LLP ("GSM")	44,604,223	49.00%
Astana Finance JSC	6,175,975	5.52%
Kedentransservice JSC	1,884,870	33.00%
Other	7,970,283	
Less: Impairment	(5,348,466)	
	177,487,307	

The movements in investments in associates were as follows:

<i>In thousands of Tenge</i>	2008
Balance at January 1, 2008	197,707,846
Share of income of associates	40,750,833
Dividends received	(58,012,876)
Acquisitions	6,773,737
Disposals	(4,383,767)
Impairment	(5,348,466)
Balance at December 31, 2008	177,487,307

In 2008, impairment loss of 5,348,466 thousand Tenge represented the write-off of investments in "Astana Finance" JSC (further "Astana Finance") to the recoverable amount. Impairment has been recognized in the consolidated income statement. The recoverable amount was based on the Fund's share in the net assets of Astana Finance as of December 31, 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INVESTMENTS IN ASSOCIATES (continued)

The following tables illustrate summarized information of the Group's investment in the associates at December 31, 2008 and for the year then ended:

<i>In thousands of Tenge</i>	2008			
	PKI	GSM	Other associates	Aggregated
Group's share in assets and liabilities				
Total assets	170,600,122	58,990,975	36,683,311	266,274,408
Total liabilities	(48,399,700)	(14,386,752)	(25,559,775)	(88,346,227)
Net assets	122,200,422	44,604,223	11,123,536	177,928,181
Group's share in revenue and net profit				
Revenue	191,805,573	59,609,244	15,934,664	267,349,481
Net Profit	22,470,653	17,554,988	725,192	40,750,833

9. LOANS TO CUSTOMERS

Loans to customers comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Loans to businesses	183,337,077
Finance leasing	18,077,910
Loans to individuals	5,876,759
Other loans	1,212,606
Accrued interest	5,482,096
Gross loans	213,986,448
Less: Impairment allowance	(19,965,861)
Net loans to customers	194,020,587
Less: current portion	(24,307,838)
Non-current portion	169,712,749

Movements in the loan impairment allowance for the year ended 31 December are as follows:

<i>In thousands of Tenge</i>	2008
As at January 1, 2008	8,342,832
Charge for the year	17,453,669
Write-off	(5,840,422)
Foreign currency translation	9,782
As at December 31, 2008	19,965,861

The following table provides information on the credit quality of the loan portfolio at December 31, 2008:

<i>In thousands of Tenge</i>	2008			
	Gross loans	Impairment	Net loans	Impairment to gross loans
Loans for which no impairment has been identified:				
- Standard loans	174,924,586	(1,058,050)	173,866,536	0.60%
Impaired loans:				
- not past due	32,202,899	(13,959,103)	18,243,796	43.35%
- overdue less than 90 days	6,628,615	(4,718,668)	1,909,947	71.19%
- overdue more than 90 days and less than 1 year	230,348	(230,040)	308	99.87%
Total impaired loans	39,061,862	(18,907,811)	20,154,051	48.40%
Total loans	213,986,448	(19,965,861)	194,020,587	9.33%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. LOANS TO CUSTOMERS (continued)

The components of net investments in finance lease as at December 31, 2008 are as follows:

<i>In thousands of Tenge</i>	2008
Within one year	4,365,756
Later than one year, but not later than five years	15,125,010
After five years	4,256,663
Minimum lease payments	23,747,429
Less unearned finance income	(5,669,519)
Less impairment allowance	(5,890,804)
Net investment in finance leases	12,187,106

<i>In thousands of Tenge</i>	2008
Maturities less than 1 year	24,307,838
Maturities between 1 and 5 years	61,520,810
Maturities over 5 years	108,191,939
	194,020,587

10. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amount due from credit institutions comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
10 largest local banks	168,996,989
Other local credit institutions	20,562,909
Interest accrued	2,727,553
Gross loans	192,287,451
Less: impairment allowance	(21,678,157)
Net loans	170,609,294
Less: current portion	(28,102,547)
Non-current portion	142,506,747

<i>In thousands of Tenge</i>	2008
Ratings from BB- to BB+	113,646,469
Rating lower than B+	56,514,421
No rating	448,404
	170,609,294

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

<i>In thousands of Tenge</i>	2008
As at January 1, 2008	484,253
Charge for the year	21,193,904
As at December 31, 2008	21,678,157

<i>In thousands of Tenge</i>	2008
Maturities less than 1 year	28,102,547
Maturities between 1 and 5 years	115,513,409
Maturities over 5 years	26,993,338
	170,609,294

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. FINANCIAL ASSETS

Financial assets comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Available for sale finance assets	
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	58,549,761
Corporate bonds	7,239,033
Bonds of Kazakhstan financial agencies	33,118,266
Bonds of international financial organizations	3,543,652
Other debt securities	651,090
Less: Impairment	(1,938,642)
	101,163,160
Subject to repurchase agreement	7,755,212
Held to maturity finance assets	
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	8,564,799
Corporate bonds	9,886,116
Bonds of Kazakhstan financial agencies	15,499,558
Other debt securities	1,525,854
	35,476,327
Securities purchased under agreements to resell	
Securities purchased under agreements to resell	42,087,917
Less: Impairment	(245,406)
	41,842,511
Financial assets designated at fair value through profit and loss	
Unquoted investments in venture capital organizations	4,092,857
Unquoted equity share investments	15,749,365
Corporate bonds	647,474
	20,489,696
Finance lease receivable	678,737
Total financial assets	199,650,431
Less: current portion	(91,169,145)
Non-current portion	108,481,286

As at December 31, 2008 the interest rates for available-for-sale finance assets, held to maturity finance assets and securities purchased under agreement to resell were in the ranges from 1.7% to 45.4%, from 5.6% to 19.0% and from 4.6% to 14.5%, respectively.

<i>In thousands of Tenge</i>	2008
Financial assets denominated in USD	12,507,185
Financial assets denominated in KZT	185,287,539
Financial assets denominated in other currency	1,855,707
	199,650,431

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

<i>In thousands of Tenge</i>	2008
As at January 1, 2008	1,876,203
Charge for the year	397,685
Recovered	(89,840)
As at December 31, 2008	2,184,048

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. FINANCIAL ASSETS (continued)

<i>In thousands of Tenge</i>	2008
Maturities less than 1 year	91,169,145
Maturities between 1 and 5 years	65,480,358
Maturities over 5 years	33,116,467
No maturity	9,884,461
	199,650,431

12. BANK DEPOSITS

Long-term bank deposits comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Bank deposits denominated in USD	452,912,919
Bank deposits denominated in KZT	183,126,111
Bank deposits denominated in other currency	345,477
Less: Impairment	(7,992,227)
Total bank deposits	628,392,280
Less: current portion	(590,785,603)
Non-current portion	37,606,677

The movements in allowance for impairment of bank deposits were as follows:

<i>In thousands of Tenge</i>	2008
As at January 1, 2008	-
Charge for the year	7,992,227
As at December 31, 2008	7,992,227

At December 31, 2008, the weighted average interest rate for long-term financial investments and bank deposits was 4.59%, the weighted average rate for short-term bank deposits was 7.06%.

<i>In thousands of Tenge</i>	2008
Maturities less than 1 year	590,785,603
Maturities between 1 and 5 years	34,140,861
Maturities over 5 years	3,465,816
	628,392,280

At December 31, 2008 long-term bank deposits include USD denominated cash of 30,031,537 thousand Tenge pledged as collateral for certain Group borrowings (*Note 18*).

At December 31, 2008 Group's bank deposits included a deposit amounting to 3,243,177 thousand Tenge, which serves as a margin deposit on a foreign currency swap with Morgan Stanley.

13. OTHER NON-CURRENT ASSET

Other non-current assets comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Advances paid for non-current assets	72,017,527
Long-term VAT recoverable	28,714,326
Other	12,773,730
Less: Impairment allowance for VAT recoverable	(12,939,249)
	100,566,334

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. OTHER NON-CURRENT ASSETS (continued)

Movements in the allowance for impairment of VAT recoverable were as follows:

<i>In thousands of Tenge</i>	2008
As at January 1, 2008	11,959,053
Charge for the year	980,196
As at December 31, 2008	12,939,249

In 2008 the Group paid advances of 22,072,859 thousand Tenge to China National Petroleum Corporation for construction of the new gas pipeline between Kazakhstan and China and 11,270,414 thousand Tenge for construction of Moinak HPS. All other advances represent prepayments for the delivery of items of property, plant and equipment and construction services.

At December 31, 2008, the management re-assessed the recoverability of non-current VAT recoverable and concluded that recoverability of 12,939,249 thousand Tenge is remote. As a result, the Group made a decision to accrue additional allowance for VAT recoverable in the amount of 980,196 thousand Tenge.

14. INVENTORIES

Inventories comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Oil and gas industry materials and supplies	56,339,882
Refined products for sale	34,397,878
Crude oil	33,426,736
Railway materials and supplies	33,420,046
Fuel	4,618,240
Gas products	4,506,256
Goods for resale	3,145,531
Production materials and supplies	2,687,307
Electric transmission spare parts	2,653,951
Work-in-process	2,200,533
Telecommunication spare parts	1,742,335
Other materials and supplies	4,880,910
Less: write-down to net realizable value	(14,641,901)
	169,377,704

15. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

Other current assets comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Advances paid and deferred expenses	67,818,244
Restricted cash	11,697,374
Interest free loans	8,478,784
Other taxes prepayment	8,444,163
Assets to be transferred under future finance lease agreements	6,273,302
Dividends receivable	2,940,000
Amounts due from employees	2,462,384
Other	36,129,535
Less: Bad debt allowance	(12,235,197)
	132,008,589

Trade accounts receivable comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Trade accounts receivable	181,624,391
Less: Bad debt allowance	(29,641,157)
	151,983,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS (continued)

At December 31, 2008, the Group's receivables amounting to 15,205,860 thousand Tenge are pledged under loan agreements (*Note 18*).

In accordance with the Tengizchevroil LLP ("TCO") financing agreement, a debt service reserve account (the "Account") should be established and funded with TCO's principal banker in an amount equal to the amount of its next scheduled payment of interest and principal on the debt. At December 31, 2008 restricted cash amounted to 11,071,541 thousand Tenge.

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

<i>In thousands of Tenge</i>	Individually impaired
As at January 1, 2008	29,866,154
Charge for the year	21,620,985
Utilized	(7,764,065)
Recovered	(1,846,720)
As at December 31, 2008	41,876,354

As at December 31, 2008, trade accounts receivable and other current assets were not interest bearing.

As at December 31, 2008 the ageing analysis of trade receivables, is as follows:

<i>In thousands of Tenge</i>		Neither past due nor impaired	Past due but not impaired				
			<30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
2008	151,983,234	113,161,255	24,542,727	5,378,192	4,150,139	1,518,587	3,232,334

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Bank deposits – US Dollars	345,269,628
Bank deposits – Tenge	802,642,172
Bank deposits – other currency	14,481,952
Current accounts with banks – US Dollars	95,675,135
Current accounts with banks – Tenge	238,139,533
Current accounts with banks – other currency	7,860,383
Cash on hand	1,743,037
Cash in transit	268,280
	1,506,080,120

At December 31, 2008 the Group's cash and cash equivalents amounting to 3,573,964 thousand Tenge were pledged as collateral for certain Group's borrowings (*Note 18*).

At December 31, 2008 cash in bank accounts amounting to 5,231,835 thousand Tenge can be used exclusively for the purposes determined by the certain loan agreements of the Group (*Note 18*).

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. As at December 31, 2008, the weighted average interest rate for time deposits with banks was 2.72%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. EQUITY

The Group has been formed through a reorganization of entities under common control of the Government (*Note 1*). As such, assets and liabilities of the transferred subsidiaries were recorded in these consolidated financial statements at the carrying amount in the transferring entities' financial statements with a corresponding credit to equity.

Share capital

During 2008 Group made issue of shares, which were contributed as follows:

	Date of contribution	Number of shares authorized and issued	Par value, in Tenge	Share capital, in thousand Tenge
1 st contribution	November 3, 2008 November 6 –	2,816,433,936	1,000	2,816,433,936
2 nd contribution	December 30, 2008	607,500,000	1,000	607,500,000
3 rd contribution	December 24, 2008	3,189,907	10,000	31,899,073
4 th contribution	December 30, 2008	309,000	10,000	3,090,000
At December 31, 2008		3,427,432,843		3,458,923,009

At December 31, 2008, 3,427,432,843 shares were fully paid.

Share capital of the Fund was established through a stage wise contribution of share issue (*Note 2*), related to the contribution of entities under common control of the Government, capitalization of retained earnings, cash and property contributions, as described below:

- 1st contribution – According to 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 Government contributed shares of former Samruk and Kazyna subsidiaries to the Fund.
- 2nd contribution – According to Budget law of the Republic of Kazakhstan for 2008 No.8-IV dated December 6, 2007, the Government made cash contribution of 607,500,000 thousand Tenge. These funds are dedicated for implementation of Stabilization Plan approved by the Government in 2008 (*Note 1*).
- 3rd contribution – According to the order of the State Assets and Privatization Committee of the Ministry of Finance of the Republic of Kazakhstan No. 757, dated December 10, 2008 the Government transferred to the Fund shares of seven social-entrepreneurial corporations and the Kazakhstan Fund of Guarantee of Mortgage Loan JSC (*Note 37*).
- 4th contribution – According to the decree of the Government of the Republic of Kazakhstan No. 1236, dated December 24, 2008, the Government made a cash contribution of 3,090,000 thousand Tenge. These funds are dedicated for construction of and exploitation of Shar-Ust-Kamenogorsk railway line.

Dividends

In 2008, prior to merger, Samruk declared and paid dividends to the Shareholder totaling to 6,720,000 thousand Tenge (3.10 Tenge per share). The remaining amount of dividends paid represents payment of dividends by the Company's subsidiaries to the minority shareholders.

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 Kazakhstan Tenge and whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in *Note 3*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. EQUITY (continued)

Change in ownership interests of subsidiaries – capital contribution by minority shareholder

Kazakhtelecom

On September 26, 2008 the charter capital of Mobile Telecom-Service LLP, a subsidiary of Kazakhtelecom, was increased by 3,000,000 thousand Tenge. The contribution made in cash by the minority shareholder, amounted to 1,469,999 thousand Tenge.

Samruk-Energy

In 2008 Samruk-Energy received 1,821,469 thousand Tenge from a minority shareholder of Moinak HPS due to an increase in the share capital of this subsidiary for the purpose of compliance with a loan agreement. The increase in share capital did not change Samruk-Energy's share in the subsidiary.

Social-Entrepreneurship Corporations

During 2008, the State Assets and Privatization Committee of the Ministry of Finance of the Republic of Kazakhstan, the shareholder of the Fund, made contributions to social-entrepreneurship corporations (*Note 37*) in form of cash and property, plant and equipment in the amount of 10,164,390 thousand Tenge, 5,330,594 thousand Tenge respectively.

Other capital reserves

According to the legislation the accumulated net profit of Bank of Development of Kazakhstan JSC cannot be distributed and is transferred to reserve capital or general banking risk reserve annually following the approval of the unconsolidated financial statements of the bank. The reserve capital and general banking risk reserve are not subject for distribution.

Other capital reserves also 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 income statement as the transactions settled.

18. BORROWINGS

Borrowings, including accrued interest, comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Fixed interest rate borrowings	889,933,916
Weighted average interest rate	7.96%
Variable interest rate borrowings	1,092,571,191
Weighted average interest rate	4.68%
	1,982,505,107
Less: amounts due for settlement within 12 months	(287,704,627)
Amounts due for settlement after 12 months	1,694,800,480
<hr/>	
<i>In thousands of Tenge</i>	2008
US dollar-denominated borrowings	1,808,669,818
Tenge-denominated borrowings	82,962,600
Other currency-denominated borrowings	90,872,689
	1,982,505,107

At December 31, 2008, certain items of property, plant and equipment with a net carrying amount of 399,608,678 thousand Tenge were pledged as security for some of the Group's borrowings (*Note 6*).

Long-term financial investments and bank deposits at December 31, 2008 include USD denominated cash collateral pledge of 30,031,537 thousand Tenge (*Note 12*).

At December 31, 2008, the Group's cash and cash equivalents amounting to 2,629,503 thousand Tenge are pledged under certain loan agreements (*Note 16*).

At December 31, 2008 cash in bank accounts amounting to 5,231,835 thousand Tenge can be used exclusively for the purposes determined by the certain loan agreements of the Group (*Note 16*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. BORROWINGS (continued)

At December 31, 2008, the Group's receivables amounting to 15,205,860 thousand Tenge are pledged under loan agreements (Note 15).

Under the terms and conditions of certain borrowing agreements, respective subsidiaries of the Group are obliged to comply with certain covenants. At December 31, 2008, Group management believes that the Group's subsidiaries complied with all the covenants (Note 43).

19. LOAN FROM GOVERNMENT

Loan from Government comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Loans from the Government of the Republic of Kazakhstan	31,672,395
Advances for project finance	9,914,824
	41,587,219
Less: amounts due for settlement within 12 months	(796,024)
Amounts due for settlement after 12 months	40,791,195

As of December 31, 2008 the loans from the Government of the Republic of Kazakhstan consisted of long-term loans granted from the state budget intended to support certain industries, including textile, gas processing and chemicals. The interest rate on the loans ranged between 0.1% and 8.4% per annum and the interest rate charged to customers reflects the purpose of the loan.

Advances for project finance represent an unutilised part of the loan from the budget intended for financing of the Joint Kazakhstan-Russian Entity "Baiterek" JSC for construction of an air space complex by 2009. The loan will be repaid by equal parts from 2010 until 2023. The Group acts as an agent and is not liable for any misuse of the loan by the borrower or any other risks related to the loan.

20. PAYABLE FOR THE ACQUISITION INTEREST IN PROJECT

Payable for the acquisition interest in project comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Payable for the acquisition of additional interest in project	228,283,802
Delayed production penalty	11,216,997
	239,500,799

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 so to increase the interest of KMG Kashagan B.V. in NCP from 8.33% to 16.81% retrospectively from January 1, 2008 (Note 6).

Also, KMG Kashagan B.V. recognized obligations for additional payment of delayed production penalty based on the best estimate that the production at Kashagan field will be commenced after October 1, 2012.

21. PAYABLE TO THE SHAREHOLDER OF A JOINT VENTURE

On November 8, 2007 the Group signed a Purchase Agreement ("PA") to acquire a 50% interest in a holding company, CCEL, whose investments are involved in oil and natural gas production in western Kazakhstan.

This jointly controlled entity and its subsidiaries are contractually obliged to distribute all available distributable equity to venturers in the most tax efficient way, either through declaration of dividends, distribution of capital or repayment of non-interest bearing notes payable to each of the venturers by CCEL. Accordingly, CCEL has no equity and all distributable reserves have been classified as payables to shareholders of a joint venture in the amount of 148,794,516 thousand Tenge as of December 31, 2008. As of December 31, 2008 the Group's proportional share of this payable amounting 74,397,258 thousand Tenge is recorded as payable to the shareholder of a joint venture in non-current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. PAYABLE TO THE SHAREHOLDER OF A JOINT VENTURE (continued)

In addition, under the terms of the PA, the Group has obtained the right to receive cash flows from a financial asset but assumed an obligation to pay these cash flows, in excess of a guaranteed payment of US\$ 26.2 million until 2020, to CITIC under a "pass through arrangement" up to US\$ 782.5 million (94,106,228 thousand Tenge) as at December 31, 2007. This obligation bears interest on that amount of Libor plus 1.45% per annum. The Group has no obligation to pay this amount to CITIC unless it receives an equivalent amount from the jointly controlled entity. Accordingly, this right and obligation are not recognized on the Group's balance sheet. The note receivable of US\$ 75 million (equivalent to 9,431,009 thousand Tenge) as of December 31, 2008 represents 50% of the portion of the financial asset that has not been derecognized as a result of the "pass through arrangement".

As of December 31, 2008, the second part of non-current portion of the loan payable to the shareholder of a joint venture totals 89,054,612 thousand Tenge. This amount represents the Group's share of the principal and interest on the CCEL note payable to CITIC provided by CITIC to CCEL to finance the acquisition of investments in natural oil and gas production assets in western Kazakhstan.

Additionally, the Group has the right in the event of certain conditions precedent, as stipulated by the PA, to exercise a put option and return the investment to CITIC and receive back 150 million US Dollars plus interest of 8% less cumulative amount of any of the 26.2 million US Dollar payment received.

On November 17, 2008 the Group signed an amendment to the PA, which revised the guaranteed payment to US\$ 26.87 million and set the annual dates of payment as one half due not later than June 12 and December 12, respectively for each year. However, as at December 31, 2008 interest has been accrued since September 12, 2008. After the above amendment the effective interest rate on the receivable is 15% per annum.

22. FINANCE LEASE LIABILITIES

The Group has finance leases for various items of property, plant and equipment, including telecommunication equipment, aircraft spare parts, tankers and berths. These leases have the terms of renewal but no purchase options and escalation clauses. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments comprised the following at December 31, 2008:

The amounts representing interest are based on effective interest rates from 6.97% to 21.19%.

<i>In thousands of Tenge</i>	2008	
	Minimum lease payments	Present value of minimum lease payments
Within one year	9,380,524	6,372,272
Two to five years inclusive	22,820,474	14,981,350
After five years	7,520,300	3,441,790
Less: amounts representing finance charges	(14,925,886)	-
Present value of minimum lease payments	24,795,412	24,795,412
Less: amounts due for settlement within 12 months	(6,372,272)	-
Amounts due for settlement after 12 months	18,423,140	-

23. PROVISIONS

Provisions comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	Asset retirement obligations	Provision for environmental liability	Provision for taxes	Other	Total
Provision at January 1, 2008	33,818,047	35,524,553	22,601,410	13,567,893	105,511,903
Foreign currency translation	147,213	69,208	(1,998)	66	214,489
Change in estimate	(287,347)	-	-	-	(287,347)
Unwinding of discount	2,552,487	-	-	-	2,552,487
Provision for the year	8,078,492	594,366	7,899,873	10,883,581	27,456,312
Additions through business combinations (Note 5)	681,827	-	-	-	681,827
Use of provision	(631,803)	(3,768,250)	(281,325)	(10,993,827)	(15,675,205)
Unused amounts reversed	-	(529,177)	(2,902,779)	(360,295)	(3,792,251)
Provision at December 31, 2008	44,358,916	31,890,700	27,315,181	13,097,418	116,662,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. PROVISIONS (continued)

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

<i>In thousands of Tenge</i>	Asset retirement obligations	Provision for environmental liability	Provision for taxes	Other	Total
Current portion	1,120,014	6,386,533	26,831,960	7,791,740	42,130,247
Long-term portion	43,240,902	25,502,167	483,221	5,305,678	74,531,968
Provision at December 31, 2008	44,360,916	31,888,700	27,315,181	13,097,418	116,662,215

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

24. 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 the salaries of its employees as the employee contribution to their cumulative pension funds. These amounts are expensed when they are incurred.

Defined Benefit Scheme

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

The total liability for the Group's Defined Benefit Scheme comprised the following at December 31, 2008:

	2008
Present value of defined benefit liability	22,498,169

A reconciliation of the present value of the defined benefit liability with specified payments is as follows for the years ended December 31, 2008:

<i>In thousands of Tenge</i>	2008
Total liability at the beginning of the year	21,087,552
Current service cost	2,219,397
Past service cost	129,916
Interest cost	1,661,556
Benefits paid during the year	(1,861,563)
Acquisitions during the year	297,868
Unrecognized past service costs	1,255,287
Actuarial loss recognized during the year	(2,291,844)
Total liability at the end of the year	22,498,169
Liability falling due within one year	(1,439,383)
Liability falling due after one year	21,058,786

Actuarial loss recognised for the year ended December 31, 2008 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 2,974,312 thousand Tenge were recorded in the consolidated income statement within personnel costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. EMPLOYEE BENEFIT LIABILITY (continued)

The estimates of the Group's liability were made on the basis of published statistical data regarding mortality and the actual Group's data concerning the 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:

	2008
Discount rate	7.48%
The expected rate of future annual material assistance increases	6.12%
The expected rate of future annual minimum salary increases	6.22%
The expected rate of future annual railway ticket price increases	4.50%

The Defined Benefit Schemes are unfunded.

25. PUT OPTION LIABILITY

On November 28, 2007, the Group acquired a 75% interest in the TRG. TRG is a holding company operating in European oil and gas markets.

As part of the acquisition the Group also obtained a call and put option to acquire the remaining 25% of TRG. The call and put option is exercisable not earlier than 270 days after the date of acquisition (November 28, 2007) and has no maturity. Exercise price of the Option is determined using a formula by adjusting pro-rata portion of price paid by the Group for the 75% interest in TRG by then current amounts of twelve months EBITDA and total debt of TRG. The Group has concluded that the exercise price is not reflective of the possible fluctuations in the fair value of the underlying shares subject to the call and put option, and accordingly the Group has access to benefits and risks of ownership of the underlying shares. Accordingly, the Group has applied accounting for the business combination on the basis that the underlying shares subject to the put option have been acquired.

26. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Other taxes payable	66,426,891
Advances received	44,759,253
Employee benefit liability	33,419,423
Securities sold under agreement to repurchase	13,104,136
Customer deposits	7,895,826
Other	51,752,519
	217,358,048

At December 31, 2008 other current liabilities were not interest bearing, except for customer deposits and securities sold under agreement to repurchase, which bear interest in range from 3.0% to 8.5% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. REVENUE

Revenue for the year ended December 31, 2008 comprised the following:

<i>In thousands of Tenge</i>	2008
Sales of crude oil	1,145,808,508
Sales of refined products	1,113,116,384
Railway cargo transportation revenue	404,473,305
Oil and gas transportation fee	205,363,604
Telecommunication services revenue	134,079,691
Sales of gas products	109,983,864
Air transportation services	77,762,198
Electricity complex	48,857,598
Interest revenue	46,668,973
Railway passenger transportation revenue	42,523,391
Electric energy transmission services	29,394,437
Postal services	13,675,161
Other revenue	192,933,336
Less: sales taxes and commercial discounts	(224,178,502)
	3,340,461,948

Other revenue

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

28. GOVERNMENT GRANTS

According to Resolution of the Government of the Republic of Kazakhstan #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 (further "NC KTZh") has 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, 2008 totalled 7,300,236 thousand Tenge.

In accordance with the contract between MEMR and GRES JSC (further "GRES"), a subsidiary of the Group, MEMR reimbursed to GRES the costs of fuel 6,119,420 thousand Tenge used for electricity generation in the Southern regions of the Republic of Kazakhstan in 2008. The amount of subsidy for the year ended December 31, 2008 attributable to the Samruk Energo's share in Zhambylskaya GRES named after T.I. Baturov JSC amounted to 2,707,708 thousand Tenge (50% of the reimbursement amount, net of VAT).

According to the Resolution of the Government of the Republic of Kazakhstan #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, the Kazakhtelecom 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, 2008 totalled 4,386,282 thousand Tenge.

In accordance with Resolution #915 of the Government of the Republic of Kazakhstan 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, 2008 totalled 584,911 thousand Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. COST OF SALES

Cost of sales for the year ended December 31, 2008 comprised the following:

<i>In thousands of Tenge</i>	2008
Materials and supplies	1,154,200,461
Personnel costs	277,961,664
Depreciation, depletion and amortization	205,848,367
Royalty	92,226,352
Production services rendered	77,625,183
Repair and maintenance	20,510,767
Rent	17,859,262
Interest expense	12,254,103
Other	145,389,273
	2,003,875,432

30. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative for the year ended December 31, 2008 comprised the following:

<i>In thousands of Tenge</i>	2008
Personnel costs	99,970,272
Taxes other than income tax	36,987,130
Depreciation and amortization	22,142,313
Provision for doubtful debts	21,712,280
Consulting services	15,852,764
Charitable donations	10,253,176
Other	94,436,891
	301,354,826

31. TRANSPORTATION AND SELLING EXPENSES

Transportation and selling expenses for the year ended December 31, 2008 comprised the following:

<i>In thousands of Tenge</i>	2008
Transportation	92,873,024
Custom fees	72,736,071
Commission fees to agents and advertising	11,070,224
Personnel costs	12,002,510
Depreciation and amortization	8,431,559
Other	18,888,538
	216,001,926

32. IMPAIRMENT LOSS

Impairment loss for the year ended December 31, 2008 comprised the following:

<i>In thousands of Tenge</i>	2008
Impairment of goodwill	29,215,642
Impairment of amounts from credit institutions	21,157,062
Impairment of loans to customers	17,453,669
Impairment of property, plant and equipment and intangible assets	15,408,915
Impairment of bank deposits	7,154,227
Impairment of investment in associates	5,348,466
Other	833,082
	96,571,063

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. FINANCE COST

Finance cost for the year ended December 31, 2008 comprised the following:

<i>In thousands of Tenge</i>	2008
Interest on loans and debt securities issued	182,367,162
Unwinding of discount on provisions	7,855,453
Interest on finance lease obligations	2,310,099
Other	11,654,373
	204,187,087

34. FINANCE INCOME

Finance income for the year ended December 31, 2008 comprised the following:

<i>In thousands of Tenge</i>	2008
Interest income on bank deposits and short-term investments	91,599,205
Revaluation of finance liability	24,616,953
Other	12,326,211
	128,542,369

35. INCOME TAXES

Income taxes prepaid at December 31, 2008 of 32,593,045 thousand Tenge represents prepayment for corporate income tax.

Income taxes payable comprised at December 31, 2008:

<i>In thousands of Tenge</i>	2008
Excess profit tax	64,729,666
Corporate income tax	2,642,320
Income tax payable	67,371,986

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

<i>In thousands of Tenge</i>	2008
Current income tax expense:	
Corporate income tax	285,715,667
Excess profit tax	69,126,541
Withholding tax on dividends	21,076,974
Deferred income tax benefit:	
Corporate income tax	(139,392,224)
Excess profit tax	(2,946,024)
Withholding tax on dividends	(210,508)
Income tax expense	233,370,426

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**35. INCOME TAXES (continued)**

The law on the enactment of the new tax code decreased the CIT rate from 20% in 2009 to 17.5% in 2010 and to 15% in 2011 and onwards. The mechanism for calculating EPT was also changed in 2009. A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate (30% in 2008) to income tax expense was as follows for the years ended December 31, 2008:

<i>In thousands of Tenge</i>	2008
Accounting profit before tax	694,404,942
	30%
Income tax expense on accounting profit	208,321,483
Excess profit tax	69,134,841
Withholding tax on dividends	20,336,978
Tax effect of items which are not deductible or assessable for taxation purposes	45,237,904
Effect of different corporate income tax rates	47,121,928
Effect of change in income tax rates	(144,110,133)
Non-taxable share of profit of an associate	(5,525,360)
Change in unrecognized deferred tax assets	(7,147,215)
Corporate income tax expense reported in the consolidated income statement	233,370,426

Deferred tax balances, calculated by applying the statutory tax rates in effect at the balance sheet date 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, 2008:

<i>In thousands of Tenge</i>	2008			
	Corporate Income Tax	Excess Profit Tax	Withholding Tax	Total
Deferred tax assets				
Property, plant and equipment and intangible assets	6,874,253	563,390	-	7,437,643
Tax loss carry forward	14,915,539	-	-	14,915,539
Employee related accruals	5,088,205	61,519	-	5,149,724
Impairment of financial assets	5,281,019	-	-	5,281,019
Environmental liability	1,250,832	3,678	-	1,254,510
Other accruals	10,027,515	-	-	10,027,515
Other	7,486,172	236,625	-	7,722,797
Less: unrecognized deferred tax assets	(15,948,908)	(563,390)	-	(16,512,298)
Less: deferred tax assets offset with deferred tax liabilities	(21,823,116)	(132,137)	-	(21,955,253)
Deferred tax assets	13,151,511	169,685	-	13,321,196
Deferred tax liabilities				
Property, plant and equipment and intangible assets	231,688,527	556,509	-	232,245,036
Undistributed earnings of subsidiaries	336	-	2,107,799	2,108,135
Other	6,653,195	622	-	6,653,817
Less: deferred tax liabilities offset with deferred tax assets	(21,823,116)	(132,137)	-	(21,955,253)
Deferred tax liabilities	216,518,942	424,994	2,107,799	219,051,735
Net deferred tax liability	(203,367,431)	(255,309)	(2,107,799)	(205,730,539)

Tax losses carryforwards as of December 31, 2008 in the Republic of Kazakhstan expire for tax purposes three years from the date they are incurred. Consequently, the majority of the tax losses carryforwards of the Group as of December 31, 2008 and 2007 expire for tax purposes in 2008 – 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**35. INCOME TAXES (continued)**

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

<i>In thousands of Tenge</i>	2008			Total
	Corporate Income Tax	Excess Profit Tax	Withholding Tax	
Balance at January 1	335,126,808	2,767,687	2,313,359	340,207,854
Foreign currency translation	630,895	433,646	4,948	1,069,489
Charge to equity	207,846	—	—	207,846
Acquisition of subsidiary	6,794,106	—	—	6,794,106
Charge to income statement	(139,392,224)	(2,946,024)	(210,508)	(142,548,756)
Balance at December 31	203,367,431	255,309	2,107,799	205,730,539

36. INTEREST IN JOINT VENTURES

At December 31 the Group has interests in the following joint ventures:

Significant entities	Percentage ownership
	2008
KazRosGas LLP	50.00%
Tengizchevroil LLP and subsidiaries	20.00%
North Caspian Project ("NCP")	16.81%
CCEL	50.00%
Kazakhturkmunay LLP	51.00%
Kazakhoil Aktobe LLP ("KOA")	50.00%
JV Kazgermunay LLP	50.00%
Caspian Oil and Gas Company LLP	50.00%
Zhambai LLP	50.00%
Teniz Service LLP*	48.99%
Stantciya Ekibastuzskaya GRES-2 JSC	50.00%
Zhambylskaya GRES named after T.I. Baturov JSC	50.00%
Forum Muider BV	50.00%

The Group's share of the jointly controlled assets, liabilities, incurred revenues and expenses included in the consolidated balance sheet at December 31, 2008 and income statement for the year then ended before elimination of intercompany transactions and balances are as follows:

<i>In thousands of Tenge</i>	2008
Assets	
Cash and cash equivalents	63,378,156
Trade receivables	24,412,330
Inventories	21,592,242
Other current assets	70,999,831
Property, plant and equipment and intangible assets	668,268,528
Other non-current assets	10,334,619
	858,985,706
Liabilities	
Trade payables	15,196,821
Other current liabilities	281,715,879
Borrowings	193,900,727
	490,813,427
Group's share in net assets	368,172,279
Revenue	627,128,309
Expenses	(428,058,892)

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

The following significant subsidiaries have been included in these consolidated financial statements:

<i>In thousands of Tenge</i>	Percentage ownership
	2008
National Company KazMunayGas JSC and subsidiaries	100.00%
National Company Kazakhstan Temir Zholy JSC and subsidiaries	100.00%
Kazakhstan Electricity Grid Operating Company JSC and subsidiaries	100.00%
KazPost JSC	100.00%
KOREM JSC	100.00%
National Company Kazakhstan Engineering JSC and subsidiaries	100.00%
Airport Pavlodar JSC	100.00%
International Airport Aktobe JSC	100.00%
Samruk-Energy JSC and subsidiaries	100.00%
Samruk-Invest JSC	100.00%
Telecom-Invest JSC	100.00%
KAMKOR LLP and subsidiaries	100.00%
Development Bank of Kazakhstan JSC and subsidiaries	100.00%
Investment Fund of Kazakhstan JSC	100.00%
National Innovation Fund JSC and subsidiaries	100.00%
Entrepreneurship development Fund “Damu” JSC	100.00%
State Corporation for Insurance of Export Credit and Investments JSC	100.00%
Corporation for Export Development and Promotion JSC	100.00%
Kazyna Capital Management JSC	100.00%
Kazakhstan Center of Investment Assistance LLP	100.00%
National Company Social-Entrepreneurship Corporation “Batys” JSC	100.00%
National Company Social-Entrepreneurial Corporation “Kaspi” JSC	73.04%
National Company Social-Entrepreneurship Corporation “Zhetysu” JSC	48.46%
National Company Social-Entrepreneurship Corporation “Ontustik” JSC	52.87%
National Company Social-Entrepreneurship Corporation “Saryarka” JSC	79.49%
National Company Social-Entrepreneurship Corporation “Tobol” JSC	42.43%
National Company Social-Entrepreneurship Corporation “Ertis” JSC	74.12%
Kazakhstan Fund of Guarantee of mortgage loan JSC	88.70%
Air Astana JSC	51.00%
Kazakh Research Institute named after Chokin JSC	51.00%
Kazakhtelecom JSC and subsidiaries	51.00%
KazMorTransfFlot JSC and subsidiaries	50.00%

38. SIGNIFICANT NON-CASH TRANSACTIONS

During 2008 the Group settled in crude oil 17,862,800 thousand Tenge due under the terms of a pre-export financing agreement. This transaction has been excluded from this consolidated cash flow statement.

In 2008 the NC KTZh entered into a finance lease state purchase agreement with “BRK Leasing” JSC to provide of 340 units of rolling stock to its subsidiary, “Center of Transport Service” JSC. In 2008 the Group received 190 cisterns with the total amount of 1,028,838 thousand Tenge (*Note 22*). This transaction has been excluded from this consolidated cash flow statement.

In 2008, under finance lease agreements the Kazakhtelecom received telecommunication equipment with a value of 8,130,206 thousand Tenge. This transaction has been excluded from this consolidated cash flow statement.

In 2008, in accordance with the terms of loan agreements, lenders made payments of 6,286,585 thousand Tenge directly to the Kazakhtelecom’s suppliers of property, plant and equipment. This transaction has been excluded from this consolidated cash flow statement.

In 2008 the Group capitalised borrowing costs of 4,066,086 thousand Tenge (*Notes 6 and 24*). This transaction has been excluded from this consolidated cash flow statement.

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

In 2008 the Group received from the Parent controlling interest in seven social-entrepreneurial corporations and the Kazakhstan Fund of Guarantee of Mortgage Loan JSC (*Note 17*) in the total amount of 31,899,073 thousand Tenge as charter capital contribution. This transaction has been excluded from this consolidated cash flow statement.

39. RELATED PARTY DISCLOSURES

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 entities 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 during 2008 and the related balances at December 31, 2008:

<i>In thousands of Tenge</i>		Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
State-controlled entities	2008	10,695,160	515,161	1,212,253	7,520,650
Associates	2008	26,526,368	35,808,781	9,821,908	5,461,032
Joint ventures	2008	10,802,693	32,487,503	4,178,383	3,159,264

Other related parties transactions comprised the following:

- At December 31, 2008, some of the Group's borrowings of 27,894,840 thousand Tenge, were guaranteed by the Government of the Republic of Kazakhstan.
- After establishment of the Fund, Halyk Savings Bank of Kazakhstan JSC, owned by one of the key management personnel of the Fund, is considered to be a related party to the Fund and its subsidiaries. As at December 31, 2008, the Group had total current cash accounts balance at and deposits placed at this bank amounting to 359,519,416 thousand Tenge (*Notes 12, and 16*) and outstanding loans payable in amount of 12,411,653 thousand Tenge (*Note 18*).

Total compensation to key management personnel include in personnel costs in the accompanying consolidated income statement is 3,846,308 thousand Tenge for the year ended December 31, 2008. Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

As discussed in *Note 28*, the Government provides certain subsidies to the Group's subsidiaries.

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 market risk and 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*).

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

The following table demonstrates the sensitivity of to a reasonably possible change in interest rates, with all other variables held constant, 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).

<i>In thousands of Tenge</i>	Increase / decrease in basis points*	Effect on profit before tax	Effect on equity
2008			
US dollar	+50	(4,527,075)	405,336
	-50	4,527,075	(405,336)

* 1 basis point = 0.01%

Currency Risk

As a result of significant borrowings, lease liabilities and 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 to a reasonably possible change in the US Dollar, with all the variables held constant, of the Group's profit before income tax and equity (due to changes in the fair value of monetary assets and liabilities).

<i>In thousands of Tenge</i>	Increase / decrease in exchange rate	Effect on profit before tax	Effect on equity
2008			
US Dollar	25%	(281,128,989)	(2,299,721)
	40%	(449,826,286)	(2,303,246)

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate margin and collateral requirements.

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 9*), amount due from credit institutions (*Note 10*), trade accounts receivable and other current assets (*Note 15*), other financial assets (*Note 11*), bank deposits (*Note 12*) and VAT recoverable (*Note 13*) net of allowances for impairment recognised at the balance sheet 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.

The Group does not guarantee the obligations of other parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****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 below summarises the maturity profile of the Group's financial liabilities at December 31, 2008 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after 5 years	Total
As at December 31, 2008						
Borrowings	15,242,884	97,086,606	308,384,654	1,743,163,651	690,158,819	2,854,036,614
Finance lease liabilities	125,169	1,983,004	7,123,021	22,341,135	7,520,300	39,092,629
Trade accounts payable	48,053,124	139,665,725	81,281,303	358,582	–	269,358,734
Payable for the acquisition interest in project	–	–	–	–	304,744,376	304,744,376
Derivatives	–	–	115,802	2,864	7,463,167	7,581,833
Income taxes payable	–	–	67,371,986	–	–	67,371,986
Other current liabilities	46,932,578	28,694,586	80,659,284	1,741,075	376,212	158,403,735
	110,353,755	267,429,921	544,936,050	1,767,607,307	1,010,262,874	3,700,589,907

Cash Flow Risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flow requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The management of the Group believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have material impact on the Group's operations.

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 stakeholders 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 Net Capitalization ("ND/NC"); 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 subsidiary reduced by value of cash and cash equivalents. Net Capitalization is considered to be equal to Net Debt and Equity. Equity is considered to be equal to the entire equity of the subsidiary attributable to a majority shareholder.

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

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	Actual for the Group 2008
ND/NC	0.21
ND/EBITDA	0.80
ND/E	0.26
<i>In thousands of Tenge</i>	
Borrowings	1,982,505,107
Loans from government	41,587,219
Payable for the acquisition interest in project	239,500,799
Payable to the shareholder of a joint venture	163,451,870
Finance lease liabilities	24,795,412
Put option liability	14,895,525
Derivatives	7,581,833
Minus: Cash and cash equivalents	(1,506,080,120)
Net Debt	968,237,645
Borrowings	1,982,505,107
Loans from government	41,587,219
Payable for the acquisition interest in project	239,500,799
Payable to the shareholder of a joint venture	163,451,870
Finance lease liabilities	24,795,412
Put option liability	14,895,525
Derivatives	7,581,833
Equity attributable to majority shareholder	3,703,017,837
Minus: Cash and cash equivalents	(1,506,080,120)
Net Capitalization	4,671,255,482
Profit before income tax	694,404,942
Interest on loans and debt securities issued	182,367,162
Interest on finance lease obligations	2,310,099
Depreciation, depletion and amortization	237,268,247
Impairment loss	96,571,063
EBITDA	1,212,921,513
Total equity	4,257,339,164
Minus: Minority interests	(554,321,327)
Equity attributable to majority shareholder	3,703,017,837

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Fair Values of Financial Instruments**

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

The fair value of financial instruments, consisting of cash, receivables, deposits, payables and obligations under debt instruments, approximate their carrying values.

Adequate provisions are made in respect of accounts receivable.

41. COMMITMENTS AND CONTINGENT LIABILITIES**Legal proceedings**

The Group is party to various other legal proceedings related to business operations, such as property damage claims and employee claims. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its consolidated financial statements only where it is probable that actual events giving rise to liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these consolidated financial statements for any of the contingent liabilities mentioned above.

Local market obligations

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. While the price for such additional supplies of crude oil is regulated, this price may be materially below international market prices and may even be set at the cost of production. 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.

Environment

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 23*) management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Group's financial position, statement of income or cash flows.

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. Penalties and interest related to reported and discovered violations of Kazakhstan's tax laws may be significant. 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. Due to above the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2008. As at December 31, 2008 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 or otherwise disclosed in these consolidated financial statements (*Notes 4 and 23*).

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

At December 31, 2008, the Group has contractual obligations for construction projects and purchase of property, plant and equipment approximating 597,609,943 thousand Tenge. In addition, as at December 31, 2008, Group has committed to purchase inventory (materials and spare parts) and services for the amount of 54,061,451 thousand Tenge.

Commitments in joint ventures

Certain of the Group's joint ventures (Tengizchevroil LLP, Kazakhturkmunay LLP, North Caspian Project and Kazakhoil Aktobe LLP) have commitments under their license agreements with the Republic of Kazakhstan. Under these agreements the foreign partners need to make certain investments as dictated by agreed time schedules. As it is the foreign investors responsibility to make these investments they are not listed here as Group commitments.

Operating lease commitments

Operating leases mainly relates to aircrafts with lease terms of between 5 to 6 years. All these operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

As at December 31, 2008 the operating lease commitments of the Group were as follows:

<i>In thousands of Tenge</i>	2008
Within one year	14,467,064
After one year but not more than five years	32,977,626
More than five years	5,785,298
Total	53,229,988

Aircraft leases provide for substantial contingent rental payments which vary according to flying hours and cycles.

Commitments under oilfield licenses and contracts

The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation. The Group's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Group's financial position, statement of income or cash flows.

Some of the Group's oilfield contracts specify a minimum level of expenditures through the end of the license period. Each of the oilfield contracts also requires the Group to agree with the local governments annual business plans, which include capital and social infrastructure projects. The maximum amount of annual commitments is limited to 1% of the development expenditures for the year.

Oilfield licenses and contracts of KMG EP

Commitments under oilfield licenses and contracts of KMG EP comprised the following at December 31, 2008:

Year	Capital expenditures	Operational expenditures
2009	44,586,977	4,735,461
2010	841,000	3,834,857
2011	841,000	3,834,857
2012	-	3,834,857
2013	-	3,834,857
2014-2021	-	22,564,721
Total	46,268,977	42,639,610

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENT LIABILITIES (continued)****Crude oil supply commitments**

Under the provisions of a pre-export financing agreement the Group has committed to deliver 150,000 tons of crude oil per month to the lender until September 2009 for fair value consideration determined at the date of shipment. The Group has further obligations to supply oil and oil products to the local market under Government directives.

Commitments in KazGerMunay LLP ("KGM", a 50% joint venture of KMG EP)

The Group's share in the commitments of KGM was 10,740,257 thousand Tenge as at December 31, 2008.

Contingencies of KGM

The tax authorities have commenced legal action against KGM in respect of obligations related to rates applied on the computation of fines for flaring gas in volumes above permitted amounts. In relation to this matter, in 2008, KGM appealed the assessment of the tax authorities with the Kyzylorda regional economic court and prevailed. However, the tax committee appealed this verdict with the Supervisory Panel of the Kyzylorda oblast court and the previous verdict was overturned in favor of the tax committee. KGM is in the process of filing a further appeal to the Supreme Court of the Republic of Kazakhstan. Management of KGM believes that they will ultimately prevail in this matter and therefore no amounts have been accrued in the consolidated financial statements for the year ending December 31, 2008. Should KGM not prevail in their appeal the maximum amount of the liability is estimated by KGM's management in the amount of 9,873,360 thousand Tenge, inclusive of fines and penalties.

Contingencies of CCEL (a 50% joint venture of KMG EP)

In 2007 CCEL's books have been audited by the tax authorities with regard to the calculation and accrual of the excess profit tax for the years 2002-2004. As a result, CCEL received a claim from the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan to pay additional tax in the amount of 11,781,577 thousand Tenge, fines in the amount of 2,727,387 thousand Tenge and penalty in the amount of 11,641,376 thousand Tenge. During 2008 the Company has appealed to Astana city court and received its decision in favor of CCEL; tax authorities then appealed to Supreme Court that resulted in decision in favor of tax authorities. On January 16, 2009 CCEL has appealed the excess profit tax claims to the Collegium of Supreme Court. The outcome of this appeal remains uncertain as of the date the financial statements are authorized for issue. As of December 31, 2008 CCEL has accrued probable loss under this claim in the amount of 1,889,187 thousand Tenge. Residual amount has not been accrued in the consolidated financial statements as management believes that the case will be ruled in favor of CCEL.

Investment and other obligations of Intergas Central Asia JSC ("ICA") under the Agreement with the Government*Investments for the improvements of gas transportation assets*

The Group operates the mainline gas distribution network in the Republic of Kazakhstan pursuant to an agreement (the "Agreement") between the Group and the Government. Under the terms of the Agreement, ICA has an obligation to invest US\$30 million each year (3,623,100 thousand Tenge at 120.77 Tenge to US\$1 as of December 31, 2008) 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 Agreement, ICA will be reimbursed for the net book value of the above investments at the time the Agreement expires. As of December 31, 2008 ICA had approximately 4,700,470 thousand Tenge in contractual commitments related to this investment obligation.

This investment obligation is contingent upon the fulfilment of certain conditions. One of them is that the physical throughput of gas remains stable or increases from its 1996 level and another, that the ongoing business conditions of gas transport contracts with foreign customers remain on as favourable terms as they were prior to establishment of the Agreement. If gas tariffs and cash payment defaults by customers make it impractical to carry out improvement and investment, ICA is entitled to apply to the Government for an adjustment of the domestic tariff or an adjustment to the level of its investment obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENT LIABILITIES (continued)****Investment and other obligations of Intergas Central Asia JSC ("ICA") under the Agreement with the Government (continued)***Royalty*

From July 17, 1997, ICA is obliged to pay a royalty to the Republic of Kazakhstan amounting to approximately 2% of the throughput of gas in the Western System. However, in accordance with the Agreement, this payment is only due and payable for the Western System after the issue of the Government Resolution or order of the Ministry of Finance advising the customers of the Western System of their obligation to pay the royalty to ICA. As of December 31, 2008, no such decree had been issued. Due to the uncertainty surrounding the implementation of the royalty, ICA has to date not been charging royalty to its customers.

Also, ICA has not received any indication from the Government of the Republic of Kazakhstan authorities that royalties should have been or should be charged, nor that ICA is liable for any past royalty amounts.

Management is working to clarify the matter with the Government of the Republic of Kazakhstan and believes that no past or future royalties will be payable by ICA or its customers.

Kyrgyz By-Pass

ICA 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 agreement to be approximately US\$ 90 million to US\$ 100 million. This asset will be transferred to the Republic of Kazakhstan at the later of the end of the term of the Agreement or after twenty years from the completion for US\$ 1. Construction of this bypass has not yet begun.

Management believes that they have taken all necessary steps to fulfil ICA's obligations in this respect, as well as considering the issue of taking into management a part of gas-pipeline belonging to the Kyrgyz Republic. However, the new domestic tariffs which, per the agreement, are a precondition for the commencement of construction of the Kyrgyz By-Pass, have not been published as of December 31, 2008.

The Government of the Republic of Kazakhstan reviews ICA's compliance with its obligations under the agreement, including the fulfillment of the investment commitments. The review of ICA's compliance with its obligations under the agreement for 2008 will be performed in 2009. The management believes that as of December 31, 2008 ICA is in compliance with investment requirements.

Prior to December 31, 2005, ICA paid to the Government 10% of its net profits under the agreement. On March 31, 2006 the Republic of Kazakhstan, as represented by the Ministry of Finance, and ICA signed the contract for amendments (the "Amendments") to the Agreement. According to the Amendments, during the period from January 1, 2008 to December 31, 2012 and the 5-year optional extension period, the annual payment shall be agreed at the beginning of each period, in case it is not agreed, ICA shall pay 2,082,287 thousand Tenge per annum.

Technological oil of MunayTas JSC and Kazakhstan-China Pipeline JSC

MunayTas JSC, a 50% joint venture of the Group, received technological oil to fill pipelines. As of December 31, 2008 volume of technological oil is 99 thousand tones. Similarly, Kazakhstan-China Pipeline JSC, a 50% joint venture of the Group, received 401 thousand tones of technological oil from its related party PetroChina International Kazakhstan LLP. MunayTas JSC and Kazakhstan-China Pipeline JSC are responsible for preservation of technological oil and should return it back to its customers upon abandonment of pipelines or expiration of oil transportation contracts. The Group did not recognize any asset or liability in relation to this oil.

Covenants

Certain subsidiaries of the Group need to comply with covenants rising on borrowing agreements. Management of the Group believes that the Group and its subsidiaries complied with covenants set as of the balance sheet date (Note 43).

Commitments under exploration contracts of KazMunayTeniz JSC ("KMT")

According to the terms of exploration contracts signed by with Government bodies, KMT has certain commitments on fulfillment of minimal work programs under related oil and gas projects. As at December 31, 2008, KMT had commitments under 2009 minimal work programs in total of US\$ 239,836 thousand (equivalent to 28,964,994 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENT LIABILITIES (continued)****Local market obligations of Trade House KazMunayGas JSC ("TH KMG")**

The Kazakhstani government requires oil trading companies to supply a portion of the oil products to meet domestic energy requirement on an annual basis, mainly to support agricultural products producers during the spring and autumn sowing campaigns. Local market oil prices are significantly lower than prices obtainable on the export market and even lower than the normal domestic market price determined in an arm-length transaction. During 2008 TH KMG has supplied 560,501 tons of oil products for the total amount of 30,466,132 thousand Tenge. In 2009 TH KMG is obliged to supply an additional 100,000 tons totaling to 5,044,248 thousand Tenge.

Commitments and contingencies of PKI

As of December 31, 2008, PKI had a number of tax and other contingencies for a total outstanding amount of 29,667,715 thousand Tenge. PKI is a 33% associate of the Group.

License commitments of Kazakhtelecom

Under the terms of certain licenses on the provision of wireless telecom services, Kazakhtelecom has certain obligations in terms of coverage area of Kazakhtelecom's 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. Kazakhtelecom's management believes that Kazakhtelecom is in compliance with the terms of the licenses.

Commitments to extend credit

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 plans to fund these commitments with issue of debt securities, loans from the Parent company and a number of foreign counterparties in 2009.

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.

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 balance sheet date if counterparties failed completely to perform as contracted.

<i>In thousands of Tenge</i>	2008
Contracted amount	
Loan, credit line and finance lease commitments	124,399,242
Letters of credit and other commitments related to settlement operations	14,846,794

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.

Commitments under Stabilization Plan

The Fund is assigned to be the main operator of the Government in implementation of Stabilization Plan approved by the Government in 2008 (*Note 1*). Accordingly, the Fund has the following commitments under the Stabilization Plan:

Stabilization of financial sector

The Government assigned the Fund to acquire up to 25% of shares of four biggest second-tier banks of Kazakhstan to provide additional capitalization. The Government will provide the Fund 480 billion Tenge for these purposes. The Fund will not remain as a shareholder after the economic crisis is over and will provide banks with option to purchase back shares within 5 years after acquisition, but at price not lower than paid by the Fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. COMMITMENTS AND CONTINGENT LIABILITIES (continued)***Settlement of real estate market issues*

The Government decided to provide funds for financing and refinancing of mortgage loans. The Government assigned the Fund to place deposits with second-tier banks and provide direct financing of construction companies for total amount of 600 billion Tenge. This amount will be used partially to refinance existing mortgage loans, provide financing to complete ongoing construction and purchase complete housing through the fund and its subsidiaries.

Small and medium business support

The Government assigned the Fund to provide support to the small and medium business entities through financing of new projects (30%) and refinancing of ongoing projects (70%). The Fund will provide 120 billion Tenge for that purposes.

Development of agricultural sector

The Government will invest 350 billion Tenge in agriculture sector within 2009-2011. The social-entrepreneurial corporations (*Note 37*) will be involved in the financing program, but Stabilization Plan does not stipulate the amount of financing to be provided through the Fund.

Implementation of innovation, industrial and infrastructure projects

The Fund will provide 120 billion Tenge to finance innovation, industry and infrastructure projects.

42. SEGMENT REPORTING

For management purposes, the Group is organized into organizational business units based on their products and services, and has five 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.

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 within Kazakhstan, 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 increase and stimulation of investment and innovation activities in all segments of the economy of Republic of Kazakhstan.

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 remaining operating segments have been aggregated and presented as Other segment due to their insignificance. Operations of Samruk-Kazyna have been included in the Financial and Innovation Institutions segment.

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

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2008:

<i>In thousands of Tenge</i>	Oil and Gas	Transportation	Telecommunication	Energy	Innovation Institutions	Other	Elimination	Total
Revenues from sales to external customers	2,509,812,468	560,857,501	138,465,973	76,415,827	42,016,664	27,872,652	–	3,355,441,085
Revenues from sales to other segments	34,327,275	61,941,475	3,913,223	13,392,427	1,378,544	3,460,675	(118,413,619)	–
Total revenue	2,544,139,743	622,798,976	142,379,196	89,808,254	43,395,208	31,333,327	(118,413,619)	3,355,441,085
Net profit for the year	385,589,399	68,125,550	29,515,837	10,562,717	(14,889,077)	16,830,617	(34,700,527)	461,034,516
Total assets of the segment	4,588,435,347	987,101,619	337,959,457	273,430,865	626,472,628	3,532,969,249	(2,673,523,454)	7,672,845,711
Total liabilities of the segment	2,562,941,058	314,223,098	143,644,161	150,223,076	380,396,757	38,243,996	(174,165,599)	3,415,506,547
<i>Other segment information</i>								
Finance income	103,244,785	7,724,631	878,585	1,164,984	3,086,675	52,858,793	(40,416,084)	128,542,369
Finance cost	(186,952,629)	(10,163,968)	(6,089,217)	(1,491,170)	(638,949)	(463,077)	1,611,923	(204,187,087)
Share of income in associates	22,364,417	862,880	17,554,988	(2,729)	–	(28,723)	–	40,750,833
Income tax expense	(253,842,485)	14,603,630	6,085,400	1,973,304	(2,008,081)	(182,194)	–	(233,370,426)
Depreciation, depletion and amortization	(154,650,428)	(49,616,841)	(23,113,024)	(6,730,214)	(364,916)	(1,978,445)	–	(236,453,868)
Impairment loss	(32,374,490)	184,540	(10,869,970)	(1,555,013)	(18,788,015)	(33,684,059)	515,944	(96,571,063)
Allowances for obsolete inventories, doubtful accounts receivable and doubtful VAT recoverable	(18,711,728)	(3,779,533)	(975,607)	(669,337)	(373,497)	(831,053)	–	(25,340,755)
Provision charges	(20,563,047)	(1,238,726)	(1,293,763)	–	(275,141)	(6,037)	–	(23,376,714)
Investments in associates	127,090,073	2,436,557	44,604,223	75,429	17,099	3,263,926	–	177,487,307
Capital expenditures	480,584,079	139,625,273	63,687,574	31,684,260	559,257	19,407,495	(168,135)	735,379,803

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**43. EVENTS AFTER THE BALANCE SHEET DATE***Tenge devaluation*

On February 4, 2009 the Tenge devalued against the US dollar and other major currencies. The exchange rates before and after devaluation were 120 Tenge / US dollar and 150 Tenge / US dollar respectively. The currency exchange rate of KASE as of June 19, 2009 was 150.3 Tenge to 1 US dollar.

Acquisition of MangistauMunaiGas JSC (“MMG”)

On April 14, 2009, NC KMG and CNPC Exploration and Development Company Ltd. signed an agreement to acquire 100% of common shares of MMG from Central Asia Petroleum Ltd. The assets of MMG include the Kalamkas oil and gas deposit, Zhetybai and other exploration assets. Assets related to the Pavlodar oil refinery held by MMG have been excluded from the transaction. The transaction is scheduled to close in August 2009, however, as of the date of these financial statements, not all conditions required for closure of transaction are met.

Issue of Bonds

On January 30, 2009 the Fund made a placement of 480,000 of its coupon bonds at informal market for the total amount of 480 billion Tenge. Bonds have maturity of 15 years, coupon rate of 0.02% paid semiannually and nominal value of 1,000,000 Tenge per bond. All of these notes were purchased by the National Bank of the Republic of Kazakhstan. Bonds were issued to finance activities under the Stabilization Plan.

On March 18, 2009 the Fund made a placement of an additional 750,000,000 of its coupon bonds at KASE for the total amount of 750 billion Tenge. Bonds have a maturity of 6-15 years, annual coupon rate of 4% paid semiannually and a nominal value of 1,000 per bond. All of these notes were acquired by BTA Bank and Alliance Bank as further described in the following paragraphs.

Acquisition of BTA Bank JSC (“BTA Bank”)

On February 2, 2009 in accordance with the Law of the Republic of Kazakhstan on Banks and Banking Activity the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations made an offer to the Government, and the Government, represented by the Fund, agreed to purchase a controlling stake in BTA Bank JSC. The purchase was carried out through the issue of an additional 25,246,343 shares at the price of 8,401 Tenge per share, for a total consideration of 212,095 million Tenge, which provided the Government with 75.1% interest in the Bank’s capital. The Bank was acquired by the Fund with a view to resale once the current restructuring of the Bank’s foreign debt is complete. In February 2009 rating agencies have downgraded ratings of the Bank’s certain notes, which lead to a breach of the covenants of the notes causing most of the Bank’s debt to become current.

During March 2009 BTA Bank made several placements of its bonds with the coupon rate of 9% per annum at local market for the total amount of KZT 645 billion, with maturity of 6-15 years. All of these bonds were purchased by the Fund. The same time the Fund issued notes with the same maturity and coupon rate of 4% per annum (as described in “*Issue of Bonds*” paragraph above). A portion of these bonds for the total amount of KZT 645 billion were acquired by BTA Bank. Subsequently, BTA Bank sold KZT 289.5 billion to the National Bank of the Republic of Kazakhstan under the repurchase agreements.

Alliance Bank JSC – deposits placed and acquisition of bonds

On February 2, 2009 the Fund placed a deposit of 24,000,000 thousand Tenge with Alliance Bank JSC (“Alliance Bank”) for the purpose of further acquisition of the Bank. The Fund plans to complete the purchase during 2009.

During March 2009 Alliance Bank made several placements of its notes with the coupon rate of 9% per annum at KASE for the total amount of KZT 105 billion, with maturity of 6-15 years. All of these notes were purchased by the Fund. The same time the Fund issued notes with the same maturity and coupon rate of 4% per annum (as described in “*Issue of Bonds*” paragraph above). A portion of these notes for the total amount of KZT 105 billion were acquired by Alliance Bank and at the present date notes to the amount of 54 billion are sold to the National Bank of the Republic of Kazakhstan under the repurchase agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**43. EVENTS AFTER THE BALANCE SHEET DATE (continued)***Acquisition of interest in other banks*

Under the Stabilization Plan (*Note 1*) during 2009 the Government provided financial support to certain banks.

In the end of January 2009 the Fund placed short-term deposits of 36,000,000 thousand Tenge and 60,000,000 thousand Tenge with JSC Kazkommertsbank and JSC Halyk Bank, respectively, that were subsequently invested in the equity of these banks through acquisition of shares issued under new emissions as follows:

- On May 14, 2009 the Fund acquired 165,517,241 ordinary shares of JSC Kazkommertsbank at the price of 217.5 Tenge per share that resulted in 36,000,000 thousand Tenge invested to the bank’s equity.
- On March 27 and March 29, 2009 the Fund acquired 259,064,909 ordinary shares and 196,232,499 preferred shares of JSC Halyk Bank at the price of 104.03 Tenge per share and 168.42 Tenge per share, respectively, that resulted in 60,000,000 thousand Tenge invested to the Bank’s equity.

The purchases were carried out through additional emission and the share of the Fund in in the total number of ordinary shares of Kazkommertsbank JSC and Halyk Bank JSC amounted to 21.26% and 20.91%, respectively. Shares of Kazkommertsbank JSC were subsequently transferred to the shareholders of Kazkommertsbank JSC under trust management.

Also, in the end of January 2009 the Fund placed long-term deposits of 84,000,000 thousand Tenge and 60,000,000 thousand Tenge with maturity in 2012 and annual interest rate of 8% with JSC Kazkommertsbank and JSC Halyk Bank, respectively, for the purposes of financing of projects in real economy.

Placement of deposits with second-tier banks for the purpose of refinancing of mortgage loans

Under the Stabilization Plan (*Note 1*) during the second quarter of 2009 the Fund placed deposits of 120,000,000 thousand Tenge with several Kazakhstan banks. Deposits were placed for twenty years to provide funds for refinancing of mortgage loans obtained by general population.

Placement of deposits with second-tier banks for the purpose of small and medium business support

Under the Stabilization Plan (*Note 1*) in the first quarter of 2009 the Fund provided a loan of 120,000,000 thousand Tenge and maturity of seven years to Entrepreneurship development Fund “Damu” JSC (“Damu” Fund”), subsidiary of the Fund. Using these funds “Damu” Fund provided loans of 117,000,000 thousand Tenge to certain Kazakhstan banks. These loans for provided for financing and refinancing of small and medium businesses under the Stabilization Plan. 3,000,000 thousand Tenge will be used by the Fund “Damu” for the same purposes.

Transfer of shares of KazAtomProm JSC and Tau-Ken Samruk JSC

During first quarter of 2009 the Government transferred to the Fund its investments in shares of “National Nuclear Company “KazAtomProm” JSC (100%) and “National Mining Company “Tau-Ken Samruk” JSC (100%).

Disposal of entities

In June 2009, in accordance with the decision of the State Committee on Modernization of Economy of Republic of Kazakhstan, the Fund started procedures of disposal of the following subsidiaries to the Ministry of Industry and trade of the Republic of Kazakhstan:

1. SPK SaryArka JSC
2. SPK Ertis JSC
3. SPK Ontustik JSC
4. SPK Zhetisu JSC
5. SPK Tobol JSC
6. SPK Caspiy JSC
7. SPK Batys JSC
8. National Innovation Fund JSC
9. Corporation for Export Development and Promotion KazNEX JSC

KMG covenants breach

As of the date of these financial statements The Rompetrol Group and KazTransGas JSC, subsidiaries of NC KMG, are in breach of certain financial covenants. However, these subsidiaries have secured a waiver from the relevant lenders in relation to the largest such facility and, with respect to the remaining such facilities, believes that no payment defaults currently subsist and that the respective lenders have no current intention to call a default and/or accelerate payment of such loans. As of the date of these financial statements, the total aggregate amount outstanding under such loans with covenant breaches is approximately USD 145.1 million.