Annual Report 2009

KazMunaiGas Exploration Production

ҚазМұнайГаз

БАРЛАУ ӨНДІРУ АКЦИОНЕРЛІК ҚОҒАМЫ

ҚазМұнайГаз
БАРЛАУ ӨНДІРУ АКЦИОНЕРЛІК ҚОҒАМЫ

KMG EP is among the top three oil and gas exploration and production companies in Kazakhstan.

The Company, JSC KazMunaiGas Exploration Production (KMG EP) was created through the merger of JSC Uzenmunaigas (UMG) and JSC Embamunaigas (EMG) in March 2004.

The total volume of 2P reserves at the UMG and EMG fields is 1.7 billion barrels (over 234 million tonnes). Today the Company operates 41 fields (excluding acquisitions made in 2007-2009). When the recent acquisitions are included , the total volume of proved and probable reserves is about 2.2 billion barrels.

The Company's shares are listed on the Kazakhstan Stock Exchange (KASE) and its GDRs are listed on the London Stock Exchange (LSE).

KMG EP has many years' experience of oil production in Kazakhstan and expert knowledge of the geology.

Contents

Financial and Operational Highlights

Reserves 2P[1]
mmbbl

08		2,133
09	3%	2,200

Production[2]
kbopd

08		241
09	-4%	232

Sales volume[2]
kbopd

08		232
09	-1%	230

Export[2]
kbopd

08		184
09	-2%	181

Revenue[3]
US$ m

08		5,029
09	-35%	3,291

Net income[1]
US$ m

08		2,006
09	-29%	1,422

Capex[3]
US$ m

08		348
09	-16%	294

Net cash[4]
US$ m

08		4,426
09	-23%	3,404

Dividend per share
KZT

08		656
09	7%	704[5]

Dividend per GDR[6]
US$

08		0.73
09	7%	0.78

Average exchange rates
KZT/USD

08		120.29
09	23%	147.50

1 Including shares in KGM, CCEL and PKI.
2 Including shares in KGM, CCEL.
3 Standalone KMG EP.
4 Cash, cash equivalents and other financial assets less borrowings (including 100% cash and non-recourse debt of KazMunaiGaz PKI Finance B.V.). Convenience translation rates – 120.77 and 148.36 for 31/12/2008 and 31/12/2009 accordingly.
5 Recommendation of Board of Directors held on 31 March 2010, subject to approval by Annual General Shareholders' Meeting on 25 May 2010.
6 Convenience translation rates – 150.13 for 2008 (the rate as of 28/05/2009, the date of the 2008 dividend approval by Annual General Shareholders' Meeting) and 150.0 USD/KZT for 2009 (midpoint of the current indicative range established by the National Bank of Kazakhstan).

Chairman's Statement

Kairgeldy Kabyldin
Chairman of the Board of Directors

It is my pleasure to report another strong year for KMG EP. Despite deteriorating financial market conditions in 2009, against the backdrop of the global economic downturn, KMG EP made a profit of 209.7bn Tenge (US$1,422m) and earnings per share of 2,871 Tenge (US$3.2 per GDR).

In June 2009, Mr Kenzhebek Ibrashev was appointed as KMG EP's new Chief Executive to lead the Company through the next stage of its development. Mr Ibrashev has been on the Company's Board of Directors for several years and brings with him deep knowledge and experience of the markets in which we operate. I would also like to express my gratitude to the previous Chief Executive, Mr Askar Balzhanov, for his excellent contribution to the Company.

In line with our strategy, at the end of 2009 we successfully completed the acquisition of a 33% stake in PetroKazakhstan Inc. This acquisition contributes to the expansion of our reserve and resource base and serves as an extension of our sustainable growth strategy. In the coming year we expect this acquisition to add approximately 17% to the Company's consolidated production.

We are happy to note that previous acquisitions, notably a 50% interest in Kazgermunai and CCEL, also played a positive role in 2009. We are looking to continue our efforts to consolidate our onshore assets in Kazakhstan as well as to expand internationally in line with the general strategy of the "KazMunaiGas" group of companies. Participating in off-shore projects in Kazakhstan and abroad is one of the additional long-term strategies of KMG EP.

We remain confident that even at distressed oil prices we are capable of funding the growing expenditure required to complete our exploration projects from our existing liquid resources and internal cash generation.

In 2010 the Company is planning to spend 95bn Tenge (US$633m) on capital expenditure, to fund maintenance and exploration drilling, as well as the implementation of the associated gas utilisation programme.

We continue to be focused on maintaining production levels at our core fields, Uzen and Emba, mainly by using effective oil recovery methods to optimise the performance of our key assets.

We are exceptionally well positioned to withstand these times of economic upheaval and uncertainty due to our strong balance sheet and clear vision. We maintain a balanced approach to our growth strategy and aim to ensure a strong flow of investment into our projects, ensuring their future effectiveness and good financial returns.

The international investment community's continuing interest in KMG EP shows that our strengths are widely recognised. A good example of this is the speedy recovery of our share price in 2009 and the purchase of 11% of our shares by China Investment Corporation announced in September 2009.

From time to time oil companies experience difficulties related to global economic trends, oil price volatility, severe weather conditions, industrial disputes and issues connected to state regulation of the oil and gas sector in general. However, we are growing stronger and are fully equipped to continue growing for the benefit of our shareholders and Kazakhstan.

We also recognise that today the Company's reputation is not only judged by its financial and operating performance but also by its standards of corporate responsibility. We believe that corporate governance and the way we deal with social matters is as important for us as meeting our production targets and financial goals.

This commitment stems from a clear understanding that acting responsibly is essential to building long-term shareholder value. We deem it unacceptable to fall short of our obligations towards employees, local communities and the environment. Our people are our most valuable resource. The Company is proud to employ highly qualified professionals and we are determined to provide them with good working conditions. The Company is always ready for a constructive dialogue with its workers. It takes their concerns very seriously and tries hard to resolve outstanding issues to mutual satisfaction.

I would like to thank the Board and Independent Non-Executive Directors for their effective leadership and support. I would especially like to thank Mr. Christopher Mackenzie who stepped down as an Independent Director and as Chairman of the Remuneration Committee in 2010 for his important input to the Company's performance. I also would like to thank all employees of KMG EP for their daily contribution to our joint success.

Kairgeldy Kabyldin
Chairman of the Board of Directors

Chief Executive's Statement

Kenzhebek Ibrashev
Chief Executive Officer

I took over as the CEO of KazMunaiGas Exploration Production in the middle of 2009 from Askar Balzhanov who brought the Company to a successful IPO in 2006 and helped to build a very strong base for future growth. The operations and activities of KMG EP were very familiar to me as previously I worked as Vice President of Exploration and Production at our parent company, KazMunayGas. Since 2007 I have been a member of the Board of Directors of KMG EP and have a very clear idea of the Company's potential, its projects, and its prospects.

Since its inception, the Company has achieved remarkable success and has firmly established itself as an important player and strong force in the international oil market. The Company remains in a very advantageous position to overcome challenges related to the global economic downturn, as well as those stemming from fluctuating oil prices and other external and internal influences.

As you know, the New Tax Code of the Republic of Kazakhstan took effect on 1 January, 2009. The financial effect of the new Code on the Company largely depends on the fluctuating oil price. However the new system is transparent and allows profitable operation at different oil prices while providing a fair level of tax revenue for the government.

The current cash balance of KMG EP is a very healthy US$4bn. Looking at our strategy, the funds are intended for long-term investment projects such as acquisitions, maintaining production at the core assets, receiving exploration licenses and conducting exploration activities. We will continue exploiting the advantages of our close relationship with the NC KMG in accordance with earlier agreements.

In line with its core development strategy, in December 2009 the Company added a 33% stake in PKZ Inc to the list of completed acquisitions. PetroKazakhstan is involved in the exploration, development, production and sale of hydrocarbons. PetroKazakhstan produced 6,294 thousand tonnes of crude oil in 2009 (134kbopd). It is an attractive asset and we look forward to benefiting from it in 2010.

Continuing the process of consolidating onshore producing assets in Kazakhstan, the Company is also moving closer to acquiring a 50% interest in Kazakhoil Aktobe and 51% in Kazakhturkmunai as well as a 50% stake in Mangistaumunaigas. We are always prepared to consider any other attractive prospect both in Kazakhstan and abroad, provided that it expands our resource base and brings value to our shareholders and to our country.

KMG EP maintains its position as one of the top three oil producers in Kazakhstan. In 2009 we produced 11,497 thousand tonnes of crude oil (232kbopd), which includes the Company's stakes in both JV Kazgermunai LLP ("Kazgermunai") and CCEL ("Karazhanbasmunai"). This is 3.8% less than in 2008 but it is important to note that despite severe weather conditions and occasional disruptions in power supplies, the decrease in output was insignificant to planned production levels. We aim to sustain optimal production levels from existing assets and continue the use of cost-effective enhanced oil recovery techniques. In 2010 we plan to increase capital expenditure on our main assets and expand our resource base in order to maintain output from the core fields and achieve overall growth in production. This increase in capital expenditure is a positive step towards normalizing working conditions, following the economic downturn. Our cash resources allow us to invest in the Company's future, particularly in exploration where the budget increased threefold in 2010, and in the utilization of associated gas.

KMG EP considers high standards of corporate governance, efficiency of management procedures and reporting systems as its top priorities and every year shows further improvements in these areas. In July 2009, the international rating agency Standard & Poor's (S&P) confirmed KMG EP's "BB+" corporate credit rating and assigned the Company a "GAMMA-6" rating. The GAMMA score is a comprehensive assessment of governance structures and practices which includes the enterprise risk management system and the strategic process. The agency based its decision on the overall strength of corporate government practices at KMG EP including formalised and transparent mutual obligations with the parent company, competent auditing systems, effective communication with shareholders and the role of independent non-executive directors, among others. Another example of the growing international reputation of the Company was the purchase of 11% of KMG EP's shares by the China Investment Corporation at the end of September 2009.

Human outreach and attention to the social and living conditions of oil industry employees is a matter of high importance for KMG EP. Wherever we operate, every effort is made to improve the quality of life of local communities and all those who contribute to the Company's success. Our achievements are due to the hard work and professionalism of all our staff. To this end we encourage our management teams to act in a socially responsible manner in all their activities.

I would like to express gratitude to all colleagues and partners of the Company whose expertise and competence contribute to our success and improve our ability to find timely and strong solutions to any difficult questions and situations.

Special thanks should go to the National Company KazMunayGas for their full support, to the Board and the Independent Non-Executive Directors whose leadership and dedication to KMG EP's success continues to build long-term shareholder value.

Kenzhebek Ibrashev
Chief Executive Officer

Board of Directors

The Company operates with a Board of Directors and a separate Management Board (the executive body). The Chief Executive Officer, who heads the Management Board, is also a Director of the Company, and is the only representative of the Management Board on the Board of Directors.

Kairgeldy Kabyldin
has been the President of NC KMG since August 2008. On 24 September 2008 he was elected to the Board of Directors of KMG EP and became Chairman of the Board on 8 October 2008. Mr Kabyldin graduated from Kazakh Polytechnic Institute and has over 30 years of experience in the oil and gas sector. Prior to his appointment to NC KMG, he was Deputy Chairman of the Management Board of Samruk State Assets Management Holding of Kazakhstan. He has occupied senior executive positions with NC KMG, NC Oil and Gas Transport and KazTransOil.

Kenzhebek Ibrashev
was appointed as the CEO of KMG EP on 1 June 2009. Prior to this appointment he was the Vice President of Exploration and Production at NC KMG. Mr Ibrashev has been a member of the Board of Directors of KMG EP since 2007. He graduated from the Moscow Oil and Gas Institute and gained broad experience working in several senior positions in the oil and gas industry. He was a Director for business development in Kazakhstan at Agip Kazakhstan North Caspian Operating NV, First Deputy CEO, and CEO of KazMunaiTeniz.

Askar Balzhanov
is the Managing Director of Exploration and Production at NC KMG. He was the CEO of KMG EP from 2006 to 2009. Prior to this, he was CEO of JSC KazMunayTeniz, a subsidiary of NC KMG specialising in offshore oil and gas operations. After graduating from the Moscow Oil and Gas Institute, he gained broad experience in the oil and gas field working in various positions in a range of hydrocarbon enterprises, including Embaneft PB, KazakhstanNefteGas SE, KazakhstanMunaiGas SE, KazRosGas, and NC KMG.

Tolegen Bozzhanov
is a Managing Director of NC KMG corporate centre. He was elected to the Board of Directors of KMG EP on 24 September 2008. He graduated from Kazakh State University and Kazakh State Construction Academy and holds a Bachelor's degree from Warwick University. He has occupied senior executive positions with Kazkommerts Securities, Kar-Tel and NC KMG. Prior to his latest appointment, he was CEO of Trade House KazMunaiGas.

The Company appointed three Independent Non-Executive Directors, Christopher Mackenzie, Paul Manduca and Edward Walshe, at the time of the IPO. The other four members of the Board of Directors, including the Chairman, Kairgeldy Kabyldin, are representatives of NC KMG.

Christopher Mackenzie
worked for such companies as JP Morgan, GE Capital and Brunswick Capital in the UK, USA, Japan and Russia and gained extensive experience in mergers and acquisitions and investment banking. He is the Chairman of Borets International Ltd., a global oil services company, and is on the Board of UK and Saudi Arabian companies. He holds a Master's degree from the University of Oxford and an MBA from INSEAD. He was elected as an Independent Non-Executive Director of the Board on 28 August 2006. Mr Mackenzie is Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees.

Paul Manduca
has extensive global investment management and business experience, having worked as CEO for companies such as Threadneedle Asset Management, Rothschild Asset Management, Deutsche Asset Management in the UK and Europe. Mr Manduca has served on a number of boards as an independent director in the last 10 years, and, at various points, he has headed audit, remuneration and nomination committees. He holds a Master's degree from the University of Oxford (Modern Languages). He was elected as an Independent Non-Executive Director of the Board on 28 August 2006. Mr Manduca is the Chairman of the Audit Committee and a member of the Remuneration Committee and Nominations Committees.

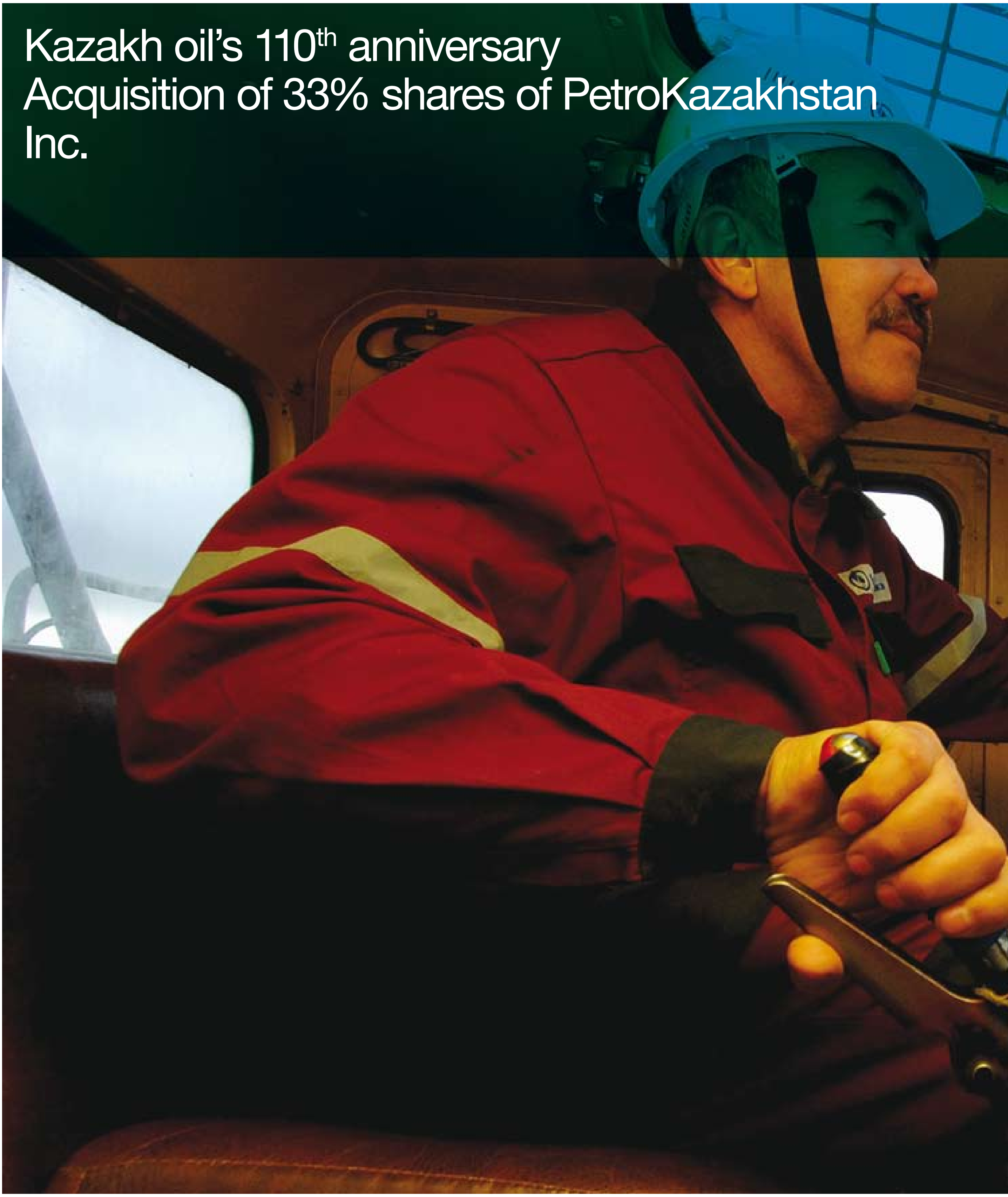
Edward Walshe
has over 35 years' experience in the oil and gas sector. Mr Walshe has worked in various roles at British Petroleum and British Gas including the overseas exploration and production operations of these companies in Nigeria, Abu-Dhabi, Central Asia and South-East Asia. Mr Walshe has a PhD in Solid State Chemistry from the University of Dublin. He was elected as an Independent Non-Executive Director of the Board on 28 August 2006. Mr Walshe is Chairman of the Strategic Planning Committee and a member of the Audit, Remuneration and Nominations Committees.

Yerzhan Zhangaulov
is a General Manager for Legal Matters of NC KMG. He was elected to the Board of Directors of KMG EP on 12 June 2006. Prior to this appointment, he headed the legal service and HR department in the Administration of the President of Kazakhstan and was the adviser to a Vice President of NC KMG. He obtained a law degree at Karaganda State University.

2009 Milestones

Kazakh oil's 110th anniversary

Acquisition of 33% shares of PetroKazakhstan Inc.



2009 Milestones

Q1 2009

- A new Tax Code for the Republic of Kazakhstan came into force. Taxation of all subsoil users was changed to a single transparent system. As a whole, the new tax legislation meets the economic fundamentals and facilitates the development of the Company.
- The National Bank of the Republic of Kazakhstan implemented a one-step 23% devaluation of the national currency (the Tenge) against the US Dollar. Since most of the cash, cash equivalents and other financial assets of the Company were denominated in US Dollars, a considerable profit was gained from the exchange rate difference resulting from the devaluation.
- In the first three months of 2009 KMG EP produced 2,743 thousand tonnes of crude oil (224kbopd), which includes the Company's stakes in both Kazgermunai and CCEL. This was 150 thousand tonnes, or 5%, less than first quarter 2008. The drop in production below the planned level at Uzen and Emba was due to unusually tough weather conditions in Western Kazakhstan.
- According to consolidated interim financial results for the first three months of 2009 KMG EP's net profit was 108bn Tenge (US$778m), including a significant foreign exchange gain. Earnings per share were 1,464 Tenge (US$1.8 per GDR). Operating profit declined by 79% to 20.0bn Tenge (US$144m) compared to the first three months of 2008 on lower oil prices.

Q2 2009

- As decided by shareholders, the dividend per share (ordinary and preferred) for 2008 was KZT656 (including taxes withheld in accordance with RK laws). The total dividend for 2008 was about KZT 48bn (US$319m). Dividends paid during 2009 were KZT 46 bn (US$313m).
- Kenzhebek Ibrashev was appointed CEO of the Company. Askar Balzhanov, who previously headed the Company, moved to the position of Vice-President for Exploration and Production at NC KMG.
- Taking into account its stakes in JV Kazgermunai LLP and CCEL, KMG EP produced 5,673 thousand tonnes of oil (230kbopd) in the first half of 2009, that is 225 thousand tonnes less than for the same period of 2008 (4% decrease).
- According to unaudited interim financial results net profit for the first half of 2009 was KZT128.8bn (US$890m) and profit per share was KZT1,752 (US$2.0 per GDR), including a considerable foreign exchange gain amounting to KZT97.9bn (US$677m). Owing to a fall in oil prices, operating profit declined to KZT57bn (US$394m), or 74% less than first half 2008.

Q3 2009

- The KMG EP Board of Directors approved changes in the Management Board. Due to personnel changes in the management of production branches, two new members of the Management Board were approved. They were Dovulbai Abilkhanov Director of UMG and Isturgan Baimukhanov Director of EMG. Kairbek Eleusinov left the Management Board.
- Fitch, the International rating agency, confirmed KMG EP's long-term credit rating in Tenge and foreign currency at BBB-. The agency noted that the ratings of KMG EP reflect the Company's strong financial position.
- The 110th anniversary of Kazakh oil was celebrated by festive events in the Atyrau and Mangistau regions. New social facilities built with KMG EP funds were presented to the residents of these regions.
- The state investment fund of the People's Republic of China, China Investment Corporation (CIC), announced its purchase of 11% of the Company shares in the form of the Company's global depositary receipts, for US$939m. The market responded with an 11% increase in KMG EP's share price.
- In the first 9 months of 2009 KMG EP produced 8,644 thousand tonnes of crude oil (233kbopd), including the Company's share of production from JV Kazgermunai LLP ("Kazgermunai") and CCEL ("Karazhanbasmunai"). This is 265 thousand tonnes, or 3%, less than the same period of 2008.

- According to unaudited interim financial results, net profit for the first nine months of 2009 was KZT180.6bn (US$1,231m) to give a profit per share of KZT2,467 (US$2.8 per GDR), including a KZT99.9bn (US$681m) profit from the exchange rate gain, received in the first quarter of 2009. Mostly due to a decrease in oil prices, operating profit declined to KZT107bn (US$730m), 67% less than the corresponding period of 2008.

Q4 2009

- Completion of the share buyback programme that began on 24 November 2008. Since the start of the programme, the Company has bought back 8,699,697 GDRs and 110,632 ordinary shares on the Kazakhstan Stock Exchange (KASE) and London Stock Exchange (LSE) for the total amount of KZT22bn (US$148m).
- A protest action was held November 15-17 in the town of Zhanaozen in which about 30 UMG employees took part. Their main demands were for a wage increase, that UMG should be spun out into a separate legal entity and that the central office of KMG EP should move from Astana to Zhanaozen. Employment issues were also on the agenda. Through negotiation, the management of KMG EP and protesters came to a constructive agreement and the protest was stopped.
- The KMG EP Board of Directors approved the Company's 2010 budget based on the annual average Brent price of US$50 per barrel. The Company's capital investments in 2010 are expected to rise to KZT95.0bn (US$633m). The increase as compared to 2009 of approximately KZT51.6bn or US$339m is connected with increased expenses for production and exploration drilling and the gas utilisation project at EMG's Prorva group of oil and gas fields. Planned 2010 production volumes from the main assets (UMG and EMG) will be around 9,200 thousand tonnes (186kbopd).
- KMG EP completed the purchase of a 33% stake in PetroKazakhstan Inc. It is expected that the deal will allow KMG EP to step up production volumes in 2010 by about 17%.
- The international rating agency Standard & Poor's (S&P) awarded KMG EP a GAMMA corporate governance rating at GAMMA-6 level.
- In the full year ended 31 December 2009 KMG EP produced 11,497 thousand tonnes of crude oil (232 kbopd), which includes the Company's stakes in both JV Kazgermunai LLP ("Kazgermunai") and CCEL ("Karazhanbasmunai"). This is 458 thousand tonnes, or 3.8% less than 2008. The decline was mainly due to KMG EP's planned reduction in drilling and production in 2009 in a lower oil price environment.
- In 2009 KMG EP made a profit of 209.7bn Tenge (US$1,422m) and earnings per share were 2,871 Tenge (US$3.2 per GDR). This includes a significant foreign exchange gain of approximately 89.5bn Tenge (US$607m). Operating profit declined by 50% to 155bn Tenge (US$1,050m) compared to 2008, mainly due to lower oil prices and the introduction of the new Tax Code in January 2009.
- According to a report by the independent energy consulting firm Gaffney, Cline & Associates, proved plus probable (2P) reserves were 234 million tonnes (1,725 million barrels), covering KMG EP's interests in Uzen and Emba fields. Proved oil reserves (1P) were 88 million tonnes (646 million barrels). Proved, probable and possible (3P) reserves were 270 million tonnes (1,989 million barrels).

2009 Milestones continued

Evaluation of KMG EP activity by independent experts

In July 2009, the international rating agency Standard & Poor's confirmed KMG EP's long-term credit rating at BB+. The 'stable' outlook for this rating reflects the changes in rating of its parent company NC KMG and the expectations of S&P analysts that KMG EP is capable of maintaining its creditworthiness at the BB level, taking into account the moderate level of debt and substantial expected cash flows.

In December 2009, the international rating agency Fitch Ratings confirmed the long-term foreign and local currency issuer default ratings of KMG EP at BBB-, and the short-term Issuer Default Rating (IDR) at F3.

In July 2009 Moody's Investors Service international rating agency confirmed the credit rating of KMG EP at Baa2 level.

In addition, independent experts positively rated the KMG EP's corporate governance. International rating agency Standard & Poor's (S&P) awarded to the Company GAMMA-6 corporate governance rating (CGR).

The GAMMA rating replaces the CGR awarded to KMG EP on 1 October 2007. For awarding GAMMA rating, an improved CGR methodology is used, including two new elements of corporate governance analysis: the risk management system and the strategic planning process. In S&P's opinion, the GAMMA rating provides more complete assessment of corporate governance structure and practice.

S&P analysts note that in 2009 the Company's corporate governance mechanisms showed definite progress; the most significant improvements were observed in the areas of internal audit, risk management and strategic planning.

The following were determined as the strengths of KMG EP corporate governance: effective work by independent non-executive directors in balancing the main shareholder's influence and thorough monitoring of management; transparent and legally secured mutual obligations with the NC KMG parent company; high level of transparency in the Company's operations; competent independent audit; efficient interaction with shareholders, who have a wide range of rights; efficient procedures for preparing and holding shareholder meetings.

Moreover, in 2009 KMG EP was recognized by Standard & Poor's as the most transparent company in Kazakhstan. The S&P report states that the Company showed a high level of information disclosure on its financial and operating activities, shareholder procedures and corporate governance.

KMG EP also won the nomination as "Best Anti-crisis instrument" by the Cbonds Awards 2009 for implementation of the share buyback programme that has been run by the Company since November 2008.

Cbonds Awards 2009 is a Kazakh stock market award designed to single out and encourage the most exemplary companies, which develop and actively implement effective and attractive projects in all areas of stock market development.

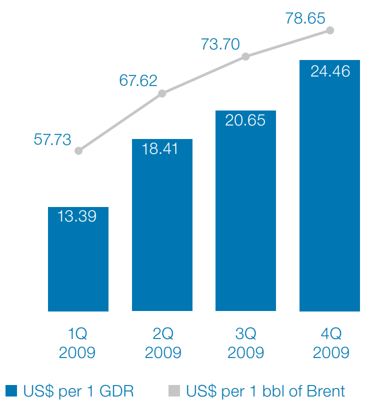
KMG EP share price dynamics

In 2009, the fluctuation of commodity prices had a determining influence on KMG EP's share price. Recovery started in March, when the first positive signs of investor confidence appeared in global markets. The single-step devaluation of the Tenge in February 2009 also had a positive effect.

In the last quarter of 2009, KMG EP's share price on KASE was KZT 21,784, and the GDR price on LSE was US$24.46. Throughout the year, a number of equity analysts evaluated KMG EP shares as one of the most attractive for long-term investment of the sector.

On 30 September 2009, the Chinese state investment fund China Investment Corporation (CIC) announced its purchase of an 11% stake in the Company in the form of global depositary receipts for a total of US$939m. The purchase of shares by CIC was well received by the market as it served as a positive signal for other investors. KMG EP's share price rose 11% following the news.

KMG EP share price performance, average prices



Operational Activity

Operational Activity

Crude oil production and sales

In 2009, KMG EP (including shares in Kazgermunai and CCEL) produced 11,497 thousand tonnes of crude (232kbopd), 458 thousand tonnes (3.8%) less than in 2008.

At the core assets (Uzenmunaigas and Embamunaigas), 8,962 thousand tonnes of crude were produced (181kbopd), some 508 thousand tonnes less than 2008. The decrease reflected the planned reduction in the 2009 production plan due to the significant fall in global oil prices. KMG EP reduced planned production from core assets by approximately 3.5% compared to 2008 in order to preserve production cost efficiency at the lower oil price of US$40 per barrel. Drilling and well workover volumes were also reduced.

Adverse weather conditions in early 2009 and power supply interruptions also had a negative impact on production at Uzenmunaigas in the first and third quarters of 2009. In addition, it was not possible to fully offset the impact of the aforementioned negative factors, owing to labor disputes at UMG in the fourth quarter of 2009.

At the same time, the Company has done everything necessary to maintain production facilities for the long-term, and to retain the staff and principle contractors.

In 2010, the production volume in UMG and EMG is planned at the level of 9,200 thousand tonnes (186kbopd).

UMG and EMG data as at 2009 year end

	UMG	EMG	**KMG EP**
Fields	2	39	**41**
Producing wells	3,495	2,358	**5,853**
Injection wells	1,191	467	**1,658**
2P oil reserves, million barrels	1,302	423	**1,725**
Oil production in 2009, kbopd	126	55	**181**
Reserve-to-production ratio, years	28	22	**26**

In 2009 (excluding the oil from Kazgermunai and CCEL), 8,966 thousand tonnes of oil were sold (181 kbopd), including 6,946 thousand tonnes of export sales (140 kbopd). The CPC pipeline was a more profitable route in 2009.

In 2009, KMG EP's share of Kazgermunai and CCEL sales comprised 2,452 thousand tonnes of oil (49 kbopd), including 2,054 thousand tonnes (41 kbopd) of export sales.

Key financial and operational indicators of JV Kazgermunai LLP

	2009	2008
Crude oil production, kbopd	**67.5**	66.1
Revenue, KZT m	**173,001**	212,111
Average sale price, KZT/tonne	**56,844**	70,096
Capital expenditure, KZT m	**14,646**	24,849
Number of employees	**609**	541

Key financial and operational indicators of CCEL

	2009	2008
Crude oil production, kbopd	**34.2**	33.4
Revenue, KZT m	**101,433**	123,849
Average sale price, KZT/tonne	**54,495**	68,273
Capital expenditure, KZT m	**13,954**	30,473
Number of employees	**2,160**	2,057

Oil reserves

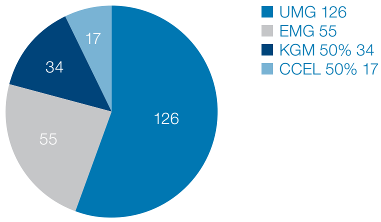
According to the report by Gaffney, Cline & Associates (GCA), as of 31 December 2009, the total Proved and Probable (2P) reserves of KMG EP were 234 million tonnes (1,725 million barrels), covering KMG EP's interests in Uzen and Emba fields.

The reserves replacement ratio was 25% as 2.2 million tonnes (16 million barrels) were added to reserves against production of nearly 9 million tonnes (66 million barrels). The reserves-to-production ratio at the end of 2009 was 26 years.

Proved oil reserves (1P) are 87,874 thousand tonnes (646 million barrels). Proved, probable and possible (3P) reserves stand at 270,468 thousand tonnes (1,989 million barrels).

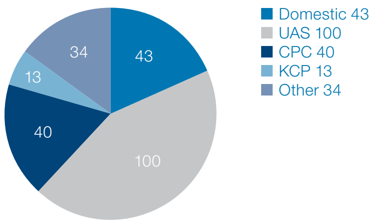
Oil production in 2009

232 kbopd



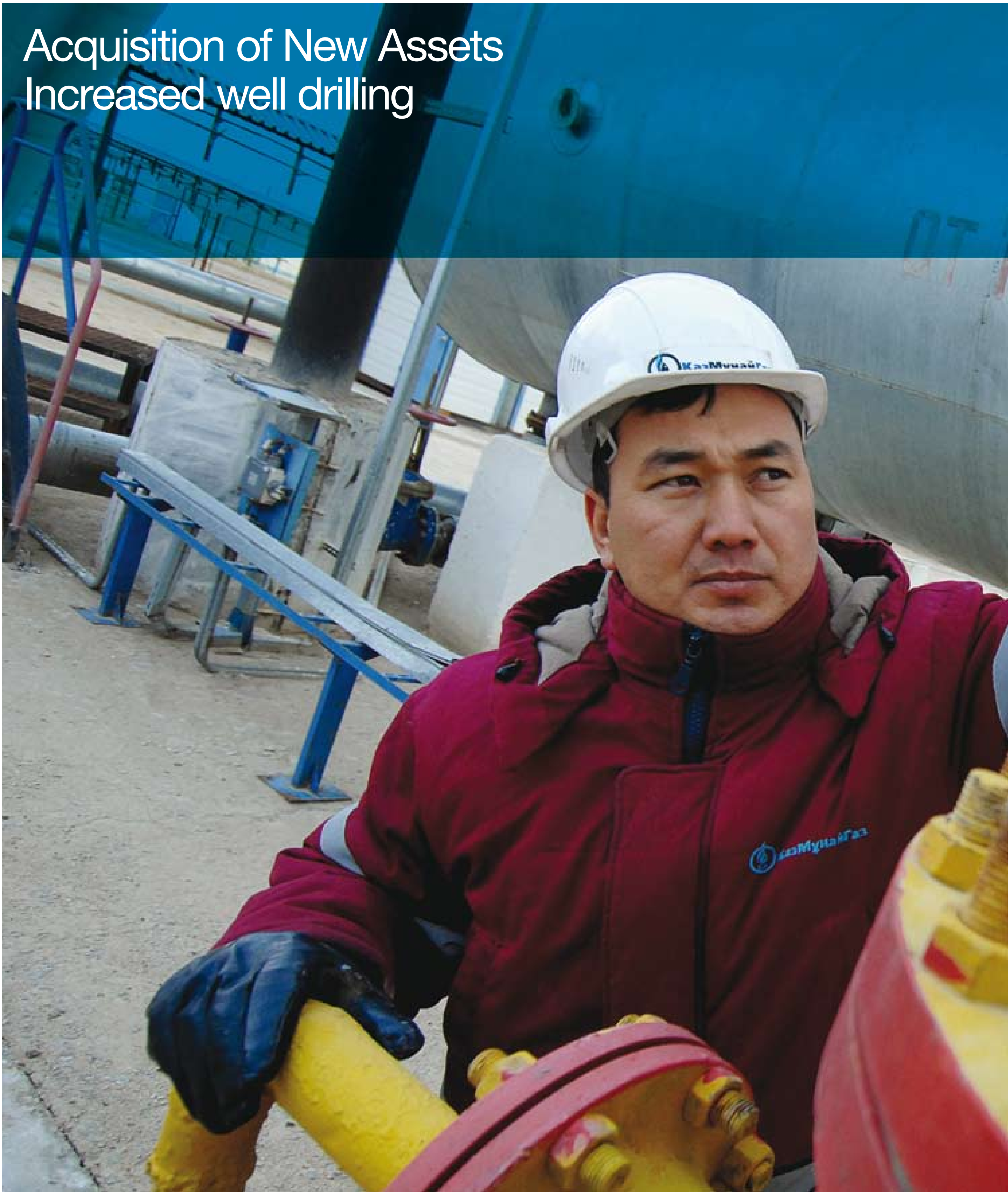
Sales by routes in 2009

230 kbopd



Company Development

Acquisition of New Assets
Increased well drilling



Company Development

We maintain a balanced approach to our strategy and aim to ensure a strong flow of investments into our projects, ensuring their effectiveness and good returns going forward.

KMG EP continues to pursue its strategic goal of strengthening its position as one of the leading oil and gas companies in Kazakhstan. The Company coped well with the global economic crisis and the fall in oil prices, which negatively impacted all oil and gas companies.

The key points of KMG EP strategy include increasing total production volume and replenishing the Company's hydrocarbon reserves through the acquisition of new assets, as well as geological exploration and optimisation of production in the core fields.

The Company's accumulated funds are first of all intended for long-term investment projects aimed at increasing the Company's capitalisation.

One of the key strategic goals of the Company's development is to enter international hydrocarbons markets. The geographical spread of KMG EP's interests extends to neighbouring countries, particularly Turkmenistan and the Russian Federation. Other attractive regions for extending the Company's activities include the Middle East, North Africa and other regions. Broadening the geographical scope of KMG EP's activities will allow the Company to enter international markets; gain work experience in potentially beneficial oil and gas projects, including offshore projects; gain access to modern oil and gas exploration and production technologies; and occupy those business niches in which the Company is competitive.

Acquisition of 33% shares of PetroKazakhstan Inc.
On 23 December 2009, KMG EP completed a transaction to acquire 33% of the shares of PetroKazakhstan Inc. (PKI) from its parent company JSC National Company KazMunayGas (NC KMG). This deal confirms that the Company is systematically following the acquisition plan announced during its IPO in 2006.

Thanks to this acquisition, KMG EP will be able not only to increase 2010 production by around 17%, but also to expand the geographical spread of its business, which is currently concentrated mainly in Western Kazakhstan. Moreover, KMG EP will gain access to the development of PKI's new licensed blocks, whose promising potential has been identified by preliminary exploration results.

The PetroKazakhstan Inc. group of companies is involved in hydrocarbon exploration and production as well as in the sale of oil and petroleum products. PKI has a share in 16 fields, 11 of which are in various stages of development. In 2009 PKI produced 6,294 thousand tonnes of oil (134kbopd).

The majority shareholder in PKI is the Chinese oil and gas company, CNPC Exploration and Development Company Ltd. (CNPC E&D), which holds 67% of the shares.

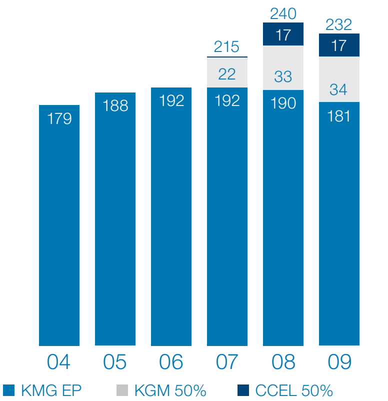
PKI's production is stable and no substantial changes are expected in output. This asset is able to generate stable cash flows without large capital expenditures. In addition, PKI holds a number of licences for the exploration of promising areas that will allow the Company to increase its resource base and ensure stable production for years ahead.

PKI's exploration targets have relatively plain mining and geological conditions (insignificant depth, absence of various aggressive components in the geological section) and a possibility of rapid linkage with the existing infrastructure and development in case of positive exploration results. This should have a favourable effect on costs.

According to experts, the basin of PKI's operations contain 450-500 million tonnes of geological resources. Currently, the most studied and developed part is the Upper Jurassic-Cretaceous part of the section. Data obtained in recent years in several licensed blocks of the South Torgai basin suggests considerable potential in the lower, unexplored part of the section connected with the Paleozoic zone. This is considered as a prerequisite for increasing the resource base of PKI and the basin as a whole.

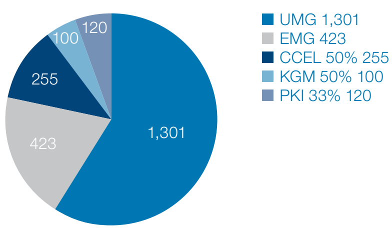
Production

kbopd



2P reserves in 2009*

2,200 mmbbl



*According to Gaffney, Cline & Associates reports for:
- UMG, EMG, KGM as of 31.12.2009
- PKI as of 31.03.2009
According to Miller and Lents report for:
- CCEL as of 30.11.2009

Company Development continued

Acquisition of new assets

KMG EP has expressed interest in acquiring a 50% stake in JSC Mangistaumunaigas (MMG). On 25 November 2009, NC KMG and CNPC Exploration and Development Company Ltd (CNPC E&D) completed the acquisition of 100% of the ordinary shares of MMG from Central Asia Petroleum Ltd.

The acquisition of MMG shares was carried out through public trades on the Kazakhstan Stock Exchange (KASE) via Mangistau Investments B.V. – a joint venture owned equally by KMG EP and CNPC E&D.

MMG is one of the major oil producing companies in Kazakhstan. The company owns 36 oil and gas fields, 15 of which are being developed. The largest fields of the company in terms of reserves are Kalamkas and Zhetybai

It is anticipated that negotiations concerning KMG EP's acquisition of a 50% stake in Mangistaumunaigas from NC KMG will result in specific solutions in 2010.

KMG EP is also considering acquisition of the 50% shares in Kazakhoil-Aktobe and 51% shares in Kazakhturkmunai from its parent company.

The close cooperation and partnership with the National Company KazMunayGas and the Government of Kazakhstan play a key role in the implementation of KMG EP's acquisition strategy and give considerable advantages to the Company with respect to new business development opportunities.

Being a national oil and gas company of Kazakhstan, NC KMG has the pre-emptive right to receive contracts for subsoil use, in accordance with Kazakhstan legislation, as well as the pre-emptive right to unlicensed territories in Kazakhstan. As a subsidiary of NC KMG, KMG EP can acquire assets using these rights on mutually agreed terms. Active collaboration with the National Company in implementation of joint projects will continue.

Exploration

Expansion of its resource base is one of KMG EP's strategic development goals, and geological exploration plays a key role in this process. This is an investment in the Company's future, which builds up its potential and creates opportunities that are in the interests of both the Company's employees and its shareholders.

Since mid-2009, KMG EP has been systematically increasing its capital expenditure. Capex is expected to rise to KZT95bn (US$633m) in 2010 and focused on stabilising oil production levels through increased well drilling, implementation of the associated petroleum gas utilisation programme and increased expenditure on exploration drilling.

The Company continues its exploration work in the search for hydrocarbons in post-salt and sub-salt deposits. In 2009 the work on processing and analysis of 3D seismic data on R-9 block gained in 2008 were completed. Recommendations were obtained with regard to promising block structures, and an Exploration Programme for post-salt and subsalt megalithic complexes of the contract area has been agreed and approved.

An analysis has been made of the 2D seismic exploration results for the Liman block in 2008. The work results were approved and recommendations obtained for the continuation of geological exploration works. Due to tight deadlines, the previously planned 3D seismic exploration works on the Tegen – East Tegen structure, as well as the drilling of a post-salt well and the start of drilling a subsalt well, have been postponed until 2010.

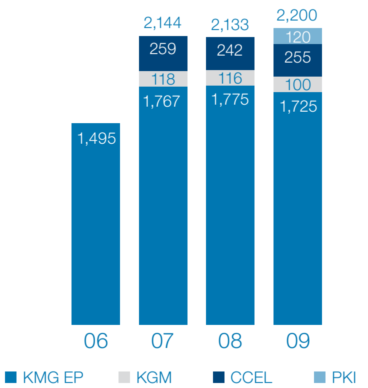
At the Taisoigan field, trial production has continued in the Uaz and Kondybai sites. There were 15 wells involved, producing 24 thousand tonnes in 2009. Consent has been obtained from the Russian army command for the possibility of excluding the Uaz and Kondybai field sites from the territory of a military range previously leased by the RK Government to the Russian Ministry of Defence on a long-term basis.

At the S. Nurzhanov field, drilling and development works were performed at four wells with a projected depth of 3500m. The works resulted in oil inflow and production has started.

The Company, in liaison with NC KazMunayGas, is actively looking to expand its exploration portfolio. KMG EP is currently developing an exploration programme, with a view to obtaining new blocks in Kazakhstan (including the Temir block, the area adjacent to the Uzen and Karamandybas fields; and the Karaton-Sarkamys and Teresken blocks) and is also considering various strategic partnership options with international companies for the joint development of future projects

2P reserves growth*

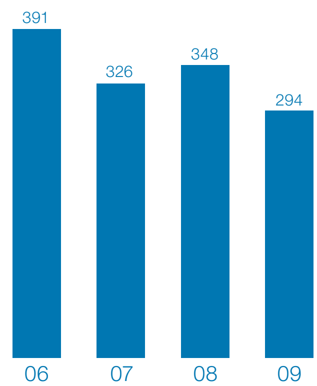
mmbbl



*As per assessment reports by Gaffney, Cline & Associates and Miller and Lents

KMG EP (UMG, EMG) CAPEX

US$ m

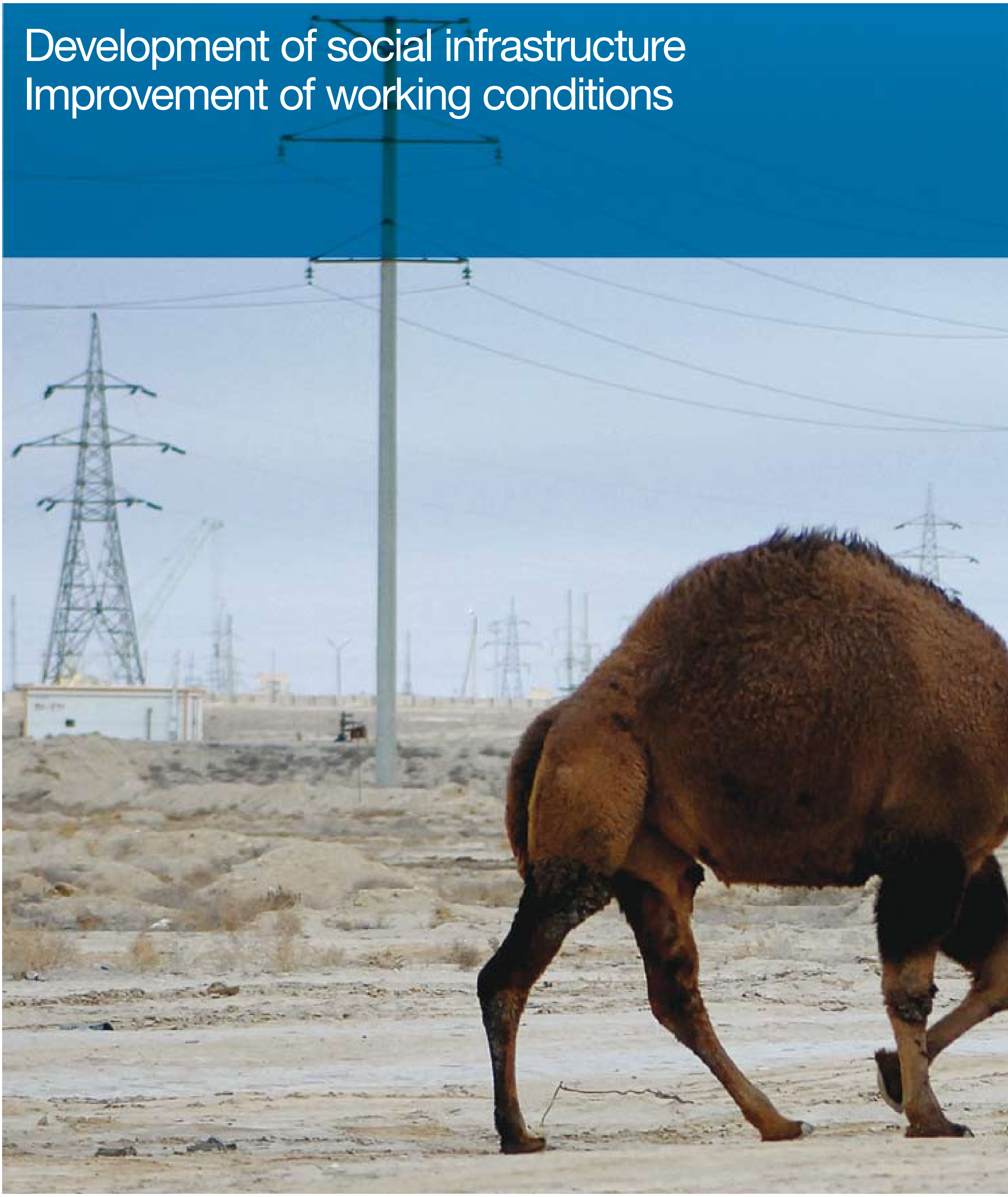


KZT/USD, average

06	07	08	09
126.09	122.55	120.29	147.50

Corporate Social Responsibility

Development of social infrastructure
Improvement of working conditions

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Corporate Social Responsibility

Social responsibility is one of the key features of KMG EP's operations. The Company's activity in this area is aimed at creating safe and comfortable work conditions, providing social protection for employees and their family members, continuous professional staff development, and facilitating the sustainable development of areas where the Company operates.

In order to organise KMG EP's activities under social programmes and partnership with local executive bodies, trade unions and public organisations, the Company's Board of Directors approved the main principles of social policy in 2009. These clearly set out the aims of social policy with regard to the Company's employees and residents in the regions where it operates.

Social projects in the Mangistau region

Starting from 2008, KMG EP has allocated KZT900m (US$6.1m) each year to fulfil its contractual obligations, in accordance with the Social Infrastructure Development Programme for the town of Zhanaozen and Karakiya district.

Taking into account the complex social climate that formed in the region as a result of the economic crisis in Kazakhstan, KMG EP and the Administration (Akimat) of the Mangistau Region have jointly concluded a Memorandum regarding additional financing of the region's social projects. According to the Memorandum, in 2009-2010 the Company allocated over KZT970m (US$6.6m) for municipal needs, on top of the funds specified by the contractual obligations. These funds are being used in Zhanaozen to create 1,000 social jobs, to build a 200-apartment communal residential house, to expand the subsidiary plot in the Tenirekshin area up to 500 hectares for part-time farm purposes, to install playgrounds in 63 residential yards and sports grounds at 10 of the town's schools, and to pay utility bills for veterans of the World War II and other socially vulnerable population groups.

The Company also helps to provide potable water in the Senek settlement and provides financial assistance to disabled children, families with many children and needy families, war and labour veterans, and single pensioners who were left without means of subsistence.

In the period of 2010-2012 it plans to build a medical treatment centre with an in-patient department in Zhanaozen, at an estimated cost of KZT1.3bn (US$8.8m), and a children's holiday camp for 250 people, costing over KZT250m (US$1.7m) The Company will also convert one of the dormitory blocks of the Kenderly recreation zone into a medical rehabilitation centre. These projects will require KZT1.2bn (US$8.1m).

The Company pays special attention to the development of sports and the promotion of a healthy lifestyle in the region. To honour the 110th anniversary of the discovery of oil in Kazakhstan, a multifunctional sports and leisure complex was opened in Zhanaozen in September 2009. The cost of the complex exceeds KZT2bn (US$13.6m). Construction was funded by KMG EP. The new modern sports complex, unique in the region, was named after Rakhmet Utesinov, a famous oilman. The sports complex includes halls for boxing, judo, aikido, basketball, volleyball, football and rhythmic sportive gymnastics. There also is a 25-metre swimming pool, a 50-metre shooting gallery and a weight-lifting room.

Since 2008, a 3,000-seat stadium, also funded by KMG EP, has been successfully functioning in Zhanaozen.

Corporate Social Responsibility continued

Social projects in the Atyrau region

Financial allocations by KMG EP to support the social infrastructure of the Atyrau Region are growing year by year.

In 2009, under its contractual obligations, the Company paid out KZT271.5m (US$1.8m). These funds were used to build a 220-pupil school in the Gran settlement of Isatai district and for the construction, reconstruction and complete overhaul of water service facilities in the Makat settlement of Makat district; and other projects.

In 2010, pursuant to its contractual obligations, KMG EP will allocate KZT 276m (US$1.9) for reconstruction of the Akkistau-Balgimbayevo road in Isatay district; for the construction and overhaul of water service facilities in Makat settlement; for the construction of a kindergarten for 140 children in Sagiz settlement and a community centre in Mukur settlement (both in Kyzylkogin district); and for other social projects.

Under the social partnership programme implemented jointly with the Akimat of Atyrau Region, KMG EP allocated KZT 165.5m (US$1.1) in 2009. These funds were used in Akkistau settlement to build a sports and recreation complex, to improve a playground and install outdoor amenities, and to repair a boiler room in the Munaishy neighbourhood of Munaishy settlement. In Makat settlement, conversion of the former administration building of Makatmunaigas into a pre-school has commenced and the utility systems and equipment of Baichunas settlement boiler room have been repaired. KMG EP plans to implement similar social projects in other regions of Western Kazakhstan in future years.

Joint collaboration with the regional Akimat will continue in 2010. The Company will allocate KZT420m (US$2.8m) for social projects in Makat, Kyzylkugin, Zhylyoy and Makhambet districts of Atyrau Region. The Company allocated funds of KZT200m (US$1.4m) for moving the people of Komsomol, Koshkar, Bek-bike settlements. As a result, social infrastructure facilities requiring total overhaul will be reconstructed in all these districts. In Makat district, a rehabilitation centre will be opened for patients of the local tuberculosis hospital, and in Miyaly settlement, a sports and leisure complex will be built and equipped. Moreover, the Company will continue to provide fuel oil for home heating in Baichunas, Koshkar, Komsomol and Iskene settlements (all in Makat district).

Between 2004 and 2009, the Company paid over KZT3.8bn (US$25.8m) in sponsorship for the implementation of social projects in Atyrau Region.

KMG EP renders annual sponsorship and charitable help to Ak-Bota orphanage, an orphan home for the disabled children; to the Association of Mothers of the Disabled, the Association for the Disabled and Association for the Blind; to large families and needy families in Atyrau and to the city sports organisations, as well as providing financial assistance to World War II veterans and those who worked on the home front. In 2009, about KZT119m (US$0.8m) was allocated for these purposes. In 2010, it is planned to spend KZT125m (US$0.8m).

Improvement of working conditions

The management of KMG EP considers the creation of appropriate working conditions for the Company's employees to be one of the most important aspects of increasing productivity.

KMG EP has developed a Programme for the improvement of social and living conditions in the structural divisions of UMG for 2009–2012. In 2009, over KZT1.3bn (US$8.8m) was allocated in the budget for this purpose, and in 2010 the sum will reach KZT1,6bn (US$10.7m). These funds are being used for building new canteens and amenity blocks for the personnel of structural divisions and for the acquisition and installation of modular units for operators who work on group units. First-aid points are also being built and the Company has purchased ambulance cars and special vehicles for delivery of hot food. The fleet of buses for personnel transportation has been renewed.

The Company allocates funds each year for the improvement of social and living conditions in the structural divisions of Embamunaigas (EMG) production branch. Pursuant to the spending budget for 2009-2010, about KZT700m (US$4.7m) has been allocated for the renovation of functioning dormitories and canteens on oilfields and the construction of new ones, as well as for the replacement of household equipment, reconstruction of the sports and recreation complex in Dossor settlement, the acquisition of eight ambulance cars, and construction of a sports complex in Kenbai shift camp.

Personnel Policy

The Company pays particular attention to ensuring an objective and transparent hiring process. Currently, assessment of a candidate for a position is a multi-stage process consisting of several levels of interviews and tests of professional knowledge and skills. Since 2009, this system operates both in the Company's head office and in its branches. Local HR committees include heads of structural divisions, trade union representatives and local professionals with many years of work experience.

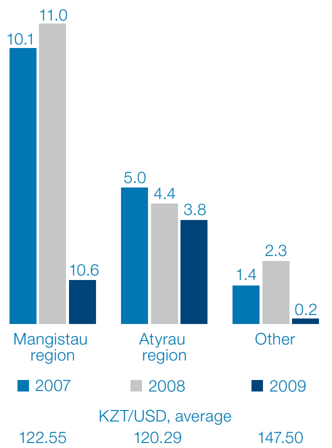
The competence of KMG EP staff is continuously evaluated, and not only during the hiring process. An appraisal of all Company employees is carried out annually. This allows an objective judgment of every manager's level of professionalism; a focusing of his/her efforts on the factors, objectives and areas of operation that will lead to increasing the efficacy of his/her own work and the Company as a whole; and a full evaluation of the manager's work over the reporting period and his/her contribution to achieving the Company's goals.

Currently, the Company employs high-class professionals, many of whom have many years' experience of working in the Kazakhstan oil and gas industry, as well as young professionals who studied abroad and had internships in foreign companies.

Constant improvement of employee qualifications is a necessity in the current market environment. It is impossible to achieve higher personal performance and economic indicators without training personnel in new work methods and the use of new equipment and technology, or without the improvement of working skills and techniques.

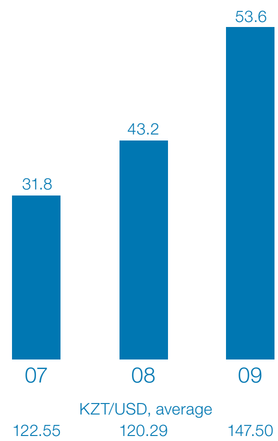
Social projects expenses

US$ m



Environmental expenses

US$ m



Corporate Social Responsibility continued

During 2009, 5,649 employees of UMG and EMG, the Engineering Centre branch and the head office underwent training under special programmes. About KZT399m (US$2.7m) was allocated for training.

Despite the economic crisis in the country, KMG EP has managed to avoid staff reductions and preserved jobs, not only in production divisions but in all subsidiary service companies. Salaries have also been increased to compensate for inflation.

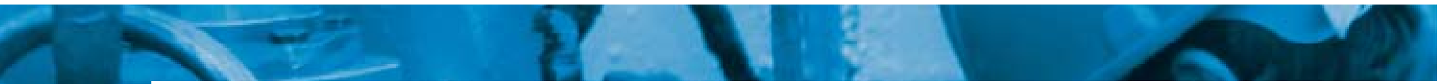
Nevertheless, on 15-17 November 2009, about 30 employees of UMG took part in a protest action in the town of Zhanaozen (Mangistau Region). Their demands were a further wage increase, the spinning out of UMG into a separate legal entity and the removal of the central office of KMG EP from Astana to Zhanaozen. Issues of employment for the town's unemployed were also on the agenda. The remaining employees of the 8-thousand UMG workforce continued to work as usual.

The prosecutor's office in Zhanaozen declared this protest action unlawful, a ruling of which all its participants were informed. No significant break in the main production activity occurred at UMG.

A conciliation commission was formed for resolving the labour dispute. It included the Company management, representatives of Zhanaozen Administration (Akimat), the local trade union leaders and the protesters. All the conflict issues were considered in the course of the commission's work.

In December 2009, an operating management group was created for UMG operating division in Aktau (Mangistau Region). It will ensure implementation of social projects within the terms of social partnership with the local executive authorities, including social obligations under subsurface use contracts.

The Group is entrusted with constant monitoring of the division's operations, including work and production discipline, work quota setting, personnel management, labour protection, observance of environmental protection standards, health and safety, procurement and fulfilment of obligations under the subsurface use contracts, etc.




Main social policy principles of JSC KazMunaiGas Exploration Production

- To act in accordance with labour legislation and its contractual obligations under subsoil use contracts.
- To actively cooperate with state bodies, including local executives, within the framework of social partnership programmes.
- To cooperate with trade unions within the framework of obligations undertaken in terms of the Collective Labour Agreement.
- To inform openly shareholders, clients and employees about its operations, within the limits of legislation.
- To meet ecological standards in order to prevent environmental pollution.
- To cooperate with Nur-Otan People's Democratic Party and other public associations.

Aims of the Company's social policy with regard to its employees:

- Provision of social benefits and guarantees in accordance with the terms of the Collective Agreement.
- Provision of voluntary medical insurance.
- Health and safety.
- Improvement of living conditions.
- Support of retired pensioners, war and labour veterans.
- Support of young professionals.
- Creation of a work culture within strict observance of the standards of labour legislation and corporate ethics, observance of bilateral obligations under the Collective Agreement, taking steps to minimise occasions for social conflict or social protest.

Primary areas of social programmes:

Improvement of work conditions

- Qualitative improvement of social and living conditions for Company employees.
- Creation of comfortable catering conditions, improving the quality of service.
- Provision of quality potable water.
- Provision of quality transport services.

Improvement of living conditions and provision of quality medical services

- Allocation of concessionary housing loans through placing of deposits at second-tier banks.
- Assistance in the relocation of residents from regions affected by the closure of low-profit or unprofitable fields.
- Using other opportunities to provide housing for Company employees.
- Provision of quality medical services at work.
- Provision of voluntary medical insurance.

Interaction with trade unions

- Control of performance of social obligations.
- Monitoring fulfilment of the terms of the Collective Agreement and informing work teams about the results.
- Work to improve social and living conditions for employees.
- Organising therapeutic resort treatment and recreation for employees and their family members.
- Organising cultural, mass and sports events.
- Strict compliance with the achieved agreements and arrangements.

Aims of the company's social policy in the regions of operation:

- Strengthening cooperation with local executive authorities within the social partnership framework.
- Improvement and landscaping population centres in the regions of operation.
- Development of physical culture and sports, creation of a healthy lifestyle.
- Support of young people.
- Support of the socially vulnerable population.

Primary areas of social programmes:

- Taking part in the development of social infrastructure in towns and settlements in the areas where the Company operates.
- Repairing and equipping sports grounds and playgrounds in schools and residential areas.
- Sponsorship and charity for orphanages, disabled children and orphans, families with many children.
- Support for war and labour veterans, repatriates, needy families living below the poverty line, people with socially significant diseases (tuberculosis etc.).
- Taking part in implementation of the state programmes 'Road map' and 'Cultural Heritage – Madeni Mura'.
- Modernisation and construction of social facilities.

Health, Safety and Environment

Occupational health and safety

Occupational health and safety is one of the main priorities for management at KMG EP. The Company personnel and top managers of structural divisions are personally liable for observance of the standards and requirements of the labour and environmental protection laws during the production process. The implemented measures are aimed at improving working conditions, accident prevention, readiness to localise and eliminate the consequences of accidents and guarantee indemnity of damage inflicted upon third parties and the environment. All measures are supported financially and are performed in full, year after year.

According to the Republic of Kazakhstan's Labour Code and the Industrial Safety Law, managers and executives of industrial organisations who are responsible for the provision of occupational health and safety have to undergo training and test their knowledge at advanced training courses once every three years.

All members of the permanent commission and permanent examination commission of the Company's head office completed regular training in September 2009 by a specialised training organisation at the Ministry of Labor and Social Protection of the Republic of Kazakhstan. State monitoring and control bodies' representatives also took part. Upon completion of the training course, all participants passed an exam and obtained positive marks.

The permanent commission carries out thorough inspections and analyses of occupational safety and environmental conditions. It also checks that protective and other equipment, and the whole work environment, conforms to the rules, safety requirements and international standards. Certification of production facilities with regard to working conditions in UMG and EMG were also carried out in 2009 by independent organisations. Safety declarations of production facilities at UMG and EMG were reviewed and positive expert reports by the state monitoring and control bodies were obtained. The risk management system in the area of industrial and fire safety is well-developed in the projects, considerably reducing the risk of accident and emergencies at production sites and giving an objective estimate of hazards which likewise plays its part in risk reduction.

The production branches of KMG EP, like other enterprises, take an active part in nation-wide official emergency training exercises. The goal of such exercises is to prepare for and undertake rescue and other emergency work when dealing with natural and man-made disasters.

To prevent and reduce occupational diseases, the staff of KMG EP head office and branches have to pass an annual medical check-up while drivers and other personnel must pass a medical check-up before their shifts.

The production sites of oil companies are inherently hazardous, so KMG EP is actively working to reduce risks that pose a threat to health and safety. Analysis of the last few years clearly shows stabilisation of the level of industrial injuries. Nevertheless, accidents in the workplace are still a real issue. 2009 has seen two hazard-related incidents in the Company's production facilities.

The injury rate and frequency of accidents was reduced by around 70 per cent as compared to the last year. The accident frequency rate was reduced nearly 80 per cent since 2004.

Environmental protection

Taking into account that the natural environment and biodiversity are assets for all future generations to enjoy, the Company implements a balanced policy of sustainable development of the economic, social and ecological aspects of its operations.

KMG EP implements the most effective and ecologically sound projects in order to restore and stabilise the quality of the environment.

The Company allocates considerable funds annually for implementation of these projects,rising from KZT7.9bn (US$53.6m) in 2009 to a planned KZT 10bn(US$66.7m) in 2010.

The bulk of this investment is allocated to eliminating past pollution. Lately the Company has intensively implemented the technology of zeolite biological remediation of polluted land. Considerable areas of previously polluted land are returned to use every year. In 2009 alone, 77 hectares were restored. Moreover, the Company also uses traditional technical means of regenerating polluted lands. The total area of regenerated lands so far is 156 hectares.

To reduce the volume of historically accumulated waste, especially the overspill oil which formed into a shallow lake at Uzen in Soviet times, the Company uses two facilities for processing soil polluted with crude oil and re-cycle it for Company use. As of today these facilities have passed the test of industrial use and have all the necessary state licences and certificates. In order to increase the capacity of waste recycling, KMG EP involves contractors with special equipment. In the past year, the Company recycled 121 thousand tonnes of waste and plans to recycle another 121 thousand tonnes in 2010.

In 2009, KZT1.3bn (US$8.8m) was allocated for removing an old oil processing and pumping facility at UMG, reducing its size from 85 to 29 hectares.

Increasing the rate of associated gas utilisation is another aspect to which the Company pays serious attention. KMG EP has constructed 64.6km of new gas pipelines and increased its own associated gas consumption by installing additional heating furnaces in Kisimbai, Akingen and B. Zholamanov fields. In this way it has reduced gas flaring by 5.6 cubic metres per year and increased utilisation of associated gas to 65%.

To implement the associated gas recovery programme, the Company invested KZT577m (US$3.9m). Work on raising gas utilisation continues.

Since 2005 JV Kazgermunai LP has been implementing a gas disposition project to provide the people of Kyzylorda with low-cost natural gas. By 2011 the project will increase capacity of the UPG-2 gas treatment facility by up to 500 cubic meters annually; An oil processing facility is also being built at the Nuraly oilfield with a booster compressor station which allows for the further injection of associated gas into the new system. The construction of a gas turbine power station at Akshabulak oilfield will also supply power to Kyzylorda of which 62 MW will be used by the city and 25 MW will be for the Company's needs.

A number of the Company's current ecological projects are related to preventing the pollution of the Caspian Sea offshore area. For this, the shoreline is fenced off from the Company's production infrastructure by dams to prevent oil pollution of the sea when the level of the Caspian fluctuates. Every year, after sea levels subside, the dams are repaired and reconstructed.

Lately, the Company has been using a totally new technology to protect fields from flooding. It is a multi-step metal structure with a special filler which protects the shoreline from landslides and erosion. This technology is more wave-resistant than previous methods. It is planned ito fully replace the filling dams with the new structures in future.

In order to continuously control the state of the environment, the Company has formed an onshore ecological monitoring network. This is centred on physical and chemical laboratories which trace the impact of KMG EP's production activity on every component of the environment: air, underground waters, soil, flora and fauna.

The Company then evaluates the soundness and efficiency of the technological processes on the basis of the results obtained. Should the technological processes be broken off or disrupted, steps are promptly taken to identify the source of pollution. The operability of the monitoring network is maintained and developed year by year.

Corporate Governance Information

Combined Code compliance

This section of the Annual Report has been prepared in compliance with the requirements of the United Kingdom Listing Authority's ("UKLA") Disclosure and Transparency Rule ("DTR") 7.2 (Corporate Governance Statements).

As an overseas company with GDRs admitted to the Official List of the United Kingdom Listing Authority, the Company is not required to comply with the provisions of the UK Combined Code on Corporate Governance (Combined Code). However in accordance with DTR 7.2 it is required to disclose in its Annual Report whether or not it complies with the corporate governance code of the Republic of Kazakhstan and the significant ways in which its actual governance practices differ from those set out in the Combined Code. In addition, the Directors view corporate governance as very important, support the development of high standards of corporate governance in the Company.

Differences between Kazakhstan Corporate Governance Code and Combined Code provisions

Corporate governance best practice in Kazakhstan is set out in the Kazakhstan Corporate Governance Code. This Code is based on existing international best practice in the area of corporate governance and the recommendations for applying the principles of corporate governance by Kazakhstan joint-stock companies, approved by the Expert Council for Securities Market Matters under the National Bank of the Republic of Kazakhstan in September 2002. The Code was approved by the Association of Financial experts of Kazakhstan in March 2005 and by the Board of Issuers in February 2005.

Throughout 2009 the Company complied with the provisions of the Kazakhstan Corporate Governance Code in all material respects.

KazMunaiGas Exploration and Production Joint-Stock Company (KMG EP) has adopted the Kazakhstan Corporate Governance Code, modified to include certain provisions from the Combined Code, as its Corporate Governance Code. The modifications adopted by the Company impose additional corporate governance obligations on KMG EP. The Company believes that these additional modifications significantly strengthen the corporate governance regime adopted by the Company. KMG EP also takes into consideration other provisions of the Combined Code and will seek to improve its standards of corporate governance in the future.

The copy of the Company's Corporate Governance Code and a description of the Company's corporate governance practices is available on the Company's website.

Below are described the main differences between the Corporate Governance Code, adopted by the Company and the Combined Code.

- The Combined Code provides that the Non-Executive Directors should meet without the Chairman of the Board of Directors present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. On the other hand, the Company's Corporate Governance Code doesn't include such a requirement.

  Throughout 2009 Independent Non-Executive Directors met eight times without a Chairman of the Board, where the following issues were discussed: the position with regard to interested party transactions with JSC National Company KazMunayGas (NC KMG) or companies of NC KMG Group, including purchase of a stake in PetroKazakstan Inc.; measures for bringing the Treasury Policy in compliance with regulations; internal audit and internal control issues; the Company development strategy; election of the Management Board members and other changes in the Company's management; issues related to workforce; and personnel appointments.

  Although no official evaluation of the activity of the Chairman of the Board of Directors was made by the Non-Executive Directors; the Board's activities was evaluated by an external independent consultant in March 2010. More detailed information on the Board of Directors evaluation may be found on page 37 of this report.

- In accordance with the provisions of the Combined Code, following his appointment, the Chairman of the Board of Directors shall meet the criteria of independence defined in the Combined Code.

  The provision for appointment of the Chairman of the Board of Directors is not included in the Company's Corporate Governance Code, and, in the opinion of the Directors, the Chairman of the Board of Directors would not meet the criteria of independence stated in the relevant provision of the Combined Code.

  The Audit Committee Provision stipulates that the Chairman of the Board of Directors must not be a member of the Audit Committee, despite the existence of such an option in the Combined Code. This difference is intentionally stipulated in the Audit Committee Provision on the ground that the Chairman of the Board of Directors is a representative of a major shareholder.

- The Combined Code stipulates that not less than half the Board of Directors members, except for the Chairman, shall be Independent Non-Executive Directors. On the other hand, the Company's Corporate Governance Code and Charter stipulate that not less than one third of the Board of Directors members shall be Independent Non-Executive Directors.

  During 2009 the Board of Directors included three Independent Non-Executive Directors: Christopher Mackenzie, Paul Manduca and Edward Walshe, and thus the number of independent directors comprised more than one third of the Board of Directors. In addition, according to the Company's Charter, a number of key issues are required to be approved by the majority of Independent Non-Executive Directors.

In connection with the expiration of the term of appointment to the Board of Directors, Christopher Mackenzie decided to withdraw from the Board reappointment process on EGM on March 26, 2010. According to the Company's Charter; the number of Board of Directors' members must comprise not less than eight Directors (in the absence of temporary vacancies) including not less than one third of INEDs. Therefore, one position for Independent Non-Executive Director is temporarily vacant. As a result, on May 25, 2010 during the AGM, the Board of Directors acting on the recommendation of the Nomination Committee, will propose a candidate Independent Non-Executive Director for election to the Board.

- The Combined Code also states that the Board shall appoint one of the independent directors as a Senior Non-Executive Director.

  The Board of Directors did not appoint a Senior Non-Executive Director in view of the current shareholder structure. The requirement concerning the appointment of a Senior Non-Executive Director will be considered from time to time.

Directors' responsibility statement
In accordance with the Company's Corporate Governance Code, the Board of Directors and the Management Board shall bear responsibility for the credibility of the Company's annual report and financial statements.

In compliance with the UKLA's Disclosure and Transparency Rules, each of the Directors, whose names and functions appear on pages 6-7 of this Annual Report, confirms that to the best of his or her knowledge:
- the financial statements, prepared in accordance with IFRS, give a true and fair account of the Company's assets, liabilities and financial position, the results of its financial and economic activities and those of the subsidiary enterprises included in the consolidated Company balance sheet taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the financial position of the Company and its joint obligations in the matter of subsidiary enterprises, together with a description of the principal risks and uncertainties that these face.

The Board of Directors structure
As of December 31, 2009 the Board comprised the following eight members:

Kairgeldy Kabyldin	Chairman of the Board of Directors
Kenzhebek Ibrashev	Member of the Board of Directors (CEO)
Yerzhan Zhangaulov	Member of the Board of Directors
Tolegen Bozzhanov	Member of the Board of Directors
Askar Balzhanov	Member of the Board of Directors
Christopher Mackenzie	Independent Non-Executive Director
Paul Manduca	Independent Non-Executive Director
Edward Walshe	Independent Non-Executive Director

In connection with the expiration of the term of appointment, pursuant to clause 2 article 12.2 of the Company Charter, Board of Directors resolved to call an EGM on March 26, 2010 where the following changes were approved:
- Kairgeldy Kabyldin, the Chairman of the Board of Directors and Christopher Mackenzie, the independent director decided to withdraw from the Board reappointment process.
- In accordance with the proposal of a major shareholder (NC KMG) Assiya Syrgabekova was elected as a member of the Board of Directors.
- Under Article 12.16 of KMG EP Charter, the Chairman of the Board is elected from among its members by a simple majority of votes. Hereby on March 30, 2010 Askar Balzhanov was elected as the new Chairman of the Board.

In compliance with the Corporate Governance Code, the Board of Directors established the independence of the directors and considers that Christopher Mackenzie, Paul Manduca and Edward Walshe are independent by nature and in decision-making. The Board of Directors determined that there exist no relations or circumstances that affect or may significantly affect the independent decisions made by these Directors.

The Management Board structure
The Company's Management Board comprises senior executives of the Company, including the CEO and his deputies.

Members of the Management Board as of December 31, 2009:

Name	Position in the Company
Kenzhebek Ibrashev	CEO and Chairman of the Management Board
Vladimir Miroshnikov	Deputy CEO, Production – Head of Operating Management Group in Aktau
Zhanneta Bekezhanova	CFO
Askar Aubakirov	Deputy CEO, Corporate Governance and Asset Management
Kairolla Yerezhepov	Managing Director, Human Resources and Social Policy
Dovulbai Abilkhanov	Director of UMG
Isturgan Baimukhanov	Director of EMG

Corporate Governance Information continued

Following a resolution of the Company's Board of Directors, the following changes were made in the composition of the Management Board over the course of 2009-2010:

- On May 29, 2009 Askar Balzhanov, CEO (Chairman of the Management Board) resigned from his position, and on June 1, 2009 Kenzhebek Ibrashev was elected as the Chairman of the Management Board.
- On June 30, 2009 the BoD decided on Kairbek Eleusinov's resignation from the Management Board. Dovulbai Abilkhanov (Director of UMG) and Isturgan Baimukhanov (Director of EMG) were elected to the Management Board.
- On October 5, 2009 Askar Aubakirov took a position of Deputy CEO for Corporate Development and Asset Management and was elected to the Management Board on December 1, 2009.
- On January 26, 2009 the BoD decided on the resignation of Dovulbai Abilkhanov and Kairolla Yerezhepov from the Management Board. Bagitkali Biseken (as a Director of UMG) was elected to the Management Board.
- On March 30, 2010 BoD decided on the resignation of Bagitkali Biseken who has been transferred from the position of Director of UMG, and Kiikbai Yeshmanov was elected to the Management Board.

Responsibility of the Board of Directors and Management Board

The distribution of authority between the Board of Directors, Management Board and the CEO of the Company is set out in articles 12 and 13 of the Company's Charter.

The Board of Directors is responsible to shareholders for effective management and control of the Company and acts in compliance with the approved decision-making system. The most important functions of the Board of Directors are to determine the main directions of the Company's strategic development and policy, to consider potential acquisitions, and to review other essential issues.

In turn, the Management Board is responsible for developing an action plan for implementation of these functions and for the current operating activity of the Company. The Management Board reports to the Board of Directors on progress made in achieving the Company's goals.

The Board of Directors holds meetings on a regular basis and as required.

In 2009, the Board of Directors held 35 meetings, including seven meetings held by voting in person, two meetings held by voting in person by a conference call, and 26 meetings held by proxy voting.

Throughout the year, the Board of Directors reviewed such issues as:

- preliminary approval of the Company's consolidated financial statements for 2008;
- the final results of the key performance indicators (KPI) of the Management Board, Head of Internal Audit and Corporate Secretary of the Company;
- the report on the performance of the Board of Directors and the Management Board in 2008;
- the report on performance evaluation of the Board of Directors in 2008;
- a recommendation to review at the Annual General Meeting of shareholders the order of distribution of the Company's net income and the dividend amount per ordinary and preferred shares of the Company, based on the 2008 results.

In 2009, the Board of Directors business activities included the regular hearing of information on the results of the Company's financial and economic activity and on environmental protection, health and safety and of reports on the implementation of the previous decisions of the Board of Directors.

As a result, during 2009, the Board of Directors considered and made decisions on two interested party transactions:

- a contract of acquisition of a 100% stake in KazMunaiGas PKI Finance BV.;
- agreement on assignment of rights and undertaking obligations with regard to the purchase of 33% shares in PetroKazakhstan Inc.

The Board of Directors approved the following documents in 2009:

- Company principles;
- Procurement Policy for the Company and legal entities in which KMG EP owns 100% of voting shares (equity stakes);
- the list of information constituting an official, commercial or other secret of KMG EP and other information protected by law.

The Board of Directors also made decisions on personnel issues, such as the appointment and resignation of the Management Board members, employees of the Internal Audit Service and the Corporate Secretary of the Company.

Directors' Attendance at the Meetings of the Board of Directors and Committees

	Board of Directors	Audit Committee	Nominations Committee	Remuneration Committee	Strategic Planning Committee
Number of meetings held in 2009	**35**	**11**	**6**	**8**	**4**
Kairgeldy Kabyldin	34	–	6	–	–
Askar Balzhanov	34	–	–	–	2
Yerzhan Zhangaulov	33	–	–	–	–
Kenzhebek Ibrashev	35	–	–	–	4
Christopher Mackenzie	34	11	5	8	–
Paul Manduca	35	11	–	4	–
Tolegen Bozzhanov	32	–	–	–	–
Edward Walshe	35	11	6	8	4

The Management Board is the executive body and manages the current activities of the Company. In 2009 the Management Board held 38 meetings on a regular basis and as required.

During 2009 the Management Board reviewed and approved a number of key issues related to the Company's operating activity:
- a number of regulatory technical documents with regard to industrial safety during drilling, well workover, labour and environmental protection; to improve the work safety and environmental protection system;
- amendments to the collective agreement with regard to work remuneration, social relationships, health and safety in the workplace;
- allocation of funds for the creation of over 1,000 social jobs in Zhanaozen, related to social protection and population support in the regions of Company's operations, in 2010;
- the Company's internal procedures in compliance with the Integrated Management Standards;
- creation of an operating management group in Aktau;
- a medium-term production programme for 2009-2011 of KMG EP;
- the Company's medium-term budget for 2009-2011;
- the measures for implementation of the investment project 'Production of road bitumen in the Aktau Plastic Plant';
- a number of projects for the potential acquisition of oil and gas assets located both in the Republic of Kazakhstan and abroad;
- the Regulation on quarterly bonuses for production units of the Company based on the positive results of business and production activity.

The Management Board also decides on other issues of the Company's operations that are not referred to the exclusive competence of the general meeting of shareholders, the Board of Directors or the Company's officials.

Performance Evaluation of the Board of Directors

The Company Board has made a comprehensive assessment of its performance and of its committees in 2009. The assessment has been made by outside independent consultant. Such criteria as implementation of top-priority goals by the Board, professional balance, independence of the Board, its interaction with the management, the quality of key procedures of the Board's performance were used for the assessment. Certain recommendations given by the Board following this assessment, including INED's opinion, were discussed at the Board meeting on March 31, 2010. An action plan to improve the Board performance has been developed following the discussion.

According to the assessment, in 2009 the Board performed consistently and efficiently. The strategic planning committee contributed significantly to the Board to help it find optimal solutions.

Further efforts of the Board were aimed at strengthening risk management, improvement of internal controls within the Company. It was noted that Information support of the Board should be improved further.

Audit Committee

Membership

In 2009 the Audit Committee included only Independent Non-Executive Directors: Paul Manduca (Chairman of the Committee), Christopher Mackenzie and Edward Walshe. Appointments to the Audit Committee are made for a period of up to three years, extendable by no more than two additional three-year periods by resolution of the Board of Directors, as long as the members of the Audit Committee continue to be independent.

Number of Meetings

During 2009 the Audit Committee held 11 meetings. The Chairman of the Audit Committee decides the frequency and timing of the Committee's meetings. A certain number of meetings shall be decided on in compliance with the requirements for the roles and responsibilities of the Committee. However, there are not less than four meetings in the course of a year, coinciding with key dates in the Company's financial statements preparation and audit cycle (when internal and external audit plans are available for review and when interim financial statements, preliminary announcements and the annual report are close to being completed).

Corporate Governance Information continued

Role and Responsibilities of the Audit Committee

The Audit Committee bears responsibility, among other things, for any statements containing financial information on the Company, for monitoring of the risk management system and internal controls system, and for involving the Company's auditors in this process. Also, it receives information from the Company's Internal Audit Department that monitors compliance with internal control procedures. In particular, the Committee deals with the issues of complying with the requirements of legislation, accounting standards and applicable UKLA and Kazakhstan Stock Exchange (KASE) rules, ensuring an effective internal controls system. The Board of Directors is responsible for preliminary approval of the annual financial report.

The Audit Committee reviews from time to time major acquisition and disposal transactions and any other issues which the Board of Directors may address to the Audit Committee.

Annually, at the general shareholders' meeting, the Chairman of the Audit Committee through the Chairman of the Board of Directors reports on the Audit Committee's performance and answers questions related to the Audit Committee's activity.

Activity of the Audit Committee in 2009

Financial Reporting

- Review of the preparation of financial statements in compliance with IFRS;
- Approval of quarterly and annual financial statements for disclosure to the Kazakhstan and London Stock Exchanges;

Internal Controls and Risk Management System

- Assessment of the effectiveness of the internal controls and Risk Management system;
- Self-assessment of the Audit Committee;

Internal Audit

- Review and approval of the three-year Internal Audit Service plans;
- Assessment of the effectiveness of the internal audit;
- Review and approval of the report on the Audit Committee operation for 2008;

External Audit

- Recommendation of Ernst & Young Kazakhstan LLP as an external auditor of the Company.

Remuneration Committee

Membership

During 2009 this Committee comprised only Independent Non-Executive Directors. Its members were Christopher Mackenzie (Chairman of the Committee), Paul Manduca and Edward Walshe. The terms of office of the Committee members coincide with their terms of office as members of the Board of Directors.

Roles and Responsibilities of the Remuneration Committee

The Remuneration Committee bears responsibility for monitoring the Company's existing remuneration system for members of the Board of Directors, the CEO, members of the Management Board and other employees of the Company, including analysis of remuneration policy relative to that of other companies.

Further, the Remuneration Committee is responsible for developing and making recommendations to the Board of Directors on the principles and criteria for deciding the amount and terms of remuneration and compensation payments to members of the Board of Directors, the CEO and members of the Management Board. It is also responsible for approval of the terms and conditions of the Company's option plans; and other long-term employee incentive programmes for encouraging members of the Company's bodies and other Company employees.

The Remuneration Committee checks that the Company's remuneration policy and existing remuneration system are consistent with the Company's strategy and financial position and also with the labour market situation.

The Remuneration Committee monitors appropriate information disclosure with regard to the remuneration and compensation of members of the Company's Management Board and the Board of Directors, as required by the legislation of the Republic of Kazakhstan and by the Listing Rules and internal documents of the Company.

In addition, the Remuneration Committee exercises control over implementation of the decisions of the shareholders' general meeting in terms of determining the amount and procedure of remuneration payment to members of the Board of Directors.

The Remuneration Committee reports regularly to the Board of Directors on a regular basis and submits to the Board an annual analysis of the compliance of the Committee's activities with its Terms of Reference.

Activity of the Remuneration Committee in 2009
During 2009 the Remuneration Committee held eight meetings. Meetings of the Committee are held as required but not less than once every six months. Meetings may be convened on the initiative of the Chairman or members of the Committee or as decided by the Board of Directors.

In 2009 the Remuneration Committee reviewed issues such as:
- Creation of a working group for analysis of the Company's remuneration policy;
- Offering options to the Company's management and employees.
- Remuneration and approval of KPI for the Corporate Secretary of the Company;
- Salary indexation for members of the Management Board, the Corporate Secretary of the Company and employees of Internal Audit Department, taking inflation into account;
- Review of the results according to KPI for members of the Company's Management Board for 2008;
- Review of draft KPI charts for members of the Company's Management Board for 2009;
- Payment of annual remuneration for 2008 to the Company employees;
- Remuneration of the Company management, i.e. members of the Management Board;
- Succession of official positions held by foreign employees;
- Payment of advance annual remuneration for 2009 to members of the Management Board and the Corporate Secretary.

The total amount of remuneration accrued to Independent Non-Executive Directors for the year ending December 31, 2009 is presented in the table below:

Name	Annual Fee 000 US$	Physical Attendance 000 US$	Telephone/ Video Link Attendance 000 US$	INED Meeting Fee 000 US$	Committee Chairmanship Fee 000 US$	Total 2009 (excluding taxes) 000 US$	Total 2009 (including taxes) 000 KZT
Christopher Mackenzie	100	70	5	27.5	15	217.5	36,328
Paul Manduca	100	50	20	27.5	25	222.5	37,163
Edward Walshe	100	60	15	27.5	15	217.5	36,238
Total	**300**	**180**	**40**	**82.5**	**55**	**657.5**	**109,729**

Other members of the Board of Directors do not receive any remuneration as members of the Board but are entitled to reimbursement for the costs related to such appointment.

The total amount of remuneration accrued to members of the Management Board for the year ending December 31, 2009 is presented in the tables below:

Name	Position	Salary 000 KZT	Other Annual Compens. 000 KZT	Total 2009 000 KZT	Total 2008 000 KZT	Total 2009 000 US$	Total 2008 000 US$
Kenzhebek Ibrashev	CEO	18,098	0	18,098	0	123	0
Askar Balzhanov	CEO	12,525	35,366	47,891	56,923	325	473
Vladimir Miroshnikov	Deputy CEO Production – Head of Operating Management Group in Aktau	24,434	1,176	25,610	44,396	174	369
Zhanneta Bekezhanova	CFO	14,994	2,723	17,716	38,595	120	321
Askar Aubakirov	Deputy CEO Corporate Development and Asset Management	1,770	0	1,770	10,695	12	89
Kairolla Yerezhepov	Managing Director, Human Resources and Social Policy	11,707	699	12,406	21,502	84	179
Dovulbai Abilkhanov	Director of UMG	9,493	707	10,200	0	69	0
Bagitkali Biseken	Director of EMG	17,739	12,746	30,485	28,926	207	240
Isturgan Baimukhanov	Director of EMG	9,783	0	9,783	0	66	0
Kairbek Yeleusinov	Director of UMG	6,380	12,147	18,527	4,003	126	33
Total[1]		**126,921**	**65,564**	**192,485**	**205,040**	**1,305**	**1,704**

1 The total amount for 2009 excludes a part of annual payment for 2008 paid to Kurbanbayev M. in the amount of KZT 4,445,000; Mr. Kurbanbayev has worked as a Director of UMG and was member of Management Board until October 8, 2009.

Corporate Governance Information continued

Directors and members of the Management Board were granted KMG EP's GDR Options in accordance with the Provisions of the Company Option Programme. The table below represents GDR options which were granted but not exercised yet.

Name	Date of option award	Number of GDRs for which options were granted	Option exercise price	Maturity date
Kairgeldy Kabyldin	–	–	–	–
Askar Balzhanov	December 4, 2007	15,300	US$26.47	December 4, 2010
	December 2, 2008	23,576	US$13.00	December 2, 2011
Yerzhan Zhangaulov	–	–	–	–
Tolegen Bozzhanov	–	–	–	–
Christopher Mackenzie	–	–	–	–
Paul Manduca	–	–	–	–
Edward Walshe	–	–	–	–
Kenzhebek Ibrashev	June 1, 2009.	20,327	US$21.80	June 1, 2012
	January 1, 2010	18,034	US$24.90	January 1, 2013
Vladimir Miroshnikov	October 4, 2006	33,844	US$14.64	One third on each October 4 2007, 2008 and 2009
	December 4, 2007	12,240	US$26.47	December 4, 2010
	December 2, 2008	18,861	US$13.00	December 2, 2011
Zhanneta Bekezhanova	October 4, 2006	29,262	US$14.64	One third on each October 4 2007, 2008 and 2009
	December 4, 2007	10,880	US$26.47	December 4, 2010
	December 2, 2008	16,765	US$13.00	December 2, 2011
Askar Aubakirov	December 1, 2009	5 978	US$25,00	December 1, 2012
Kairolla Yerezhepov	October 4, 2006	22,025	US$14.64	One third on each October 4 2007, 2008 and 2009
	December 4, 2007	4,604	US$26.47	December 4, 2010
	December 2, 2008	8,513	US$13.00	December 2, 2011
Dovulbai Abilkhanov	December 4, 2007	936	US$26.47	December 4, 2010
	December 2, 2008	6,706	US$13.00	December 2, 2011
Isturgan Baimukhanov	–	–	–	–
Kairbek Yeleusinov	October 4, 2006	9,854	US$14.64	One third on each October 4 2007, 2008 and 2009
	December 4, 2007	2,714	US$26.47	December 4, 2010
	December 2, 2008	11,736	US$13.00	December 2, 2011
Bagitkali Biseken	May 18, 2007	16,968	US$20.00	One third on each May 18 2008, 2009 and 2010
	December 4, 2007	6,347	US$26.47	December 4, 2010
	December 2, 2008	11,736	US$13.00	December 2, 2011

Nominations Committee

In 2009 the Nominations Committee comprised Independent Non-Executive Directors: Christopher Mackenzie, Edward Walshe and Chairman of the Board of Directors Kairgeldy Kabyldin, who was also the Chairman of the Committee.

During 2009 the Nominations Committee held six meetings.

The main purpose of the Committee's activity is to improve the effectiveness and quality of work of the Board of Directors in the selection of specialists for substitute positions in the Company's bodies. It also ensures continuity despite replacement of the Company's personnel, and determines criteria for the selection of candidates for the positions of the Board of Directors, CEO, members of the Management Board and Corporate Secretary of the Company.

The Nominations Committee reviews issues related to changes in membership of the Board of Directors and the Management Board, the resignation and appointment of the Corporate Secretary, and the retirement and appointment of additional and substituting directors.

Strategic Planning Committee

In 2009 the Committee comprised following members of the Board of Directors: Kenzhebek Ibrashev, Askar Balzhanov and Independent Non-Executive Director Edward Walshe, who was the Chairman of the Committee.

The main purpose of the Committee's activity is to develop and advise the Company's Board of Directors on the prioritisation and direction of the Company's operations and development strategy.

Activity of the Strategic Planning Committee in 2009

During 2009 the Committee held four meetings where the following issues were reviewed:

- The Company's development strategy;
- Approval of participation of the Company and its 100% subsidiary in creating a subsidiary entity;
- Approval of interested party transaction – a contract of 100% acquisition stake in KazMunaiGas PKI Finance BV;
- New oil and gas asset acquisition projects in the Republic of Kazakhstan and abroad;
- Prospective exploration projects;
- Oil price forecast scenario for 2010-2014;
- Operational issues and further development of UMG fields;
- Analysis of lifting costs and capital expenditure;
- Entering new projects and the degree of support from NC KMG in these issues;
- Petrochemical issues.

Interests of the Directors and Members of the Management Board

The interests of the Directors and Management Board members in ordinary, preference shares and GDRs, according to the information provided by the Board of Directors and the Management Board members as of December 31, 2009:

Name	Number of ordinary shares	Numbers of GDRs	Number of preferred shares
Kairgeldy Kabyldin	–	–	–
Askar Balzhanov	–	49,102	–
Kenzhebek Ibrashev	–	–	–
Yerzhan Zhangaulov	–	8,681	–
Tolegen Bozzhanov	–	–	–
Christopher Mackenzie	–	6,996	–
Paul Manduca	–	6,828	–
Edward Walshe	–	6,828	–
Vladimir Miroshnikov	1,163	9,494	–
Zhanneta Bekezhanova	–	–	2,203
Askar Aubakirov	–	–	34
Dovulbai Abilkhanov	–	–	588
Kairolla Yerezhepov	–	–	–
Kairbek Yeleusinov	–	–	616
Bagitkali Biseken	–	–	280
Isturgan Baimukhanov	–	–	–

Corporate Governance Information continued

Principal Shareholders and/or GDR Holders

Below is shown a list of shareholders as of December 31, 2009 which is Company must disclose in accordance with the legislation of the Republic of Kazakhstan.

This requirement is not applicable to GDR holders, however the Company is aware that on September 30, 2009 the state investment fund of the People's Republic of China, China Investment Corporation (CIC), announced its purchase of Company's GDRs equivalent to 11% of the Company's shares.

Shareholder	Number of ordinary shares	Number of preferred shares	Total share capital
Number of shares issued[1]	70,220,935	4,136,107	74,357,042
Owned by NC KMG	43,087,006	–	43,087,006
Percentage of issued share capital	61.36%	0.00%	57.95%

1 Including GDRs purchased to implement the Company's Option Program and held in trust (as of December 31, 2008 – 1,528,749 GDRs), and the shares and GDRs purchased in accordance with own share buyback programme (as of December 31, 2008 – 236,156 GDRs and 16,389 shares).

Directors' Employment Contracts and Letters of Appointment and Employment Contracts of the Members of the Management Board

Employment Contracts with Directors

In connection with the expiration of the Board of Directors' term of appointment on March 26, 2010 the term of office of the existing Board of Directors of the Company was extended for three years. Kairgeldy Kabyldin, the Chairman of the Board of Directors and Christopher Mackenzie, the independent director decided to withdraw from the Board reappointment process.

During 2009 Kairgeldy Kabyldin was Chairman of the Board of Directors. He was appointed a Director at the extraordinary general shareholders' meeting on September 24, 2008. The Board of Directors elected Mr. Kabyldin as its Chairman on October 8, 2008.

In 2009 Kenzhebek Ibrashev was a member of the Board of Directors and CEO of the Company. He was elected a member of the Board of Directors at the general shareholders' meeting on October 30, 2007 and appointed CEO of the Company at the meeting of the Board of Directors on May 28, 2009.

During 2009 Askar Balzhanov was a member of the Board of Directors of the Company. He was elected a member of the Board of Directors at the general shareholders' meeting on June 12, 2006. As per the Board of Directors' decision on March 30, 2010 Askar Balzhanov was elected as the new Chairman of the Board.

In 2009 Yerzhan Zhangaulov was a member of the Board of Directors of the Company. He was elected a member of the Board of Directors at the general shareholders' meeting on June 12, 2006.

In 2009 Tolegen Bozzhanov was a member of the Board of Directors of the Company. He was elected a member of the Board of Directors at the general shareholders' meeting on September 24, 2008.

Christopher Mackenzie was appointed an Independent Non-Executive Director of the Company on August 28, 2006. In connection with his term appointment expiration in 2010, Christopher Mackenzie decided to withdraw from the Board reappointment process.

Paul Manduca was appointed an Independent Non-Executive Director of the Company on August 28, 2006. In connection with the expiry of his term of appointment, his term of office was extended for three years by resolution of the general shareholders' meeting of the Company dated March 26, 2010.

Edward Walshe was appointed an Independent Non-Executive Director of the Company on August 28, 2006. In connection with the expiry of his term of appointment, his term of office was also extended for three years by resolution of the general shareholders' meeting of the Company dated March 26, 2010.

Employment Contracts of Members of the Management Board

All members of the Management Board have entered into employment contracts with the Company that generally provide for business travel insurance and reimbursement of costs incurred during business trips on the Company's behalf, in accordance with the Company's internal regulations. Other than those set out above, no employment contracts exist, or are anticipated to be entered into, between the Company and members of the Board of Directors or Management Board.

Internal Control and Risk Management

The Company has a system of internal control and risk management. This system is designed to identify, evaluate and manage the significant risks associated with the Company's achievement of its business objectives, with a view to safeguarding shareholders' investments in the Company.

The Directors confirm that, throughout the year ended December 31, 2009 there have been processes in place for identifying, evaluating and managing the significant risks faced by the Company. In addition the Directors adopt a risk-based approach in establishing the system of internal control and in reviewing its effectiveness.

Key elements of the Company's system of internal control are:
- The Company's internal documentation, such as financial, treasury, operating and administrative policies and other procedures.
- Continuous review of safety, operating and financial performance of the Company.
- The Company's Internal Audit provides Board of Directors with assurance that the management processes are adequate to identify and monitor significant risks; confirms the effectiveness of operations of the established internal control systems; ensures processes for feedback on risks management and assurance are credible; and provides with objective confirmation that the Board of Directors receives the right quality of assurance and information from management and this information is reliable.

In addition, information in respect of financial risk management can be found in the Financial Review commencing on page 45, overall information on Company's risk profile can be found in section Risk Factors on page 56 and initiatives in the area of health, safety and the environment can be found in the Corporate Responsibility Section commencing on page 32.

In relation to risk management, the Management Board has established a Risk Management Committee, more details on its operation can be found below.

Risk Management Committee

During 2009 the Risk Management Committee was chaired by CEO Kenzhebek Ibrashev. It comprised the first deputy CEO for Production – Head of Operating Management Group in Aktau, CFO, Deputy CEO for Corporate Development and Asset Management, Managing Director – Financial Controller, Managing Director on Economics and Finance, Managing Director of Business Development, Managing Director on Legal Issues, Managing Director on Information Technologies, Managing Director on Human Resources and Social Policy, Managing Director of HSE, and Corporate Secretary. The Head of Internal Audit participated in the Committee's meetings as an observer.

The primary goal of the Committee is the timely consideration of issues related to risk management, the preparation of recommendations to the Management Board to support decision-making on such issues, and monitoring of the risk management system's performance. It is also concerned with formulating recommendations to structural divisions of the Company on improving the risk management system in order to increase the effectiveness of business processes and reach the Company's strategic goals.

In the new version of the Provision for the Risk Management Committee approved by the Management Board in 2009, the Committee's functions were broadened, particularly in the area of strategic planning and investment project analysis.

In 2009 the Risk Management Committee met three times and made decisions on the following:
- Planning the development of a risk management system.
- Review of a standard procedural document on risk management.
- Consideration of the report on identification and evaluation of the Company's risk portfolio.
- Issues of implementing the risk management system in the operational divisions.
- Consideration of the renewal terms of the corporate insurance programme for 2010.
- Improvement of corporate governance.
- Development prospects for a training system.
- Issues of developing a Business Continuity Plan.
- Consideration of amendments to the Provision for the Risk Management Committee.
- Consideration of current situations arising from the normal operations of the structural divisions of the Company in 2009.

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current United Kingdom law and HM Revenue & Customs practice at the date of this document, both of which are subject to change, possibly with retrospective effect. Except where otherwise stated, the summary discusses only certain UK tax consequences for absolute beneficial owners of the shares or GDRs who are (1) resident in the UK for tax purposes; (2) not resident for tax purposes in any other jurisdiction; and (3) not in possession of a permanent residence or fixed base in Kazakhstan with which the holding of the shares or GDRs is connected (''UK Holders'').

In addition, the summary (1) addresses only the tax consequences for UK Holders who hold the shares and GDRs as capital assets, and does not address the tax consequences that may apply to certain other categories of UK holders, e.g. dealers; (2) assumes that the UK Holder does not either directly or indirectly control 10% or more of the voting power of the company; (3) assumes that a holder of the GDRs is beneficially entitled to the underlying shares and to the dividends on those shares; and (4) does not address the tax consequences for UK Holders that are insurance companies, investment companies or pension funds connected with the Company.

Corporate Governance Information continued

The following is intended only as a general guide and is not intended to be, nor should be considered to be, legal or tax advice to any particular UK Holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and HM Revenue & Customs practice, of the acquisition, ownership and disposal of the shares or the GDRs in their own particular circumstances.

Withholding Tax
Assuming that the income received under the GDRs does not have a United Kingdom source, there should be no United Kingdom withholding tax on payment of any such income. Dividend payments in respect of the shares will not be subject to UK withholding tax.

Taxation of Dividends
A UK Holder receiving a dividend on the shares or the GDRs may be subject to UK income tax or corporation tax, as the case may be, on the gross amount of any dividend paid before the deduction of any Kazakhstan withholding taxes, subject to the availability of any credit for Kazakhstan tax withheld. A UK Holder who is an individual resident and domiciled in the UK will be subject to UK income tax on the dividend paid on the shares or the GDRs and is entitled to a non-refundable tax credit equal to one ninth of the dividend received. A UK Holder who is an individual resident but not domiciled in the UK and who is entitled to be taxed in the UK on the remittance basis will be subject to UK income tax on the dividend paid on the shares or the GDRs to the extent that the dividend is remitted, or treated as remitted, to the UK and will also be entitled to a non-refundable tax credit equal to one ninth of the dividend received.

A UK Holder who is a company resident in the UK will with effect from July 1, 2009 not be subject to UK corporation tax on a dividend paid on the shares or the GDRs unless it falls within certain specific anti-avoidance rules.

Taxation of Disposals or Deemed Disposals
The disposal by a UK Holder of interests in the shares or the GDRs may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK Holder's circumstances and subject to any available exemption or relief. A UK Holder who is an individual and domiciled in the UK will generally be liable to UK capital gains tax on chargeable gains made on the disposal of an interest in the shares or the GDRs. A UK Holder who is an individual but not domiciled in the UK and who is entitled to be taxed in the UK on the remittance basis will generally be liable to UK capital gains tax to the extent that the chargeable gains made on the disposal of an interest in the shares or the GDRs are remitted or treated as remitted to the UK. In particular, dealings in the GDRs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to UK capital gains tax liability.

An individual holder of the shares or the GDRs who ceases to be resident or ordinarily resident in the UK for UK tax purposes for a period of less than five years and who disposes of such shares or GDRs during that period may also be liable on returning to the UK to UK tax on capital gains, even though the individual may not be resident or ordinarily resident in the UK at the time of the disposal.

A corporate UK Holder will generally be subject to UK corporation tax on any chargeable gain arising from a disposal of the shares or the GDRs.

Effect of Kazakhstan Withholding Taxes
Dividend payments in respect of the shares and the GDRs will be subject to Kazakhstan withholding taxes. A UK Holder who is an individual resident should generally be entitled to a credit for Kazakhstan tax properly withheld from such payments against such investor's liability to income tax on such amounts, subject to UK tax rules for calculation of such a credit. From July 1, 2009 a UK Holder who is a UK resident company will not be subject to UK corporation tax on a dividend payment and so will not be able to claim credit for any Kazakhstan tax.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")
Assuming that any document effecting a transfer of, or containing an agreement to transfer, one or more of the shares or the GDRs is neither (i) executed in the UK nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK (which may include involvement of UK bank accounts in payment mechanics), then no UK ad valorem stamp duty should be payable on such a document.

Even if a document effecting a transfer of, or containing an agreement to transfer, one or more of the shares or the GDRs is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK ad valorem stamp duty on such a document unless the document is required for any purposes in the UK. If it is necessary to pay UK ad valorem stamp duty, it may also be necessary to pay interest and penalties.

As the GDRs relate to stock expressed in a currency other than sterling, no "bearer instrument" stamp duty should be payable on either the issue of the GDRs or any transfer of stock transferable by means of the GDRs.

Assuming that the shares are neither (i) registered in a register kept in the UK nor (ii) paired with shares issued by a company incorporated in the UK, no SDRT should be payable in respect of any agreement to transfer the shares or the GDRs.

Year 2009 Operating and Financial Review

The following document is intended to assist the understanding and assessment of trends and significant changes in the Group's results and financial condition. In this document, the consolidated financial statements presented are those of the Company. This review is based on the consolidated financial statements of the Company and should be read in conjunction with those statements and the accompanying notes. All the financial data and discussions thereof are based upon financial statements prepared in accordance with IFRS.

Overview

KazMunaiGas Exploration Production Joint Stock Company (hereinafter – the Company or KMG EP) is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons, its core operations being oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company's majority shareholder is Joint Stock Company National Company KazMunaiGas, which represents the state's interests in the Kazakh oil and gas industry. The Company conducts its core production activities at 41 oil and gas fields, including the production branch "Uzenmunaigas" (hereinafter – UMG), consisting of 2 fields, and the production branch "Emb amunaigas" (hereinafter – EMG), consisting of 39 fields. The Company has a 50% interest in the oil and gas production joint ventures Kazgermunai LLP and CCEL, and a 33% interest in PetroKazakhstan Inc.

As of December 22, 2009 KMG EP finalized the acquisition of a 33% stake in PetroKazakhstan Inc ("PKI"). PetroKazakhstan Inc. ("PetroKazakhstan") is involved in exploration, development and production of hydrocarbons as well as sales of oil and oil products. PetroKazakhstan also has stakes in 16 oil fields, 11 of which are at different stages of development. The second shareholder in PetroKazakhstan is CNPC Exploration and Development Company Ltd. (CNPC E&D), which owns 67% of the company.

The total oil production of the Company and its associates, based on the Company's working interest (50% share in JV Kazgermunai LLP and 50% share in CCEL), was approximately 11.497,000 tonnes or 232 kbopd (UMG and EMG – 181 kbopd, JV Kazgermunai LLP – 34 kbopd and CCEL – 17 kbopd) for 2009.

Further details of the above three associates are given in the section: Overview of Associates' Operations. Elsewhere in this Operating and Financial Review, the discussion is limited to the core assets of the Company unless indicated otherwise.

Business Environment and Outlook

Economic factors affecting the Company's financial performance during the year under review include movements in crude oil prices, foreign exchange, particularly the tenge-US dollar rate, and domestic inflation rates.

Business Environment in 2009

The price of Brent averaged US$61.67 per barrel for 2009, a decrease of US$35.41 per barrel from the average price in the previous year.

	Q4 2009	**Q3 2009**	Q4 2008 (US$ /bbl)	Q4 on Q4 change 0%	**2009**	2008 (US$ /bbl)	Change %
Brent	**74.53**	**68.08**	55.48	34%	**61.67**	97.08	–36%
CPC blend	**74.92**	**68.12**	56.26	33%	**61.70**	98.44	–37%
Urals	**73.93**	**67.75**	53.74	38%	**60.94**	94.08	–35%

Most of the Company's revenues, financial assets and borrowings are denominated in US dollars, while most of the Company's operating expenses are denominated in tenge. The impact of foreign currency fluctuations on the Company's results depends on its net foreign currency position and the magnitude and direction of any fluctuation in foreign exchange rates.

Tenge-US dollar exchange rates and domestic inflation, as measured by the consumer price index ("CPI") for the periods presented, were as follows:

	Q4 2009	**Q3 2009**	Q4 2008	Q4 on Q4 change	**2009**	2008	Change
Average US$ vs KZT	**149.77**	**150.75**	120.16	25%	**147.50**	120.29	23%
CPI	**1.4%**	**0.8%**	1.4%	0%	**6.2%**	9.5%	–35%
US$ vs KZT at balance shaeet date	**148.36**	**150.95**	120.77	23%	**148.36**	120.77	23%

Source: National Bank of Kazakhstan

The tenge depreciated against the US dollar from 120.29 KZT/US$ in 2008 to 147.5 KZT/US$ in 2009. The inflation rate in 2009 was 6.2% compared to 9.5% in 2008.

Year 2009 Operating and Financial Review continued

Production activity in year 2009

The Company almost achieved its target production goals for 2009 with oil production of 8,962K tonnes, which was 5% lower than the 2008 actual oil production and 37,852K tonnes below the 2009 oil production plan. The non-fulfillment of the production plan was due to the reduction by 49.192K tonnes in the UMG and over-fulfillment of the EMG plan by 11.340K tonnes.

	Q4 2009	**Q3 2009**	Q4 2008	%	**2009**	2008	Change %
UMG	**1,543.43**	**1,613.78**	1,703.00	–9%	**6,250.81**	6,646.00	–6%
EMG	**670.70**	**712.10**	698,00	–4%	**2,711.34**	2,824.00	–4%
Total production	**2,214.13**	**2,325.88**	2,401.00	–8%	**8,962.15**	9,470.00	–5%

The main reasons for the non-fulfillment of the UMG production plan were the abnormal winter of 2009, with its abundant snowfall and frost and weather-related power supply problems.

Severe weather conditions caused an increase in the quantity of non-operating well stock and the number of wells working below optimal operating conditions. Flow lines were frozen, well-service brigades experienced production time losses, personnel was unable to access fields, etc. Company losses on this account are estimated as 62K tonnes.

Power supply cut-off caused emergency production shutdown, water injection shutdown, and underground equipment failures. Company losses on this account are estimated as 13K tonnes.

As of December 31, 2009, the well stock of the Company includes 5,853 production and 1,658 injection wells.

The majority of the Company's existing oil fields are at the mature stage of development, characterized by high water cut and declining oil production. The Company performed production drilling, work-over operations and enhanced recovery in order to mitigate natural production decline and achieve its oil production plan for 2009.

In 2009, the Company plugged in 95 wells compared to 149 wells in 2008. Oil production generated by new wells was 122.1K tonnes compared to 216.4K tonnes in 2008. The work-over of 206 wells provided an incremental production of 601.57 tonnes. The Company applies enhanced recovery techniques, including hydro-fracturing and polymer systems. As a result of 235 enhanced recovery operations, an additional 324.31K tonnes were produced.

During 2009, the Company carried out exploration works in the R-9, Liman blocks and appraisal works in the S. Nurzhanov oilfield. Wells #503-504 were spudded in 2008 and two 2009 wells on Nurzhanov field, #505-506, were completed. As of December 31, 2009 construction of exploration well #1 in the salt structure of the Karashungul (R-9 block), with a depth of 2,100m, was in progress.

In 2009, 3D seismic data processing and interpretation works begun in 2008 in R-9 block were completed. 2D field exploration seismology works of 400 running km (Shokat, Akshi and Imankara) were carried out. An exploration project (above-salt and subsalt complexes) was considered and aligned with the MTD "Zapkaznedra" on June 25, 2009. The project covers drilling of wells in the Buiyrgyn (subsalt), Karashungul and Kyzylkuduk (above-salt) structures. On the basis of this project, the development wells construction project is being prepared.

At the beginning of 2009, 2D exploration seismology results (700 running km) for 2008 and 2D exploration seismology reinterpretation works of 800 running km on the Liman block were considered. Recommendations of further G&G works were received. An exploration project (above-salt and subsalt complexes) on Liman block was prepared. The project is in the process of alignment with the MTD "Zapkaznedra".

Planned activity in 2010

It is expected that crude oil production in 2010 will be 9.20 million tonnes, which is 3% more than in 2009. Because of this increase, and to compensate for the natural decrease in production in 2010, the Company is planning the drilling of 113 production wells, 84 injection and 4 appraisal well in addition to well work-overs, bottomhole treatment and the sealing off of productive wells from the inactive ones.

For 2010, the Company is planning exploratory works on the prospective blocks to specify the geological structure further and justify the objectives of exploratory drilling. In particular, on R-9 block the Company is planning to carry out 3D field works of 400 square kilometers on the South-Eastern Koschagyl structure, drilling of a subsalt well on Buiyrgyn structure with a project depth of 7,000m, and drilling of an above-salt well on the Karashungul structure with a project depth of 2,500m.

On Liman block, 3D seismic research is planned for the Saraishyk structure of 360 square kilometres. Drilling of exploratory wells with depths of 7,000m and 2,000m is expected to determine oil and gas content. Exploratory drilling of 3,000m is planned on Liman block. This includes 2,000m of work on the above-salt complex and a 1,000m work on the subsalt complex.

The results of drilling at well #502 in the Southern Nurzhanov field confirmed an extension of the oil deposits spread square of the separate south block. For the further specifications of the potential drilling, two project wells, #507 and #508, with a depth of 3,500m, are planned for 2010. Drilling of one exploratory well to a depth of 2,000m is planned in the top part of the field cross-section. The total expected volume of all three wells is 9,000m. Drilling of one exploratory well with a project depth of 1,500m is planned on the Eastern Makat field in order to assess the geological structure and identify the prospects of productive density. Drilling of one exploratory well with a depth of 3,200m is planned on the south wing of the Western Prorva field in 2010. The previously planned drilling of an exploratory well with a project depth of 2,900m in the Botakhan field was postponed from 2010 to 2011. Owing to the poor quality of the data from seismic exploration of the Kenbay field, 3D seismic exploration of an area of 128 square-kilometers is planned on the Eastern Moldabek and the Northern Kotyrtas sites. In order to prepare for drilling of the exploratory wells, 3D seismic exploration over an area of 300 square kilometers is planned in Zhanatalap field. Reprocessing and reinterpretation of 3D seismic data is planned in Kisimbay field in 2010 on account of significant differences from the data obtained from drilling.

In 2010, the capital expenditure of the Company is expected to be KZT95 billion. The Company's budget will be periodically reviewed to reflect changes in oil price, exchange and inflation rates, among other factors.

In 2010, KMG EP intends to continue its acquisition strategy, targeting assets both in Kazakhstan and abroad.

Results of Operations

Amounts shown in US dollars are included solely for the convenience of the reader, at the average rate over the applicable period. This rate is based on information derived from the consolidated income statements and consolidated cash flow statements and the end of the period rate for information derived from the consolidated balance sheets. See "Business Environment and Outlook".

Key Indexes

	Q4 2009	**Q3 2009**	Q4 2008	Q4 on Q4 change	**2009**	2008	Change
	(KZT thousands, unless otherwise stated)			%	**(KZT thousands, unless otherwise stated)**		%
Revenue	**137,838,567**	**141,024,201**	85,457,281	61%	**485,493,479**	**604,993,422**	–20%
Operating expenses	**90,113,109**	**90,901,186**	100,022,583	–10%	**330,605,629**	**297,167,473**	11%
Operating expenses (KZT per bbl)[1,2]	**4,242**	**4,206**	3,519	21%	**4,123**	**3,277**	26%
Operating expenses (US$ per bbl)	**28.32**	**27.90**	29.29	–3%	**27.95**	**27.24**	3%
Profit from operations	**47,725,458**	**50,123,015**	-14,565,302	–428%	**154,887,850**	**307,825,949**	–50%
Net income3	**29,151,097**	**51,810,112**	22,739,530	28%	**209,726,900**	**241,282,369**	–13%
Oil Production and other costs	**26,585,936**	**29,274,855**	32,410,752	–18%	**103,038,481**	**99,373,726**	4%
Oil Production and other costs (US$ per bbl)[1,4]	**10.89**	**11.34**	15.26	–29%	**10.59**	**11.85**	–11%
Capital expenditure	**17,817,479**	**12,579,494**	13,056,824	36%	**43,326,083**	**41,891,804**	3%

1 Converted at 7.36 barrels per tonne of crude oil.
2 Operating expenses net of export customs duty and rental tax.
3 Net income for the period
4 Oil production and other costs represent an aggregate of the following operating expenses line items (as presented in the Company's consolidated financial statement for the year ending December 31, 2009 (see Company website for a copy): employee benefits, materials, repairs, maintenance and other services, energy and other costs. These include costs related to gas producing and processing activities, oil processing activities and general and administrative costs which are not directly related to oil production and which increased the US dollar cost per barrel by approximately US$1.55 and US$2.04 for the years 2009 and 2008 respectively (US$1.58 и 1.79 for the quarters ending December 31, 2009 and December 31, 2008 respectively).

Year 2009 Operating and Financial Review continued

Transport Routes

The Company delivers its crude oil through three principal routes: export markets via the pipeline owned by Caspian Pipeline Consortium (CPC), the Uzen-Atyrau-Samara pipeline (UAS) owned by JSC KazTransOil (in Kazakhstan) and the domestic market, as outlined in the following table:

	Q4 2009	Q3 2009	Q4 2008	2009	2008
Exports sales via UAS					
Volume of crude oil (in million tonnes)	**1.2**	**1.3**	1.2	**4.9**	4.9
% total crude oil sales volume	**55%**	**58%**	55%	**55%**	54%
% total sales value of crude oil	**67%**	**69%**	63%	**66%**	65%
Exports sales via CPC					
Volume of crude oil (in million tonnes)	**0.4**	**0.5**	0.6	**2.0**	2.1
% total crude oil sales volume	**19%**	**20%**	27%	**22%**	23%
% total sales value of crude oil	**25%**	**24%**	28%	**26%**	29%
Other sales					
Volume of crude oil (in million tonnes)	**0.6**	**0.5**	0.4	**2.0**	2.1
% total crude oil sales volume	**27%**	**22%**	18%	**22%**	23%
% total sales value of crude oil	**8%**	**7%**	9%	**8%**	6%

The relative profitability of the two export routes depends on the quality of oil in the pipeline, the prevailing international market prices and the relevant pipeline tariffs. Specifically, CPC tends to be more advantageous owing to the higher quality of crude oil in the CPC pipeline in a higher price oil environment, even after taking into account quality bank payments. However, in 2009, the CPC route was less attractive than the UAS for several reasons. The first is the difference between the actual average realisation price and the average market price for 2009 (US$58.32 and US$61.02 per bbl accordingly), due to the volatility of the price of crude oil. The second factor is excess of quality bank expenses over the premium from bbl factor (5.68 and 4.93 US dollars per barrel accordingly). The premium from bbl factor resulted from a bbl coefficient increase from 7.23 to 7.84 for the transport through CPC (in 2009).

It should be noted that the Kazakh Ministry for Energy and Mineral Resources controls the volume of crude oil that can be shipped through the pipelines; the Company's ability to allocate export volume to different pipelines is therefore limited.

Revenue

The following table shows sales volumes and realised prices for Q3 2009, Q4 2009, Q4 2008, 12m 2009 and 12m 2008:

	Q4 2009	Q3 2009	Q4 2008	Q4 on Q4 change	2009	2008	Change
	(KZT thousands, unless otherwise stated)			%	(KZT thousands, unless otherwise stated)		%
Export sales of crude oil							
UAS pipeline							
Net sales	**91,632,184**	**94,592,847**	51,992,450	76%	**313,121,601**	383,714,296	-18%
Volume (in thousand tonnes)	**1,180**	**1,319**	1,227	-4%	**4,947**	4,898	1%
Average price (KZT/tonne)	**77,654**	**71,709**	42,384	83%	**63,293**	78,347	-19%
Average price (US$/bbl)[1]	**71.71**	**65.79**	48.79	47%	**59.35**	90.09	-34%
CPC pipeline							
Net sales	**33,565,242**	**32,997,731**	23,184,104	45%	**122,693,779**	168,406,193	-27%
Volume (in thousand tonnes)	**408**	**459**	605	-33%	**1,999**	2,110	-5%
Average price (KZT/tonne)	**82,258**	**71,965**	38,294	115%	**61,389**	79,813	-23%
Average price (US$/bbl)[1]	**75.96**	**66.03**	44.08	72%	**57.57**	91.77	-37%
Total sales of crude oil-exported	**125,197,426**	**127,590,578**	75,176,555	67%	**435,815,380**	552,120,489	-21%
Domestic sales of crude oil							
Domestic sales of crude oil	**11,205,243**	**9,871,534**	6,831,651	64%	**36,861,944**	36,933,575	0%
Volume (in thousand tonnes)	**576**	**508**	379	52%	**1,959**	2,072	-5%
Average price (KZT/tonne)	**19,442**	**19,431**	18,041	8%	**18,818**	17,827	6%
Average price (US$/bbl)[1]	**17.95**	**17.83**	20.77	-14%	**17.65**	20.50	-14%
Total domestic sales of crude oil	**11,205,243**	**9,871,534**	6,831,651	64%	**36,861,944**	36,933,575	0%
Total sales of crude oil							
Total sales of crude oil	**136,402,668**	**137,462,112**	82,008,206	66%	**472,677,324**	589,054,064	-20%
Total volume (in thousand tonnes)	**2,164**	**2,286**	2,211	-2%	**8,905**	9,079	-2%
Average price (KZT/tonne)	**63,021**	**60,141**	37,094	70%	**53,082**	64,878	-18%
Average price (US$/bbl)[1]	**58.20**	**55.18**	42.70	36%	**49.78**	74.60	-33%
Other sales	**1,435,899**	**3,562,089**	3,449,075	-58%	**12,816,155**	15,939,358	-20%
Total revenue	**137,838,567**	**141,024,201**	85,457,281	61%	**485,493,479**	604,993,422	-20%

1 Average sales price under financial statement (realised price), converted at 7.23 barrels per tonne of crude oil.

Crude Oil Sales in 2009

Total sales of crude oil in 2009, in comparison with 2008, decreased by 20% to KZT473 billion, primarily owing to the 33% decrease in the average sales price and the decrease in the sales volume by 2% (or 174K tonnes). The sales volume decrease was caused by a limited oil reception at Atyrau refinery. It should be noted that the rate of the 33% average sales price decrease was lower than the 36% world price decrease because the domestic sales volume reduction and the export sales volume increase had a positive impact on the average sales price.

Export – UAS Pipeline

Sales of crude oil exported via the UAS pipeline in 2009 decreased by 18% to KZT313 billion owing to the decrease of the average sales price by 19% to KZT63,293 per tonne and was partially adjusted by the increase of volume exported via the UAS by 50 thousand tonnes or 1%.

Revenue from export sales through the UAS pipeline in Q4 2009 in comparison with Q4 2008 increased by 76% owing to the increase of the average sales price by 83% to KZT77,654 per tonne. This effect was partially adjusted by the 4% decrease by 47 thousand tonnes in sales volume.

Export – CPC Pipeline

Sales of exported crude oil via the CPC pipeline in 2009 decreased by 27% to KZT123 billion compared to 2008. The decrease was due to an average realisation price decrease by 23% to KZT61,389 per tonne and the 5% decrease of volume exported via the CPC. The negative impact on sales was caused by the fact that benefits from the bbl premium happened to be 13% lower than quality bank expenses, whereas in 2008 the difference was 9%.

Year 2009 Operating and Financial Review continued

Revenue from export sales through the CPC pipeline in Q4 2009 by comparison with Q4 2008 increased by 45% owing to the increase of average sales price by 115% and the 33% decrease of sales volume. Because of this, benefits from the bbl factor exceeded quality bank expenses.

Domestic Market – Sales of Crude Oil

Domestic sales of crude oil in 2009 were on a par with those of 2008. In Q4 2009 domestic sales increased by 64% compared to Q4 2008, helped by an increase of sales volume by 52% and an increase of average sales price by 8%.

The following table shows the Company's realised sales prices adjusted for crude oil transport and other expenses for the periods ending September 30, 2009 and December 31, 2009 and 2008:

	Q4 2009	**Q3 2009**	Q4 2008	Q4 on Q4 change	**2009**	2008	Change
			(US$/bbl)	%		(US$/bbl)	%
Benchmark end-market quote[1]	**74.53**	**68.08**	53.74	39%	**60.71**	94.08	–35%
Sales price	**71.76**	**65.68**	48.83	47%	**59.26**	90.07	–34%
Premium of bbl difference	**–0.05**	**0.11**	–0.04	31%	**0.09**	0.02	405%
Realised price[2]	**71.71**	**65.79**	48.79	47%	**59.35**	90.09	–34%
Export customs duty – Rental tax	**11.49**	**9.75**	23.77	–52%	**7.94**	11.29	–30%
Transportation	**7.38**	**6.96**	7.32	1%	**7.32**	7.38	–1%
Sales commissions	**0.06**	**0.06**	0.07	–20%	**0.06**	0.07	–17%
Netback price	**52.78**	**49.02**	17.63	199%	**44.03**	71.35	–38%
CPC							
Benchmark end-market quote[1]	**74.53**	**68.08**	56.26	32%	**61.02**	98.44	–38%
Sales price	**73.61**	**64.91**	49.35	49%	**58.32**	92.53	–37%
Quality bank	**–4.03**	**–4.48**	–9.42	–57%	**–5.68**	–8.47	–33%
Premium of bbl difference	**6.39**	**5.60**	4.15	54%	**4.93**	7.71	–36%
Realised price[2]	**75.97**	**66.03**	44.08	72%	**57.56**	91.77	–37%
Export customs duty – Rental tax	**11.49**	**9.75**	23.77	–52%	**7.29**	11.29	–35%
Transportation	**6.93**	**6.84**	7.65	–9%	**7.15**	7.79	–8%
Sales commissions	**0.06**	**0.06**	0.07	–19%	**0.06**	0.07	–17%
Netback price	**57.49**	**49.38**	12.59	357%	**43.07**	72.62	–41%
Domestic Market							
Realised price[2]	**17.95**	**17.83**	20.77	–14%	**17.65**	20.50	–14%
Transportation	**1.22**	**1.25**	1.01	20%	**1.30**	0.94	37%
Netback price	**16.74**	**16.58**	19.76	–15%	**16.35**	19.56	–16%
Average							
Sales price	**58.03**	**55.07**	44.28	31%	**50.06**	75.10	–33%
Quality bank	**–0.76**	**–0.90**	–2.58	–71%	**–1.28**	–1.97	–35%
Premium of bbl difference	**0.93**	**1.01**	1.00	–7%	**0.99**	1.46	–32%
Realised price[2]	**58.20**	**55.18**	42.70	36%	**49.78**	74.60	–33%
Export customs duty – Rental tax	**8.43**	**7.59**	19.70	–57%	**6.05**	8.71	–31%
Transportation	**5.74**	**5.67**	6.33	–9%	**5.96**	6.00	–1%
Sales commissions	**0.04**	**0.04**	0.06	–28%	**0.05**	0.05	–16%
Netback price	**43.99**	**41.88**	16.61	165%	**37.71**	59.83	–37%

1 The following quoted prices are used as benchmarks: for Q4 and 12m 2008 Urals (RCMB) through the UAS and CPC blend (CIF) the CPC pipeline; for the 1H 2009 Urals NOVO 80KT through the UAS and CPC FOB 80kt through the CPC; for 2H 2009 Brent (DTD).

2 Average realised price by financial report converted at 7.23 barrels per tonne of crude oil

The difference between the benchmark quote and the realised price of sales through the CPC mainly comprises freight expenses, port charges, customs fees, certain sales commissions and averaging effects. Averaging effects usually appear because of the difference between the average mean of quoted price on the sale date and the average published price over the whole period; this difference may be significant on account of the high volatility of oil prices. The price received for domestic sales of crude oil is determined primarily by the agreement with NC KMG (production cost + 3%).

Operating Expenses

The Company's operating expenses relate primarily to the cost of producing crude oil. The following table presents a breakdown of the Company's operating expenses:

	Q4 2009	Q3 2009	Q4 2008 (KZT thousands)	Q4 on Q4 change %	2009	2008 (KZT thousands)	Change %
Rent tax	**20,980,278**	**18,896,350**		–	**58,673,500**	–	–
Mineral Extraction Tax	**15,485,285**	**15,813,382**		–	**55,087,266**	–	–
Employee benefits	**12,957,292**	**13,682,169**	14,481,320	–6%	**50,876,767**	43,117,573	18%
Transport	**13,860,131**	**13,279,835**	13,596,236	–2%	**53,793,843**	53,135,541	1%
Depreciation, depletion and amortization	**8,099,843**	**7,902,437**	9,189,229	–14%	**31,155,360**	34,368,825	–9%
Repairs, maintenance and other services	**5,743,436**	**6,707,797**	9,520,458	–30%	**21,568,989**	24,653,917	–13%
Energy	**2,884,186**	**2,496,797**	2,912,728	–14%	**10,429,959**	9,291,579	12%
Materials	**2,823,961**	**3,382,914**	2,385,015	42%	**10,135,010**	12,717,118	–20%
Management fees and sales commissions	**2,809,792**	**2,814,631**	2,115,113	33%	**7,648,453**	8,439,633	–9%
Fines and penalties	**–4,439,022**	**826,991**	–193,026	–528%	**8,132,702**	1,808,845	350%
Taxes other than on income	**1,917,797**	**1,013,003**	2,087,593	–51%	**5,031,000**	5,690,873	–12%
Impairment of investments in joint venture	**3,043,907**	**–**	2,396,198	–100%	**3,043,907**	2,396,198	27%
Loss on disposal of fixed assets	**1,157,634**	**987,877**	503,142	96%	**2,547,437**	852,909	199%
Social infrastructure projects	**537,870**	**999,261**	–1,100,810	–191%	**2,239,845**	1,649,078	36%
Royalties	**–**	**–**	4,215,738	–100%	**–**	25,312,574	–100%
Export customs duty	**–**	**–**	37,828,310	–100%	**–**	68,796,006	–100%
Change in crude oil balance	**73,658**	**–907,436**	– 3,025,892	–70%	**213,835**	–4,656,735	–105%
Other	**2,177,061**	**3,005,178**	3,111,231	–3%	**10,027,756**	9,593,539	5%
Total	**90,113,109**	**90,901,186**	100,022,583	–9%	**330,605,629**	297,167,473	11%

Operating expenses in 2009 increased by 11% or KZT33 billion, compared to 2008. This is primarily due to the increased mineral extraction tax resulting from an accrual of tax provisions in the results of a tax audit from 2004-2005, an increase of employee benefits, and changes in crude oil balance.

In accordance with the new tax code, royalty was replaced by the mineral extraction tax (MET) starting in January 1, 2009. The increase of MET expenses compared to royalty is due to the fact that MET is calculated on the basis of oil market price while royalty is calculated from the sales price.

Employee benefits expenses for 2009 increased by 18% compared to 2008, owing to the 80% payroll increase and the increase in average expenses per employee by 19%. The increase of headcount was due to changing labour demands. Average salary increased owing to adjustments in the basic tariffs of production personnel salary, increase of bonuses to production personnel and the growth of the EMG regional salary coefficient to the UMG coefficient level.

Expenses on depreciation, depletion, and amortization decreased and losses on disposals of fixed assets increased in the reported period compared to 2008, owing to the fact that in the previous year a total of 215 wells were liquidated, compared to 320 in 2009. In addition, amortization of the Liman block licence was accrued for 12 months in 2008, while in the reporting period it was accrued only till February 19, 2009 owing to expiry of the licence term.

Repairs, maintenance and other service expenses decreased by 13% compared to 2008 owing to a decrease in well work-overs and the volume of 2D and 3D research works according to the production plan for 2009. In addition, in 2008 2D research expenses on Liman block were written-off.

Energy expenses have increased by 12% owing to an increase in power tariffs and power transmission tariffs. The effect of this was partly mitigated by a decrease in energy and technical water consumption.

The Company used its own oil products processed at the Atyrau refinery, resulting in a 20% decrease in material expenses.

Management fees and commissions are paid according to the management services agreement with NC KazMunaiGas. A 9% decrease in expenses is due to a reduction of the annual management fee by 10%.

Year 2009 Operating and Financial Review continued

The increase in “Fines and Penalties” category by KZT6.3 billion was due to accrual of tax provisions resulting from the tax audit for 2004-2005. The Tax Committee of the Finance Ministry made a complete audit for the period of 2004-2005. As a result of the tax audit, commenced in 2007 and completed on August 5, 2009, additional accruals to the amount of KZT32 billion were provided, including tax deficiencies totalling KZT16.2 billion, made up of a KZT8.0 billion administrative penalty (due to tax law violation) and KZT7.8 billion in late payment interest. The main reasons for the previous shortfall are transport and other service expenses, treated by the tax authority as CAPEX, and income from fixed assets revaluation not recognized by the Company for tax purposes.

The Company’s management believes that its interpretations of the tax legislation were appropriate and that the Company has strong arguments in support of its tax position. The Company will dispute the tax assessment to the fullest extent possible under the law of the Republic of Kazakhstan. However, given the uncertainty of the outcome of the dispute because of ambiguity, varying interpretations and inconsistencies of opinion on the part of the tax authorities, the management recognized the need to accrue certain amounts. As of December 31, 2009, on account of similar violations in 2004-2005, provisions amounting to KZT9.1 billion, including fines and penalties, are also accrued.

Taxes other than those on income decreased by 12% in 2009 compared to 2008. The main reasons for this decrease are remission of road tax and production bonus, reduction of environmental pollution charges and their basis (the list of emissions), while the decrease in average social tax rates was partly offset by the growth in the property tax rate.

In 2009, joint ventures investments, totaling KZT3,0 billion, were higher by 27% than in the previous year. This was because on October 1, 2009, KMG EP paid off its remaining contributions to charter capital of LLP KPI Inc. At the balance sheet date, EP KMG has fully paid in shares of LLP KPI Inc., equivalent to KZT4.9 billion.

The increase in expenses on social infrastructure projects was due to the provision of sponsorship for the development of the infrastructure of Zhana-Ozen and the impairment of social facilities.

As of December 31, 2009, expenses listed under “Change in crude oil balance” are connected to the increase of the inventory balance. These accounts were carried forward to 2010 due to unfavourable weather conditions at the end of the reported period.

Finance Income (Cost) and Exchange Rate Difference (Net Finance Income/Expense)

The Company’s financial income in each of the periods relates mainly to interest on deposits, and, when the tenge depreciates, foreign exchange gains. The Company’s financial expense in each of the periods comprises mainly of interest on borrowings and the termination of a discount related to asset retirement obligations and historical obligations.

The net financial income for 2009 was KZT133.1 billion and exceeded the net financial income for 2008 by KZT90.1 billion. This was due to the growth in a net foreign exchange gain by KZT88.8 billion, resulting from devaluation of the tenge in February 2009 and an increase of interest income by KZT1.3 billion. Interest income increases resulted from an increased rate of the USD deposits under the terms of tenge depreciation.

Share of Earnings by Associates and Joint Ventures

The Company’s income from its share in associates and joint ventures in 2009 is KZT2.5 billion compared to KZT57.6 billion in 2008. The main reason for this change is the decrease of income from the share in JV Kazgermunai LLP by KZT61.2 billion.

Income Tax Expense

The income tax expenses in 2009 decreased by KZT91.3 billion, or 55%, due to the decrease of income before tax by 19% and a 21% decrease of income tax.

	Q4 2009	**Q3 2009**	Q4 2008	Q4 on Q4 change	**2009**	2008	Change
			(KZT thousands)	%		**(KZT thousands)**	%
Profit before tax	**44,985,160**	**72,311,056**	**20,282,608**	122%	**285,472,729**	408,374,235	–30%
Profit before tax (net of JV’s results)	**48,533,375**	**66,099,713**	**911,034**	5277%	**287,940,280**	350,750,351	–18%
Income tax	**15,834,063**	**20,500,944**	**–2,456,922**	–744%	**75,745,829**	167,091,866	–55%
Effective tax rate	**35%**	**28%**	**–12%**	47%	**27%**	41%	–14%
Effective tax rate (net of JV’s results)	**33%**	**31%**	**–270%**	302%	**26%**	48%	–21%

The decrease in the overall income tax rate in 2009, compared to 2008, resulted from the new tax code adopted on January 1, 2009. The new tax code introduced a decrease of CIT rates from 30% to 20%, which is a significant decrease in effective excess profit tax rate. The proportion of EPT in the total amount of income tax is increased in 2009 from 2008. In accordance with EPT calculation method, the progressive rates scale proportional to income is used. During the period, the EPT marginal rate for each individual oilfield increased by 1.25-2 times.

Profit for the Period

As a result of the factors mentioned above, in 2009 the Company's profit for the period decreased by 13% to KZT209.7 billion compared to 2008.

Overview of Associates' Operations

JV Kazgermunai LLP

JV Kazgermunai LLP's (Kazgermunai) key financial and operational indicators are shown below:

	Q4 2009	**Q3 2009**	Q4 2008	Q4 on Q4 change	**2009**	2008	Change
Revenue, US$ thousands	**363,902**	**339,048**	159,618	128%	**1,172,888**	1,763,329	–34%
Operating expenses, US$ thousands	**176,083**	**172,255**	183,493	–4%	**736,534**	490,460	49%
Income tax expense, US$ thousands	**97,207**	**33,455**	7,370	1219%	**178,553**	529,502	–66%
Net income, US$ thousands	**61,759**	**133,338**	– 31,245	–298%	**228,948**	744,287	–69%
Capital Expenditures	**73,549**	**18,651**	54,316	35%	**137,634**	207,240	–34%
Crude oil production, thousand tonnes	**817**	**814**	805	1%	**3,202**	3,140	2%
Crude oil sales, thousand tonnes	**775**	**850**	813	–5%	**3,043**	3,026	1%
Export via Aktau	**280**	**316**	375	–25%	**1,170**	1,448	–19%
Export via Kazakh-Chinese pipeline	**355**	**284**	370	–4%	**1,249**	1,193	5%
Export via Uzbekistan	**10**	**–**	–	–	**10**	5	100%
Domestic market	**130**	**250**	68	91%	**615**	380	62%

The Company's share (50%) in Kazgermunai oil production in 2009 was 1,601 thousand tonnes. Capital expenditure is US$137.6 million. The company's share in income of the joint venture in accordance with consolidated financial statements of the Company in 2009 is KZT2.4 billion. The Company received dividends in the amount of US$25 million from Kazgermunai LLP in 2009 (it was US$325 million in year 2008). This significant decrease in dividends took place because of the 69% reduction in the net income of Kazgermunai LLP compared to 2008. The decrease of net income was due to the 34% reduction of revenue, the introduction of a new tax code in 2009, accrual of environmental fines for excessive gas flaring and a change in revenue recognition.

In 2010, Kazgermunai plans to produce 3 million tonnes of crude oil and to drill 15 development wells. Capital expenditure of KZT15.1 billion in 2010 is planned.

Karazhanbasmunai JCS

Karazhanbasmunai JCS's key financial and operational indicators are shown below:

	Q4 2009	**Q3 2009**	Q4 2008	Q4 on Q4 change	**2009**	2008	Change
Revenue, US$ thousands	**195,934**	**207,547**	149,118	31%	**687,736**	1,032,914	–33%
Operating expenses, US$ thousands	**131,147**	**150,788**	179,372	–27%	**568,884**	538,476	3%
Income tax expense, US$ thousands	**12,972**	**–25,725**	–123,652	–110%	**–5,930**	148,489	–105%
Net income, US$ thousands	**51,816**	**82,476**	93,398	–45%	**124,778**	345,949	–66%
Capital expenditures, US$ thousands	**38,350**	**18,703**	63,296	–39%	**130,112**	229,914	–52%
Crude oil production, thousand tonnes	**460**	**475**	484	–5%	**1,867**	1,829	2%
Crude oil sales, thousand tonnes	**430**	**498**	491	–12%	**1,861**	1,814	3%
Export via Makhachkala	**281**	**308**	403	–30%	**1,254**	1,369	–8%
Export via Primorsk	**90**	**140**	60	50%	**419**	234	79%
Export via Odessa	**–**	**–**	–	–	**6**	–	–100%
Export via Baku/Iran	**–**	**–**	–	–	**–**	–	–
Domestic market	**60**	**50**	28	114%	**183**	211	–13%

For the year 2009, the Company recognized finance income from its investment in Karazhanbasmunai JCS (50% share) as US$16.3 million. Capital expenses for 2009 are US$110.0 million or 52% less than for 2008. The decrease in net income in 2009 is due to the increased tax burden compared to 2008.

In 2010 Karazhanbasmunai JCS planned to produce 1.9 million tonnes of crude oil. Capital expenditure in 2010 is expected to be KZT23.0 billion (US$153 million).

Year 2009 Operating and Financial Review continued

PetroKazakhstan Inc.

In 2009, it produced 6.292K tonnes as against 6.390K tonnes in 2008.
The share of results of the joint venture included in the consolidated financial statements of the KMG EP is as follows:

	2009
Revenues	**3,489,068**
Operating expenses	**(2,851,783)**
Profit from operations	**637,285**
Finance cost, net	**(12,725)**
Profit before tax	**624,560**
Income tax expense	**(366,019)**
Profit for the period	**258,541**
Foreign currency conversion loss recognized in other comprehensive income	**(276,913)**

Liquidity and Capital Resources

Summary of Cash Flows

The Company's liquidity requirements arise principally from the need to finance its existing operations (working capital), the need to finance investment (capital expenditure) and realise its growth targets via acquisitions. The management believes that the Company has adequate liquidity to meet its short-term obligations and pursue investment opportunities.

	Q4 2009	**Q3 2009**	Q4 2008	Q4 on Q4 change	**2009**	2008	Change
			(KZT thousands)	%		(KZT thousands)	%
Net cash generated from operating activities	**67,322,503**	**55,316,341**	–1,409,748	–4875%	**149,159,221**	163,854,907	–9%
Net cash used in investing activities	**–98,871,879**	**–179,289,889**	257,172,971	–138%	**–252,701,063**	140,539,758	–280%
Net cash used in financing activities	**–835,957**	**–54,845,555**	– 937,815	–11%	**– 73,962,333**	– 40,977,580	80%

In 2009, net cash generated from operating activities was KZT149.2 billion, decreasing by KZT14.7 billion compared to 2008. This decrease in profit is due to export revenue reductions and a decrease of the share in the income of joint ventures.

Net cash used in investment activities increased by KZT393.2 billion in 2009. This increase was mainly due to growth in net cash outflows from financial asset operations of KZT340.8 billion. This effect was partly mitigated by a decrease of dividends received from joint ventures by KZT35.4 billion and a KZT18.7 billion decrease of interest received.

In 2009 and 2008, the Company's capital expenditure, calculated on a cash basis, was KZT43.3 billion and KZT41.9 billion respectively.

Net cash outflows from financing activities increased by KZT33.0 billon in 2009 compared to 2008. The change in cash outflows was mainly due to the repurchase of treasury shares valued at KZT21.4 billion, increasing dividends payment by KZT6.6 billion and the repayment of borrowings by KZT6.0 billion.

Borrowings and Cash Position

The following table below shows the Company's net cash for the periods ended December 31, 2009, December 31, 2008 and September 30, 2009:

	As at December 31, 2009	As at September 30, 2009	As at December 31, 2008	December to December change
		(KZT thousands, unless otherwise stated)		%
Current portion	**45,650,017**	**1,383,361**	14,905,744	206%
Maturity over 1 yeas	**92,023,143**	**–**	5,532,332	1563%
Total borrowings	**137,673,160**	**1,383,361**	20,438,076	574%
Cash and cash equivalents	**107,626,368**	**140,036,827**	285,131,743	–62%
Other current financial assets	**534,288,078**	**470,633,818**	264,677,096	102%
Non-current financial assets	**797,931**	**8,542,310**	5,108,021	–84%
Total financial assets	**642,712,377**	**619,212,955**	554,916,860	16%
US$-denominated cash and financial assets, %	**74%**	**85%**	67%	10%
Net cash (debt)	**505,039,217**	**617,829,594**	534,478,784	–6%

The Company's borrowings are denominated in US dollars. The increase in the borrowings by the end of 2009 compared to the previous period is due to the acquisition of debt securities of PKI Finance for the amount of US$129 billion issued in 2005 for the acquisition of a 33% share in PetroKazakhstan Inc.

The increase in financial assets denominated in US dollars was due to the opening of long-term deposits as a result of monetary policy and tenge devaluation in February 2009.

Esomet Arrangement. On August 16, 2004, the Company entered into a crude oil sale agreement with Esomet and received a US$600 million long-term advance with interest at Libor plus 1.75% per annum. On July 24, 2006, Esomet and the Company amended the Esomet Arrangement to include an additional payment of US$50.0 million, a reduction of the interest margin from 1.75% to 1.1% and the release of the existing NC KMG guarantee. As of September 30, 2009, the Company had performed all its obligations.

Predictive Statements

This document includes statements that are, or may be deemed to be, "predictive statements". These statements can be identified by the use of predictive terminology, including such terms as "believes", "estimates", "anticipates", "expects", "intends", "may", "target", "will", or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These predictive statements include all matters that are not historical facts. They include, statements regarding the Company's intentions, beliefs and current expectations regarding the Company's operations, financial condition, liquidity, prospects, growth, potential acquisitions, and strategies, or concerning the industries in which the Company operates. By their nature, predictive statements involve risk and uncertainty because they relate to future events and circumstances that may or may not occur. They are not guarantees of future performance and the actual results of the Company's operations, financial condition and liquidity and the development of the country and the industries in which the Company operates may differ materially from those described in, or suggested by, the predictive statements contained in this document. The Company does not intend, and does not assume any obligation, to update or revise any predictive statements or industrial information set out in this document, whether as a result of new information, future events or anything else. The Company does not issue any undertaking, guarantee or promise that the results anticipated by such predictive statements will be achieved.

Risk Factors

The Company's activity involves many risks and uncertainties in the economic, political, legislative, social and financial spheres. In making decisions, stakeholders should take into consideration the risk factors that may affect the financial and operational success of the Company.

In order to increase efficiency, maximise value and ensure sustainable development, a risk management system has been introduced into the Company.

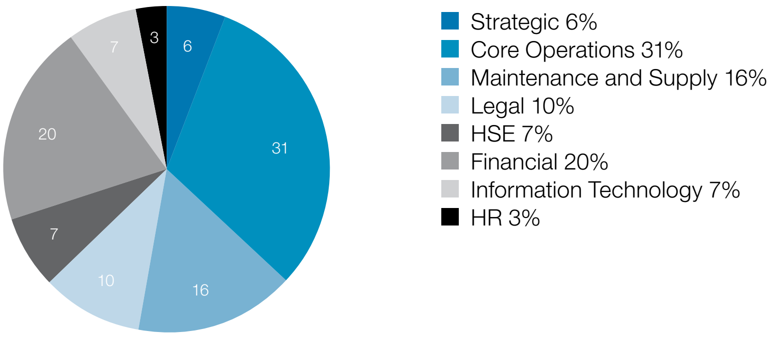
The risk management system forms an integral part of the Company's management system and is a constantly evolving process; in following this process, the Company systematically identifies, evaluates and manages its risk portfolio, analysing its past, present and future development.

The Company's risk management system includes a system for monitoring the tasks in hand, a procedure for evaluating the efficacy of measures undertaken, and a system for developing strategic and tactical solutions after taking the risk analysis into account.

The risk management procedure is carried out by the Board of Directors, the Management Board, the Risk Management Committee, the divisional heads and all employees of the Company. The sharing of responsibility and roles in the risk management process is set out in the Risk Management Policy.

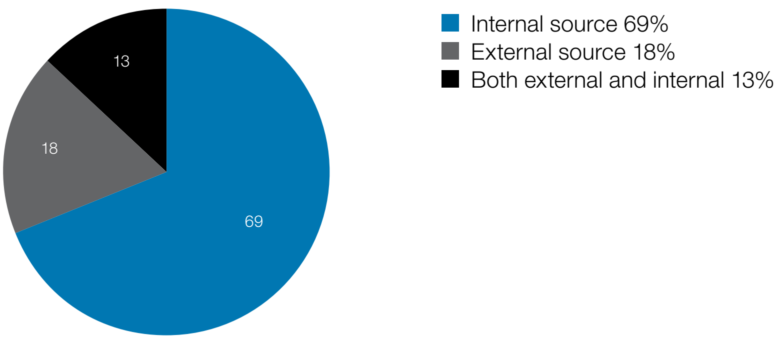
The Company's risk portfolio was formed on the basis of an annual survey and evaluation of risks by the Risk Management Committee (see page 43).

JSC KazMExploration and Production Risk portfolio classified by categories



Risks from external and internal sources account for respectively 18% and 69% of the Company's risk portfolio.

JSC KazMunaiGas Exploration and Analysis of risk sources



Internal source risks are fully within the Company's management and control and are directly connected with the efficacy of management and of the internal control system.

External source risks are outside the Company's management and control, but the Company undertakes all possible measures to minimise and reduce such risks.

Some risk information is contained in the Offering Memorandum for Ordinary Shares and GDR, published 29 September 2006; analysis of key financial risks is also contained in annual audited statements (see page 84).

An additional, less than exhaustive list of the main risks is presented below.

Exploration

During geological exploratory work, there is always a risk of non-commercial discovery of hydrocarbon deposits and/or of drilling a 'dry' well. To reduce the risk involved in geological exploration, a set of geoscience tests is carried out. Apart from traditional seismic testing, it includes geochemical testing and high-resolution electrical exploration, as well as special methods of processing seismic and gravity data. Geological risk analysis is the final stage of geological exploration.

Production

One of the key aims of the Company is to sustain an optimum production level at its own fields, most of which are at advanced stage of production. To this end, the Company uses modern methods and technologies to impact the oil beds and wellbore zones.

The Company carries out a detailed analysis of production risks in order to increase the efficiency of the production process by timely risk identification and management and by ensuring communication, coordination and cross-checking between various levels of production personnel.

Key factors influencing the Company's operations:
- State of the firm wells;
- Electrical supply;
- Weather conditions;
- Punctual procurement and supply of equipment;
- Quality of equipment supplied;
- Punctuality and quality of service by contractors;
- Strikes by the Company's production personnel;
- Safety of the production personnel;
- Effective planning;
- Ecological safety;
- Observance of state regulatory requirements.

At the same time, the Company's operations are subject to the risk of incidents and breakdowns of the main production equipment. To mitigate these risks, the Company carries out a set of preventive measures and a programme of equipment replacement and overhaul. The main production equipment is insured against loss due to fire, explosion, natural and other hazards; the risk of a well going out of control is also insured.

Labour protection, work safety and environmental protection

The Company's operational activity involves a wide range of health and environmental risks. These may include non-compliance with work safety rules, incidents at work, harm to the environment, ecological pollution and natural disasters. The consequences of these can be most severe, including a fatal accident at work, atmospheric, soil and water pollution, fires, and temporary suspension or complete cessation of business. Depending on the cause of these events, the consequences may negatively affect the Company's reputation, finances and operations. The Company undertakes various measures to prevent the occurrence of such threats, including health and safety checks at work, hazard identification and personnel training. The labour protection, occupational safety and environmental protection systems in the Company are implemented and function in accordance with ISO 14001 and OHSAS 18001 standards.

Volatility of the price of crude oil and petroleum products

The price of crude and petroleum products is affected by the state of the global economy, political instability or conflicts, actions by the main oil-exporting states, weather and natural disasters. Changes in the price of oil and petroleum products may affect the level of expected profits, investment decision-making and operational activity. Therefore the Company prepares annual budgets and regular forecasts, including sensitivity analysis with regard to various levels of crude oil prices in the future. A certain amount of crude oil is hedged.

Strikes

Exacerbation of social problems in Kazakhstan, including in the Company's regions of operation, may negatively affect the business continuity and cause protests and strikes. As a result, wildcat strikes may have a significant adverse impact on the Company's reputation, operations and finances.

To prevent strikes, it has been explained to the teams in the various departments that any labour disputes must be resolved constructively, via the trade unions. Special conciliatory commissions are formed for resolving labour disputes, with local authorities, trade unions and protesters represented.

Partners

The Company collaborates with and involves foreign and domestic companies in various areas if its activity. The Company has a limited ability to exert influence on the behaviour or operational activities of its partners, which may affect the Company's operations or finances. Therefore, the Company is developing long-term and mutually beneficial partner relationships. To minimise the breach or non-performance of obligations, the Company stipulates serious penalties in its contracts and keeps a database of unscrupulous contractors.

Risk Factors continued

Changes in legislation, taxation and regulations

Changes of legislation on sub-soil use or in tax and customs regulations may lead to an increase of the Company's fiscal burden, a decrease in its profits, operational difficulties and a reduction of its available investment resources. In response to changes in the tax and customs burden, the Company intends to revise its production and investment plans and amend them as required.

Personnel Risk

Highly qualified personnel are a competitive advantage and a foundation for achieving the Company's strategic goals. Every year, the Company faces the problem of attracting suitably qualified personnel: a problem chiefly due to a shortage of the required experts on the labour market. On the evidence of certain reviews, the Company's current salary level is lower than the market indicators of salary level for comparably financed and operating companies. To reduce this risk, the Company has undertaken to implement an employee incentive scheme to bring salary levels to the level of market indicators in order to attract and retain highly qualified personnel. In 2009, by resolution of the Company's Management Board, salaries were recalculated to allow for the level of inflation.

Information Technology

The Company is exposed to risks in the area of information technology through its dependence on a variety of high-technology hardware and software to maintain effective operations. There may be problems in adaptating the new hardware and software and providing for the safe storage of confidential business data. In order to ensure effective work in this area, the Company carries out an annual examination of the technology used and takes care to purchase only the most adaptable and reputable information technology, while ensuring reliable control of access to databases.

Independent Auditors' Report

To the shareholders and management of Joint Stock Company KazMunaiGas Exploration Production

We have audited the accompanying financial statements of Joint Stock Company KazMunaiGas Exploration Production and its subsidiaries ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor/General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003.

17 February 2010

KazMunaiGas Exploration Production Joint Stock Company

Consolidated Financial Statements

For the year ended December 31, 2009

Consolidated Statement of Financial Position

Tenge thousands

	Notes	As at December 31, 2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	4	**257,739,303**	248,920,924
Other financial assets	6	**797,931**	5,108,021
Receivable from jointly controlled entity	7	**20,268,928**	18,862,017
Intangible assets	5	**2,276,745**	2,831,782
Investments in associates and joint ventures	7	**254,147,918**	121,910,766
Deferred tax asset	16	**10,265,537**	1,428,948
Other assets		**7,291,870**	3,519,908
Total non-current assets		**552,788,232**	402,582,366
Current assets			
Inventories	8	**15,525,704**	14,405,863
Taxes prepaid and VAT recoverable		**9,969,965**	8,352,503
Prepaid and deferred expenses		**21,595,622**	6,562,709
Trade and other receivables	6	**49,710,916**	37,819,473
Receivable from jointly controlled entity	7	**1,082,100**	–
Other financial assets	6	**534,288,078**	264,677,096
Cash and cash equivalents	6	**107,626,368**	285,131,743
Total current assets		**739,798,753**	616,949,387
Total assets		**1,292,586,985**	1,019,531,753
EQUITY			
Share capital	9	**238,546,914**	259,724,847
Other capital reserves		**1,474,089**	1,385,036
Retained earnings		**747,820,751**	586,058,950
Other components of equity		**12,937,395**	(76,197)
Total equity		**1,000,779,149**	847,092,636
LIABILITIES			
Non-current liabilities			
Borrowings	11	**92,023,143**	5,532,332
Provisions	12	**35,319,443**	38,716,666
Total non-current liabilities		**127,342,586**	44,248,998
Current liabilities			
Borrowings	11	**45,650,017**	14,905,744
Income taxes payable		**21,138,596**	55,806,901
Mineral extraction and rent tax payable		**36,177,299**	–
Trade and other payables		**34,402,259**	32,380,235
Provisions	12	**27,097,079**	25,097,239
Total current liabilities		**164,465,250**	128,190,119
Total liabilities		**291,807,836**	172,439,117
Total liabilities and equity		**1,292,586,985**	1,019,531,753

The notes on pages 65 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Tenge thousands

	Notes	For the year ended December 31, 2009	2008
Revenue	13	**485,493,479**	604,993,422
Operating expenses	14	**(330,605,629)**	(297,167,473)
Profit from operations		**154,887,850**	307,825,949
Finance income	15	**46,758,905**	45,374,578
Finance costs	15	**(3,241,289)**	(3,146,631)
Foreign exchange gain		**89,534,814**	696,455
Share of result of associates and joint ventures	7	**(2,467,551)**	57,623,884
Profit before tax		**285,472,729**	408,374,235
Income tax expense	16	**(75,745,829)**	(167,091,866)
Profit for the year		**209,726,900**	241,282,369
Exchange difference on translating foreign operations		**13,013,592**	579,153
Realised loss on available-for-sale financial investments reclassified to the profit for the year		**–**	435,886
Other comprehensive income for the year, net of tax		**13,013,592**	1,015,039
Total comprehensive income for the year, net of tax		**222,740,492**	242,297,408
EARNINGS PER SHARE			
Basic	10	**2.87**	3.26
Diluted	10	**2.78**	3.26

The notes on pages 65 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Tenge thousands unless otherwise stated

	Notes	For the year ended December 31, 2009	2008
Cash flows from operating activities			
Profit before tax		**285,472,729**	408,374,235
Adjustments to add (deduct) non-cash items			
Depreciation, depletion and amortisation	4, 5	**31,155,360**	34,368,825
Share of result of associates and joint ventures		**2,467,551**	(57,623,884)
Settlement of crude oil under the terms of a pre-export financing agreement		**(10,830,585)**	(17,862,800)
Loss on disposal of property, plant and equipment (PPE)		**2,547,437**	852,909
(Reversal of impairment) impairment of PPE	4	**(590,558)**	183,086
Recognition of share-based payments		**248,106**	354,612
Forfeiture of share-based payments		**(164,690)**	–
Impairment of investment in joint venture	14	**3,043,907**	2,396,198
(Reversal) accrual of allowance for doubtful receivables	6	**(1,057,105)**	1,057,105
Unrealised foreign exchange gain		**(7,993,206)**	(464,941)
Other non-cash expenses		**686,909**	5,840,391
Add finance costs		**3,241,289**	3,146,631
Deduct finance income relating to investing activity		**(46,758,905)**	(45,374,578)
Working capital adjustments			
Change in other assets		**(4,352,007)**	(10,008)
Change in inventories		**(1,282,335)**	(2,607,882)
Change in taxes prepaid and VAT recoverable		**(2,818,233)**	(2,587,032)
Change in prepaid and deferred expenses		**(13,762,247)**	(1,815,510)
Change in trade and other receivables		**(9,697,855)**	11,241,450
Change in mineral extraction and rent tax payable		**36,177,299**	–
Change in trade and other payables		**(6,558,436)**	1,241,412
Change in provisions		**5,670,976**	(3,578,130)
Income tax paid		**(115,686,180)**	(173,277,182)
Net cash generated from operating activities		**149,159,221**	163,854,907
Cash flows from investing activities			
Purchases of PPE		**(43,326,083)**	(41,891,804)
Proceeds from sale of PPE		**1,221,183**	545,183
Purchases of intangible assets		**(15,764)**	(227,771)
Contribution to the capital of the joint venture		**(3,043,907)**	(1,816,093)
Acquisition of subsidiary, net of cash acquired	7	**459,646**	–
Dividends received from joint ventures and associates		**3,768,250**	39,164,528
(Purchases) sale of financial assets, net		**(253,356,352)**	91,555,956
Sale of financial assets held-to-maturity		**10,517,548**	–
Sale of available-for-sale financial assets, net		**–**	6,449,113
Loan repayments received from related parties		**5,028,216**	2,036,327
Interest received		**26,046,200**	44,724,319
Net cash (used in) generated from investing activities		**(252,701,063)**	140,539,758
Cash flows from financing activities			
Exercise of share-based options		**–**	299,279
Purchase of treasury shares		**(21,392,129)**	(521,318)
Proceeds from borrowings		**–**	30,000
Repayment of borrowings		**(6,352,778)**	(311,960)
Dividends paid to Company's shareholders		**(46,108,343)**	(39,504,759)
Interest paid		**(109,083)**	(968,822)
Net cash used in financing activities		**(73,962,333)**	(40,977,580)
Net change in cash and cash equivalents		**(177,504,175)**	263,417,085
Cash and cash equivalents at beginning of the year	6	**285,131,743**	21,658,451
Exchange losses on cash and cash equivalents		**(1,200)**	56,207
Cash and cash equivalents at end of the year	6	**107,626,368**	285,131,743

The notes on pages 65 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Tenge thousands unless otherwise stated

	Share capital	Treasury stock	Other capital reserves	Retained earnings	Foreign currency translation	Reserves for available-for-sale financial assets	Total Equity
As at January 1, 2008	263,094,581	(3,728,667)	1,672,224	386,494,710	(655,350)	(435,886)	646,441,612
Profit for the year	–	–	–	241,282,369	–	–	241,282,369
Other comprehensive income	–	–	–	–	579,153	435,886	1,015,039
Total comprehensive income	–	–	–	241,282,369	579,153	435,886	242,297,408
Recognition of share-based payments	–	–	354,612	–	–	–	354,612
Exercise of employee options	–	880,251	(641,800)	–	–	–	238,451
Share buy back (Note 9)	–	(521,318)	–	–	–	–	(521,318)
Dividends (Note 9)	–	–	–	(41,718,129)	–	–	(41,718,129)
As at December 31, 2008	**263,094,581**	**(3,369,734)**	**1,385,036**	**586,058,950**	**(76,197)**	**–**	**847,092,636**
Profit for the year	–	–	–	209,726,900	–	–	209,726,900
Other comprehensive income	–	–	–	–	13,013,592	–	13,013,592
Total comprehensive income	–	–	–	209,726,900	13,013,592	–	222,740,492
Recognition of share-based payments	–	–	248,106	–	–	–	248,106
Forfeiture of share-based payments	–	–	(164,690)	–	–	–	(164,690)
Exercise of employee options	–	203,266	5,637	–	–	–	208,903
Share buy back (Note 9)	–	(21,381,199)	–	–	–	–	(21,381,199)
Dividends (Note 9)	–	–	–	(47,965,099)	–	–	(47,965,099)
As at December 31, 2009	**263,094,581**	**(24,547,667)**	**1,474,089**	**747,820,751**	**12,937,395**	**–**	**1,000,779,149**

The notes on pages 65 to 89 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Tenge thousands unless otherwise stated

1. Organization and principal activities

KazMunaiGas Exploration Production Joint Stock Company (the “Company”) has been incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company’s direct majority shareholder is Joint Stock Company National Company KazMunaiGas (“NC KMG” or the “Parent Company”), which represents the state’s interests in the Kazakh oil and gas industry and which holds 59.38% of the Company’s outstanding shares as at December 31, 2009 (2008: 58.19%). From June 2006 NC KMG was 100%-owned by joint stock company Kazakhstan Holding for Management of State Assets “Samruk” (“Samruk”) which is in turn 100% owned by the government of the Republic of Kazakhstan (the “Government”). In October 2008 Samruk was merged with the Government owned Sustainable Development Fund «Kazyna» and formed joint stock company Samruk-Kazyna National Welfare Fund (“Samruk-Kazyna NWF”).

The Company conducts its principal operations through the UzenMunaiGas and EmbaMunaiGas production divisions. In addition the Company has a 50% interest in a jointly controlled oil and natural gas producer, a receivable from a jointly controlled entity and a 33% interest in an associate (Note 7). These consolidated financial statements reflect the financial position and results of operations of those divisions, jointly controlled entities, associates and certain other controlling and non-controlling interests in non-core entities.

2. 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.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention except for financial instruments. These consolidated financial statements are presented in Tenge and all values are rounded to the nearest thousand unless otherwise stated.

The preparation of 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 Company’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 3.

Adopted accounting standards and interpretations

The Company has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations during the year, which did not have any effect on the financial performance or position of the Company.

- IFRS 2 Share – based Payment: Vesting Conditions and Cancelations
- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments
- IAS 1 Presentation of Financial Statements
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- Improvements to IFRSs (May 2008)

The principal effects of these changes are as follows:

IAS 1 Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company has elected to present one single statement.

Improvements to IFRSs

In May 2008 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Company analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

Notes to the Consolidated Financial Statements continued

Tenge thousands unless otherwise stated

IAS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell". This amendment had no immediate impact on the consolidated financial statements of the Company because the recoverable amount of its cash generating units is currently estimated using "value in use".

IAS 36 Impairment of Assets: When discounted cash flows are used to estimate "fair value less cost to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". This amendment had no immediate impact on the consolidated financial statements of the Company because the recoverable amount of its cash generating units is currently estimated using "value in use". The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Company as it has one single reportable segment.

IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Company either has the right to access the goods or has received the service. This amendment has no impact on the Company because it does not enter into such promotional activities.

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

New accounting developments

The following IFRS, IFRIC interpretations and improvements to IFRS are not yet in effect for the year ended December 31, 2009:

- IFRS 3R Business Combinations
- IAS 27 Consolidated and Separate Financial Statements – amendment
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRS 9 Financial Instruments
- IAS 24 Related Party Disclosures – amendment
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters
- IFRS 2 Group cash-settled share-based payments transactions
- IAS 39 Eligible hedged items
- IFRIC 18 Transfer of Assets from Customers
- IAS 32 Classifications of rights issues
- Improvements to IFRSs (April 2009)

Management does not expect the above standards and interpretations to have a material impact on the Company's financial position or results of operations.

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are no longer consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are consistent with those of the Company.

Investment in associates and interests in joint ventures

The Company's investment in its associates and joint ventures are accounted for using the equity method. An associate is an entity in which the Company has significant influence. The Company also has interests in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entities.

Under the equity method, the investment in the associate and joint ventures are carried in the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the associates and joint ventures.

The Company's investment in associates includes purchase price premium identified on acquisition which is primarily attributable to the value of the licenses based on their proved reserves. The licenses are amortized over the proved reserves of the associate and joint ventures using the unit-of-production method.

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

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

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

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

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

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Company measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

2.3 Foreign currency translation
The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge"), which is the Company's functional and presentation currency. Each subsidiary, associate and joint venture of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into Tenge at the rate of exchange ruling at the reporting date and their statements of comprehensive income are translated at the exchange rates at the date of transaction. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

2.4 Oil and natural gas exploration and development expenditure
Exploration license 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 cost 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, and all licenses and approvals are obtained from the appropriate regulatory bodies, then 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, fuel and energy 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 then, 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.

Notes to the Consolidated Financial Statements continued

Tenge thousands unless otherwise stated

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.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and natural gas properties are depreciated using a unit-of-production method over proved developed reserves. Certain oil and gas property assets 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.

Other property, plant and equipment principally comprise buildings and machinery and equipment which are depreciated on a straight-line basis over average useful lives of 24 and 7 years respectively.

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognized.

2.6 Impairment of non-financial assets

The Company 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 Company 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 is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss 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 loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

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.

2.7 Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include expenditure on acquiring licenses for oil and natural gas exploration and computer software. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

The expected useful lives of the assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Computer software costs have an estimated useful life of 3 to 7 years.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

2.8 Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held to maturity investments, available-for-sale financial assets, loans and trade and other receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method.

Trade and other receivables

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

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss. There were no available-for-sale financial assets as at December 31, 2009.

Fair value

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

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised 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 (ie 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 recognised in profit or loss.

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 recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

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 Company 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 derecognised when they are assessed as uncollectible.

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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 amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on 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 profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company 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

2.9 Inventories

Inventories are stated at the lower of cost determined on a first-in first-out ("FIFO") basis and net realizable value. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortization ("DD&A") and overheads based on normal capacity. Net realizable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale. Materials and supplies inventories are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

2.10 Value added tax (VAT)

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

2.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

2.12 Share capital

Share Capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Treasury Shares

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until such time as the shares are cancelled or reissued. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

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

Share-based payment transactions

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This is then capitalized or expensed as appropriate.

The cost of equity-settled transactions with employees for awards granted on or after July 1, 2007 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate Black-Scholes-Merton option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The expense or credit for a period, in the statement of comprehensive income, represents the movement in cumulative expense recognized as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. All cancellations of equity-settled transaction awards are treated equally. Where the share-based award is cancelled on forfeiture any cost previously recognized is reversed through equity.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2.13 Trade payables
Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Provisions
Provisions are recognized when the Company 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 Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

2.15 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 income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

2.16 Deferred income tax
Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures except 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.

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2.17 Employee benefits

Pension scheme

The Company withholds 10% from the salary of its employees as the employees' contribution to their designated pension funds. The pension deductions are limited to 75 minimal salary level of 13,470 per month in first six months of 2009 and 13,717 per month in last six months of 2009 (2008: 10,515 Tenge per month in first six months of 2008 and 12,025 Tenge per month in last six months of 2008). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits.

2.18 Revenue recognition

The Company sells crude oil under short-term agreements priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. Title typically passes and revenues are recognized when crude oil is physically placed onboard a vessel or offloaded from the vessel, transferred into pipe or other delivery mechanism depending on the contractually agreed terms.

The Company's crude oil sale contracts generally specify maximum quantities of crude oil to be delivered over a certain period. Crude oil shipped but not yet delivered to the customer is recorded as inventory in the statement of financial position.

2.19 Income taxes

Excess profit tax (EPT) is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation enacted as of January, 1 2009, the Company accrues and pays EPT in respect of each subsurface use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsurface use contract. The ratio of aggregate annual income to deductions in each tax year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsurface use contract in excess of 25% of the deductions attributable to each contract.

3. Significant accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Company's computation of DD&A. The Company 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 Company uses long-term planning prices. 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, which are also used by management for their investment decisions, are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

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

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A. The Company 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 Company'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 Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Company, 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 would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company'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 recognized. 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 Company calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company reviews site restoration provisions at each reporting 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 Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 12.8% and 11.5% of the provision at December 31, 2009 and 2008 relates to final closure costs, respectively. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Company 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, 2009 were 5.0% and 7.9% respectively (2008: 5.0% and 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 12.

Environmental remediation

The Company 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 Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan. Pursuant to a memorandum of understanding ("MOU") signed with the Ministry of the Environment in July 2005, the Company 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. As the terms of the liability have not yet been established and management reasonably expects to execute the remediation plan over a period of up to seven years, the Company has classified this obligation as non-current except for the portion of costs, agreed with the relevant authorities, expected to be incurred in 2010. 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 20. Movements in the provision for environmental remediation obligations are disclosed in Note 12.

Taxation

Taxable income is computed in accordance with the tax legislation enacted as of January 1, 2009. The Company accrues and pays corporate income tax (CIT) at a rate of 20% of taxable income in 2009. In November 2009 the Government of the Republic of Kazakhstan passed the legislation deferring the initially adopted gradual reduction of CIT rates in 2010 and 2011 down to 17.5% and 15%, respectively. According to the amendments introduced CIT rates will be reduced to 17.5% in 2013 and to 15% in 2014 onwards. The above legislation also deferred the initially adopted increase of the mineral extraction tax rates by 1% in 2010 and another 1% in 2011. As a result, the 2009 rates will remain in force through 2012, while the increase will take place in 2013 and 2014, respectively.

Deferred tax is calculated with respect to both CIT and EPT. Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates that were enacted by the new tax code of Kazakhstan on January 1, 2009. Both deferred CIT and EPT bases are calculated under the terms of the tax legislation enacted in the above mentioned new tax code disclosed in Note 16.

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4. Property, plant and equipment

	Oil-and-gas properties	Other assets	Construction work-in-progress	Total
2008				
Opening net book amount at January 1, 2008	206,451,279	36,892,418	3,329,960	246,673,657
Additions	962,924	371,751	42,062,732	43,397,407
Change in ARO estimate	(6,769,655)	–	–	(6,769,655)
Disposals	(1,208,967)	(1,162,411)	(810,685)	(3,182,063)
Transfers from work-in-progress	30,036,378	3,226,796	(33,263,174)	–
Internal transfers	5,602,827	(5,626,288)	23,461	–
Depreciation charge	(26,885,283)	(4,130,053)	–	(31,015,336)
(Impairment)/reversal	(186)	(759,145)	576,245	(183,086)
Closing net book amount at December 31, 2008	208,189,317	28,813,068	11,918,539	248,920,924
At December 31, 2008				
Cost	332,724,973	41,972,079	11,918,539	386,615,591
Accumulated depreciation	(124,535,656)	(13,159,011)	–	(137,694,667)
Net book amount	208,189,317	28,813,068	11,918,539	248,920,924
2009				
Opening net book amount at January 1, 2009	208,189,317	28,813,068	11,918,539	248,920,924
Additions	1,020,029	1,253,022	42,019,721	44,292,772
Change in ARO estimate	(794,517)	–	–	(794,517)
Disposals	(2,468,772)	(380,150)	(2,281,856)	(5,130,778)
Transfers from work-in-progress	35,083,465	6,285,162	(41,368,627)	–
Internal transfers	483,912	(496,180)	12,268	–
Depreciation charge	(26,166,197)	(3,973,459)	–	(30,139,656)
(Impairment)/reversal	–	(791,888)	1,382,446	590,558
Closing net book amount at December 31, 2009	**215,347,237**	**30,709,575**	**11,682,491**	**257,739,303**
At December 31, 2009				
Cost	363,383,910	46,672,242	11,682,491	421,738,643
Accumulated depreciation	(148,036,673)	(15,962,667)	–	(163,999,340)
Net book amount	**215,347,237**	**30,709,575**	**11,682,491**	**257,739,303**

As at December 31, 2009, construction work-in-progress included exploration and evaluation assets with a net book value in the amount of 912,446 thousand Tenge (2008: 472,037 thousand Tenge). Additions of these assets during 2009 amounted to 723,019 thousand Tenge (2008: 517,613 thousand Tenge) and disposals amounted to 282,610 thousand Tenge (2008: 513,055 thousand Tenge).

5. Intangible assets

	2009	2008
At January 1		
Opening net book amount	**2,831,782**	5,548,240
Additions	**487,845**	641,198
Disposals	**(27,179)**	(4,167)
Amortization charge	**(1,015,703)**	(3,353,489)
Closing net book amount at December 31	**2,276,745**	2,831,782
At December 31		
Cost	**13,018,707**	12,575,142
Accumulated amortization	**(10,741,962)**	(9,743,360)
Net book amount	**2,276,745**	2,831,782

6. Financial assets

Other financial assets

	2009	2008
Tenge-denominated term deposits	**636,520**	613,815
US dollar-denominated term deposits	**–**	3,863,736
Other	**161,411**	630,470
Total non-current	**797,931**	5,108,021
US dollar-denominated term deposits	**447,254,500**	124,625,296
Tenge-denominated term deposits	**87,033,308**	129,292,592
Held-to-maturity financial assets	**–**	10,758,938
Other	**270**	270
Total current	**534,288,078**	264,677,096
	535,086,009	269,785,117

The weighted average interest rate on US dollar-denominated term deposits in 2009 was 9.3% (2008: 8.9%). The weighted average interest rate on Tenge-denominated term deposits in 2009 was 7.9% (2008: 10.2%).

As at December 31, 2009 the current US dollar denominated term deposits include restricted cash in the amount of 9,840,620 thousand Tenge (2008: nil) which is kept in the blocked account as the security for the payment of interest and principal on the long term debt of KazMunaiGaz PKI Finance B.V. (KMG PKI Finance), a 100% subsidiary of the Company (Notes 7 and 11).

As of December 31, 2009 the Company recorded an impairment of 570,928 thousand Tenge on held-to-maturity financial assets (Note 15). The impairment relates to the defaulted held-to-maturity bonds issued by BTA Bank. BTA Bank defaulted on the scheduled coupon payment on October 29, 2009.

Trade and other receivables

	2009	2008
Trade receivables	**49,398,083**	37,640,937
Other	**523,914**	1,467,613
Allowance for doubtful receivables	**(211,081)**	(1,289,077)
	49,710,916	37,819,473

As of December 31, 2009 US dollar-denominated trade and other receivables represented 90% of total receivables (2008: 94%). The remaining balances are Tenge-denominated. Trade receivables are non-interest bearing and are generally on 30 days' terms.

The ageing analysis of trade receivables is as follows as at December 31:

	2009	2008
Current	**49,689,150**	31,684,394
0 – 30 days overdue	**2,442**	6,134,596
60 – 90 days overdue	**–**	483
120 and more days overdue	**19,324**	–
	49,710,916	37,819,473

Cash and cash equivalents

	2009	2008
Tenge-denominated term deposits with banks	**71,469,368**	42,926,389
US dollar denominated term deposits with banks	**8,041,112**	241,278,281
Euro denominated term deposits with banks	**641,004**	–
Tenge-denominated cash in banks and on hand	**6,933,117**	469,100
US dollar denominated cash in banks and on hand	**20,541,767**	457,973
	107,626,368	285,131,743

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

The weighted average interest rate on Tenge-denominated deposits in 2009 was 6.2% (2008: 8.6%).The weighted average interest rate on US dollar-denominated deposits in 2009 was 3.0% (2008: 3.6%).

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7. Investments in and receivables from associates and jointly controlled entities

Investments in associates and jointly controlled entities

	2009	2008
Interest in Petrokazakhstan Inc. ("PKI")	**130,962,455**	–
Interest in JV Kazgermunai LLP ("Kazgermunai")	**122,424,309**	120,814,950
Other	**761,154**	1,095,816
	254,147,918	121,910,766

Petrokazakhstan Inc.

On December 22, 2009 the Company acquired from NC KMG 100% of the common shares of KMG PKI Finance. The shares were acquired for cash consideration of 100,500 thousand US dollars (14,930,515 thousand Tenge). KMG PKI Finance holds a 33% equity interest in PKI, which is involved in exploration, development and production of hydrocarbons in south central Kazakhstan as well as sales of oil and oil products.

This acquisition of KMG PKI Finance does not represent a business combination and accordingly the Company accounted for this transaction as an acquisition of assets and liabilities. KMG PKI Finance's investment in PKI is recognized as an investment in associate in the consolidated financial statements of the Company.

The Company capitalized transaction costs of 5,675 thousand US dollars (846,066 thousand Tenge) directly attributable to this acquisition.

The Company paid to NC KMG the cash consideration of 85,858 thousand US dollars (12,758,155 thousand Tenge), net of withholding tax. As December 31, 2009 the Company has withholding tax payable in the amount of 14,642 thousand US dollars (2,172,360 thousand Tenge) to be paid to the Government of the Republic of Kazakhstan as the result of this transaction.

The consideration was allocated between the assets and liabilities using the relative fair values at the date of acquisition as follows:

	Fair values as at December 22, 2009
Equity interest in PKI	**130,980,827**
Cash and cash equivalents	**13,217,801**
Other assets	**610,003**
Borrowings	**(128,983,948)**
Other payables	**(48,102)**
	15,776,581

As at December 22, 2009, cash and cash equivalents include restricted cash of 66,329 thousand US dollars (9,855,848 thousand Tenge) which is placed on the bank term deposits in accordance with the terms of KMG PKI Finance notes (Note 11).

The Company's share of PKI's assets and liabilities as at December 31, 2009 on a provisional basis is as follows:

	2009
Cash	**12,376,981**
Current assets	**51,528,240**
Non-current assets	**149,376,305**
	213,281,526
Current liabilities	**28,416,660**
Non-current liabilities	**53,902,411**
	82,319,071
Net assets	**130,962,455**

The share of results of the associate for the period from date of acquisition to the year end included into the consolidated financial statements of the Company on a provisional basis is as follows:

	2009
Revenues	**3,489,068**
Operating expenses	**(2,851,783)**
Profit from operations	**637,285**
Finance cost, net	**(12,725)**
Profit before tax	**624,560**
Income tax expense	**(366,019)**
Profit for the period	**258,541**
Foreign currency translation loss recognized in other comprehensive income	**(276,913)**

The accounting for acquisition of the 33% interest in PKI in the 2009 consolidated financial statements is based on the provisional assessment of fair values as the Company has not completed an independent valuation of fair values of the identifiable assets, liabilities and contingent liabilities of PKI as at the acquisition date.

During 2006, PKI and Lukoil Overseas Kumkol B.V. (“Lukoil”) commenced arbitration claims against each other in the Arbitration Institute of the Stockholm Chamber of Commerce (the “Tribunal”).

On October 28, 2009, the Tribunal issued an award and ordered PKI to assign all of its shares of JSC Turgai Petroleum to Lukoil against of the purchase price in the amount of 800,000 thousand US dollars and execute a share transfer agreement. The Tribunal also ordered PKI to pay to Lukoil the amount of 487,997 thousand US dollars “as damages on account of paid-out dividends” plus interest on this amount at a rate of 4.42% per annum from October 16, 2008 until payment is affected.

The final settlement of this dispute is still being discussed by the parties. As of February 17, 2010, the Company has received no formal notice in relation to the finalization of the proceedings or execution of the share transfer agreement.

JV Kazgermunai

On April 24, 2007 the Company acquired from NC KMG a 50% participation interest in Kazgermunai, which is involved in oil and natural gas production in south central Kazakhstan.

The Company’s share of joint venture’s assets and liabilities as at December 31 is as follows:

	2009	2008
Cash	**28,182,715**	5,797,262
Current assets	**8,219,342**	8,971,883
Non-current assets	**127,628,947**	131,413,798
	164,031,004	146,182,943
Current liabilities	**16,472,625**	4,470,120
Non-current liabilities	**25,134,070**	20,897,873
	41,606,695	25,367,993
Net assets	**122,424,309**	120,814,950

The share of results of the joint venture included into the consolidated financial statements of the Company is as follows:

	2009	2008
Revenues	**86,500,472**	106,058,916
Operating expenses	**(69,279,410)**	(48,216,992)
Profit from operations	**17,221,062**	57,841,924
Finance (cost) income, net	**(2,092,941)**	55,335
Profit before tax	**15,128,121**	57,897,259
Income tax (expense) benefit	**(17,525,803)**	872,844
(Loss)/profit for the period	**(2,397,682)**	58,770,103
Foreign currency translation gain recognized in other comprehensive income	**7,775,291**	579,154
Dividends paid	**(3,768,250)**	(39,164,528)

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Receivable from jointly controlled entity

	2009	2008
Receivable from CITIC Canada Energy Limited ("CCEL")	**21,351,028**	18,862,017

CCEL investment

In 2007, the Company purchased a 50% interest in a jointly controlled entity, CCEL, whose investments are involved in oil and natural gas production in western Kazakhstan, from its co-investor, State Alliance Holdings Limited, a holding company ultimately belonging to CITIC Group, a company listed on the Hong Kong Stock Exchange.

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 the Company is contractually obliged to transfer any dividends received from CCEL, in excess of a Guaranteed Amount, to CITIC, up to the Total Maximum Amount, which amounted to 790.5 million US dollars (117,288,512 thousand Tenge) as at December 31, 2009 (2008: 778.8 million US dollars or 94,056,389 thousand Tenge). The Total Maximum Amount represents the balance of the company's share of the original purchase price funded by CITIC plus accrued interest. The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Company recognizes in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total maximum Guaranteed Amount. The carrying amount of this receivable at December 31, 2009, amounted to 141.7 million US dollars (21,022,017 thousand Tenge) (2008: 153.5 million US dollars equivalent to 18,533,003 thousand Tenge).

Additionally, the Company has the right, subject to certain conditions precedent, to exercise a put option and return the investment to CITIC in exchange for 150 million US dollars plus annual interest of 8% less the cumulative amount of the guaranteed payments received.

On November 17, 2008, the annual Guaranteed Amount has been increased from 26.2 million US dollars to 26.9 million US dollars, payable in two equal installments not later than June 12 and December 12. After the above amendment the effective interest rate on the receivable from CCEL is 15% per annum.

The Company's share of the jointly controlled entity's assets and liabilities is as follows:

	2009	2008
Current assets	**27,436,006**	35,420,789
Non-current assets	**112,162,558**	121,482,925
	139,598,564	156,903,714
Current liabilities	**11,680,985**	39,822,436
Non-current liabilities	**127,917,579**	117,081,278
	139,598,564	156,903,714
Net assets	**–**	–

Net assets are nil as CCEL is contractually obliged to distribute all income to its participants, therefore, classifying all distributable income as a liability.

8. Inventories

	2009	2008
Materials, at cost	**7,165,606**	5,832,084
Crude oil, at cost	**8,360,098**	8,573,779
	15,525,704	14,405,863

As at December 31, 2009 the Company had 380,703 tons (2008: 498,293 tons) of crude oil in storage and transit.

9. Share capital

	Shares outstanding (number of shares)				
	Common shares	Preferred shares	Common shares	Preferred shares	Total share capital
As at January 1, 2008	**69,887,836**	**4,136,107**	**258,331,887**	**1,034,027**	**259,365,914**
Reduction of treasury stock due to exercise of share options	78,308	–	880,251	–	880,251
Increase of treasury stock due to share repurchases	(55,748)	–	(521,318)	–	(521,318)
As at December 31, 2008	**69,910,396**	**4,136,107**	**258,690,820**	**1,034,027**	**259,724,847**
Reduction of treasury stock due to exercise of share options	12,258	–	203,266	–	203,266
Increase of treasury stock due to share repurchases	(1,499,180)	–	(21,381,199)	–	(21,381,199)
As at December 31, 2009	**68,423,744**	**4,136,107**	**237,512,887**	**1,034,027**	**238,546,914**

9.1 Share capital

Authorized shares

The total number of authorized ordinary and preferred shares is 70,220,935 (2008: 70,220,935) and 4,136,107 (2008: 4,136,107), respectively. 43,087,006 of the outstanding common shares are owned by the Parent as at December 31, 2009 (2008: 43,087,006). Ordinary and preferred shares of the Company have no par value.

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognized as distributions to equity holders during the period amounted to 656 Tenge per share (2008: 563 Tenge per share) for both of the outstanding ordinary and preferred shares as at June 8, 2009, the date of record.

9.2 Employee share option plans

The expense recognized for share option plans related to employee services received during the year is 248,106 thousand Tenge (2008: 354,612 thousand Tenge).

Employee option plans

Under the employee option plan 1 (“EOP 1”), an award of global depositary receipt (“GDR”) options with an exercise price equal to the market value of GDRs at the time of award was made to executives. The exercise of options is not subject to performance conditions and vests 1/3 each year over 3 years and is exercisable till the fifth anniversary from the vesting date.

Under the employee option plan 2 (“EOP 2”), share options are granted to incentivise and reward key employees, senior executives and members of the Board of Directors of the Company, except for independent directors. The exercise price of the options is equal to the market price of GDRs on the date of grant. The exercise of these options is not subject to the attainment of performance conditions. Options granted on or after July 1, 2007 vest on the third anniversary of the date of the grant and are exercisable till the fifth anniversary from the vesting date.

Initial public offering (“IPO”) plan

Following the Company’s 2006 IPO a one off award of zero exercise price GDRs was made to key employees, senior executives and directors to reward them for contributions towards a successful IPO. The grant date for the IPO award was December 29, 2006. The options vested on December 29, 2006 and the entire allotment was exercised within one month of their vesting.

Movement in the year

The following table illustrates the number of GDR’s (No.) and weighted average exercise prices in US dollars per GDR (WAEP) of, and movements in, share options during the year:

	2009		2008	
	No.	**WAEP**	No.	WAEP
Outstanding at January 1	**808,701**	**14.82**	1,340,786	14.88
Granted during the year	**746,805**	**13.42**	–	–
Exercised during the year	**(109,093)**	**14.99**	(469,847)	3.91
Forfeited during the year	**(61,871)**	**21.18**	(62,238)	17.04
Outstanding at December 31	**1,384,542**	**17.41**	808,701	14.82
Exercisable at December 31	**257,823**	**15.25**	196,287	15.12

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The weighted average remaining contractual life for share options outstanding as at December 31, 2009 is 3.76 years (2008: 4.36 years). The range of exercise price for options outstanding at December 31, 2009 was $13.00 -$26.47 US dollars per GDR (2008: $14.64 -$26.47).

The EOP 1, EOP 2 and IPO plan are equity settled plans and the fair value is measured at the grant date.

10. Earnings per share

	2009	2008
Weighted average number of all shares outstanding	**73,057,697**	74,092,287
Profit for the year	**209,726,900**	241,282,369
Basic earnings per share	**2.87**	3.26
Diluted earnings per share	**2.78**	3.26

The above presentation includes both ordinary and preferred shares as preferred shareholders share equally in distributable profits which result in identical earnings per share for both classes of shares.

Weighted average number of all shares for basic earnings per share*	**73,057,697**	74,092,287
Effect of dilution:		
Share options	**(158,495)**	(152,141)
Treasury shares	**2,424,086**	348,551
Weighted average number of all shares adjusted for the effect of dilution	**75,323,288**	74,288,697

* The weighted average number of all shares takes into account the weighted average effect of changes in treasury shares transactions during the year.

11. Borrowings

	2009	2008
Fixed interest rate borrowings	**8,690,190**	20,438,076
Weighted average effective interest rate	**7.45%**	5.23%
Floating interest rate borrowings	**128,982,970**	–
Weighted average effective interest rates	**5.41%**	–
Total borrowings	**137,673,160**	20,438,076
Non-current	**92,023,143**	5,532,332
Current	**45,650,017**	14,905,744

The Company's borrowings are denominated in US dollars. The fixed rate borrowings (2009: 7,330,565 thousand Tenge, 2008: 6,089,431 thousand Tenge), primarily relate to an obligation to reimburse historical costs incurred by the Government prior to the acquisition of licenses by the Company, which will expire on December 31, 2025. The Company has discounted this obligation at an interest rate of 7.93% and accounts for these borrowings at amortized cost.

The Company's floating interest rate borrowings relate to KMG PKI Finance notes, which were issued in 2006 relating to the acquisition of 33% equity interest in PKI (Note 7). On July 5, 2006 KMG PKI Finance issued floating rate notes in the amount of 1,374,500 thousand US dollars. As at December 31, 2009 the outstanding amounts of the notes and related accrued interest are 850,010 thousand US dollars and 19,382 thousand US dollars, respectively (126,107,460 thousand Tenge and 2,875,510 thousand Tenge, respectively). There is no recourse to the Company or its assets, except for:

i) a share pledge over all KMG PKI Finance rights, benefits and title in the 33% of the equity interest in PKI;
ii) 80% of any dividend or distribution respectively made from PKI is restricted for further redemption of principal and accrued interest on notes.

The notes bear interest at twelve months LIBOR plus a margin of 2.9073%. The rate is determined annually in July. For the year ended December 31, 2009 the interest rate was 4.5323%. The notes are redeemed at one seventh of the principal and accrued interest on the first Monday of July every year to the extent of the restricted cash balance. As this loan is non-recourse, any outstanding annual principal and interest of the notes will be deferred to be due and payable on the next payment date and bear interest at the rate applicable for the interest period concerned. If KMG PKI Finance fails to repay the aggregate of any deferred principal and interest outstanding at the expiry of the initial period in July 2013, KMG PKI Finance may seek to redeem the outstanding amount on each of the eighth, ninth and tenth years after the issuance date. Whether KMG PKI Finance will be permitted to redeem the outstanding amount in eighth, ninth and tenth years after the issuance date will be at the discretion of the trustee. As at December 31, 2009 the deferred principal comprises 79,463 thousand US dollars (11,789,187 thousand Tenge).

12. Provisions

	Environmental remediation	Taxes	Asset retirement obligation	Other	Total
At January 1, 2008	**28,242,849**	**17,637,623**	**20,778,251**	**3,576,278**	**70,235,001**
Additional provisions	–	3,323,015	130,682	945,415	4,399,112
Unused amounts reversed	–	(2,120,138)	–	–	(2,120,138)
Unwinding of discount	–	–	1,647,715	–	1,647,715
Changes in estimate	–	–	(6,769,655)	–	(6,769,655)
Used during the year	(2,737,510)	–	(603,290)	(237,330)	(3,578,130)
Current portion	4,882,783	18,840,500	1,120,014	253,942	25,097,239
Non-current portion	20,622,556	–	14,063,689	4,030,421	38,716,666
At December 31, 2008	**25,505,339**	**18,840,500**	**15,183,703**	**4,284,363**	**63,813,905**
Additional provisions	–	12,714,474	50,660	629,190	13,394,324
Unused amounts reversed	–	(10,544,242)	–	–	(10,544,242)
Unwinding of discount	–	–	1,204,068	–	1,204,068
Changes in estimate	(93,363)	–	(794,517)	–	(887,880)
Used during the year	(3,403,119)	–	(914,886)	(245,648)	(4,563,653)
Current portion	4,823,769	21,010,732	999,735	262,843	27,097,079
Non-current portion	17,185,088	–	13,729,293	4,405,062	35,319,443
At December 31, 2009	**22,008,857**	**21,010,732**	**14,729,028**	**4,667,905**	**62,416,522**

13. Revenue

	2009	2008
Export:		
Crude oil	**435,815,380**	552,120,489
Domestic (Note 20):		
Crude oil	**31,964,447**	36,933,575
Refined products	**4,897,497**	–
Gas products	**4,826,049**	5,288,097
Other sales and services	**7,990,106**	10,651,261
	485,493,479	604,993,422

14. Operating expenses

	2009	2008
Rent tax	**58,673,500**	–
Mineral extraction tax	**55,087,266**	–
Transportation	**53,793,843**	53,135,541
Employee benefits	**50,876,767**	43,117,573
Depreciation, depletion and amortization	**31,155,360**	34,368,825
Repairs and maintenance	**21,568,989**	24,653,917
Energy	**10,429,959**	9,291,579
Materials and supplies	**10,135,010**	12,717,118
Management fees and commissions (Note 17)	**7,648,453**	8,439,633
Fines and penalties	**8,132,702**	1,808,845
Other taxes	**5,031,000**	5,690,873
Impairment of investment in joint venture	**3,043,907**	2,396,198
Loss on disposal of fixed assets	**2,547,437**	852,909
Social projects	**2,239,845**	1,649,078
Export customs duty	**–**	68,796,006
Royalties	**–**	25,312,574
Change in crude oil balance	**213,835**	(4,656,735)
Other	**10,027,756**	9,593,539
	330,605,629	297,167,473

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15. Finance income/costs

15.1 Finance income

	2009	2008
Interest income on term deposits with banks	**42,880,748**	39,451,659
Interest income on receivable from jointly controlled entity	**3,216,660**	2,851,148
Interest income on held-to-maturity financial assets	**404,288**	508,358
Gain from restructuring of borrowings	**–**	2,467,162
Other	**257,209**	96,251
	46,758,905	45,374,578

15.2 Finance costs

	2009	2008
Unwinding of discount on asset retirement obligation	**1,204,068**	1,647,715
Interest expense	**958,917**	1,152,326
Impairment of held-to maturity financial assets	**570,928**	–
Realised loss on crude oil derivative instruments	**246,132**	–
Other	**261,244**	346,590
	3,241,289	3,146,631

16. Income taxes

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

	2009	2008
Corporate income tax	**63,934,177**	116,119,081
Excess profit tax	**20,648,241**	60,186,172
Current income tax	**84,582,418**	176,305,253
Corporate income tax	**(7,015,624)**	(5,997,466)
Excess profit tax	**(1,820,965)**	(3,215,921)
Deferred income tax	**(8,836,589)**	(9,213,387)
Income tax expense	**75,745,829**	167,091,866

The following table provides a reconciliation of the Kazakhstan income tax rate (20% in 2009 and 30% in 2008) to the effective tax rate of the Company on profit before tax. The amendments of the tax rates and of the mechanism for calculating EPT are described in Note 3.

	2009	2008
Profit before tax	**285,472,729**	408,374,235
Income tax	**75,745,829**	167,091,866
Effective tax rate	**27%**	41%

	% of profit before tax	
Statutory income tax	**20**	30
Increase (decrease) resulting from		
Excess profit tax	**8**	14
Corporate income tax of prior years	**(1)**	–
Non-taxable income	**–**	(4)
Movement of provisions	**(1)**	–
Non-deductible expenses	**1**	1
Effective tax rate	**27**	41

The movements in the deferred tax liability / (asset) relating to CIT and EPT were as follows:

	Fixed assets	Provisions	Taxes	Other	Total
At January 1, 2008	**16,283,743**	**(2,363,927)**	**(923,101)**	**(5,212,276)**	**7,784,439**
Recognized in profit and loss	(13,428,407)	1,079,503	643,336	2,492,181	(9,213,387)
At December 31, 2008	**2,855,336**	**(1,284,424)**	**(279,765)**	**(2,720,095)**	**(1,428,948)**
Recognized in profit and loss	1,273,534	162,153	(8,551,971)	(1,720,305)	(8,836,589)
At December 31, 2009	**4,128,870**	**(1,122,271)**	**(8,831,736)**	**(4,440,400)**	**(10,265,537)**

17. Related party transactions

The category 'entities under common control' comprises entities controlled by the Parent Company. The category 'other state controlled entities' comprises entities controlled by Samruk-Kazyna NWF, except for banks, controlled by Samruk-Kazyna NWF. Halyk Bank of Kazakhstan is a related party due to the bank being controlled by a member of the management board of Samruk-Kazyna NWF, who was appointed on November 3, 2008. BTA Bank is a related party since it is controlled by Samruk-Kazyna NWF, which acquired 75% of issued shares on February 2, 2009. Kazkommertsbank became a related party on May 15, 2009 after the purchase of 21.2% of the bank's ordinary shares by Samruk-Kazyna NWF was completed.

Sales and purchases with related parties during the years ended December 31, 2009 and 2008 and the balances with related parties at December 31, 2009 and 2008 are as follows:

	2009	2008
Sales of goods and services (Note 13)		
Entities under common control	**398,493,065**	467,588,108
Other state-controlled entities	**1,106,860**	827,958
Joint ventures	**398,864**	257,207
Associates	**9,416**	13,131
Halyk Bank of Kazakhstan	**778**	–
Purchases of goods and services (Note 14)		
Entities under common control	**25,084,989**	26,067,031
Parent Company	**7,212,870**	8,014,300
Other state-controlled entities	**12,651,588**	9,289,979
Associates	**267,312**	272,630
Halyk Bank of Kazakhstan	**1,278,380**	148,427
Interest earned on financial assets		
Halyk Bank of Kazakhstan	**17,857,881**	2,203,602
Average interest rate on deposits	**8.30%**	8.88%
Kazkommertsbank	**10,621,306**	n/a
Average interest rate on deposits	**8.34%**	n/a
BTA Bank	**2,347,620**	n/a
Average interest rate on deposits	**11.48%**	n/a
Impairment loss on held-to-maturity financial assets		
BTA Bank	**570,928**	n/a
Salaries and other short-term benefits		
Members of the Board of Directors	**109,729**	83,686
Members of the Management Board	**196,930**	143,631
Share-based payments		
Members of the Board of Directors	**5,698**	–
Members of the Management Board	**37,687**	61,850

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	December 31, 2009	December 31, 2008
Cash and cash equivalents (Note 6)		
Halyk Bank of Kazakhstan	**51,232,052**	91,888,302
Kazkommertsbank	**14,572,711**	n/a
BTA Bank	**19,085,560**	n/a
Financial assets (Note 6)		
Halyk Bank of Kazakhstan	**232,974,000**	93,843,547
Kazkommertsbank	**182,825,420**	n/a
BTA Bank (net of impairment)	**5,222,040**	n/a
Trade and other receivables (Note 6)		
Entities under common control	**51,319,746**	36,569,465
Other state-controlled entities	**785,946**	798,591
Joint ventures	**21,399,372**	19,214,446
Associates	**–**	4,567
Halyk Bank of Kazakhstan	**–**	189,910
Trade payables		
Entities under common control	**523,423**	444,739
Parent Company	**1,009,802**	1,132,020
Other state-controlled entities	**389,600**	251,657
Joint ventures	**–**	48,600
Associates	**180,151**	120,785
Halyk Bank of Kazakhstan	**82,162**	–

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. Export sales to related parties represented 5,320,931 tons of crude oil in 2009 (2008: 5,212,638 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 66,462 Tenge in 2009 (2008: 83,797 Tenge). In addition, the Company supplies oil and oil products to the local market at the directive of the Kazakhstan government, the ultimate controlling shareholder of the Parent Company. Those supplies to the domestic market represented 2,017,488 tons of crude oil production in 2009 (2008: 2,071,729 tons). Prices for the local market sales are determined by agreement with NC KMG. For deliveries to the local market in 2009 the Company received an average price per produced crude oil ton of around 18,579 Tenge (2008: 17,812 Tenge). Trade and other receivables from related parties principally comprise amounts related to export sales transactions.

At December 31, 2009 the Company had commitments under a government directive to deliver 2.2 million tons of crude oil to local markets in 2009 (2.2 million tons in 2008).

Purchases and payables

Management fees to the Parent Company amounted to 7,212,870 thousand Tenge in 2009 (2008: 8,014,300 thousand Tenge). Agency commissions for crude oil sales amounted to 435,583 thousand Tenge in 2009 (2008: 425,333 thousand Tenge). Transportation services related to the shipment of 6,967,200 tons of crude oil in 2009 (2008: 6,972,820 tons) were purchased from a subsidiary of NC KMG for 21,064,331 thousand Tenge in 2009 (2008: 20,845,471 thousand Tenge). The remaining services purchased from subsidiaries of NC KMG include primarily payments for demurrage, sales commissions and electricity.

Share based payments to members of the Management Board

Share based payments to members of the Management Board represents the amortization of share based payments over the vesting period.

18. Financial risk management objectives and policies

The Company's principal financial liabilities comprise loans, payables to Government for geological information, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Company's operations and to support the Company's mergers and acquisition activities. The Company has various financial assets such as trade receivables, short and long-term deposits and cash and cash equivalents.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's management reviews and agrees policies for managing each of these risks which are summarized below.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term borrowings with floating interest rates.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this, the Company has previously entered into fixed interest rate swaps on a portion of its debt, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount.

At December 31, 2009 the Company has floating rate debt of 128,982,970 thousand Tenge (2008: nil). Management is currently considering fixing the rate on this floating rate debt through an interest rate swap.

Foreign currency risk
As a result of investments and borrowings denominated in US dollars the Company's consolidated statement of financial position can be affected by movements in the US exchange rates. The Company seeks to mitigate the effect of its currency exposure by reducing or increasing exposure to the US dollar in its investment portfolio based on the management expectations on movements in the short and medium term US dollar to Tenge exchange rates.

The Company also has transactional currency exposures. Such exposure arises from sales of crude oil in currencies other than the Company's functional currency. Approximately 90% of the Company's sales are denominated in US dollars, whilst almost all of costs are denominated in Tenge. The majority of the sales receipts are received within thirty days of sale. Therefore, exposure to movement in the exchange rate on these amounts is limited at any one time to one month of sales. Management monitors but historically has not mitigated this exposure.

When determining the composition of the investment portfolio, with respect to settlement currency, management takes into consideration the next three to six months of budgeted Tenge cash outflows and ensures that minimum Tenge assets are held to settle these amounts as they materialize or come due.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2009		
US dollar	**+ 10%**	**49,142,464**
US dollar	**- 15%**	**(73,713,695)**
2008		
US dollar	+ 25%	101,465,921
US dollar	+ 40%	162,345,473

Credit risk
The Company endeavors to trade only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. However, the Company's credit concentration risk is significant as the vast majority of the receivables are from an affiliate of the Parent (Note 6).

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and held-to-maturity financial investments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company is exposed to credit risk from its operating activities and certain investing activities. With regard to investing activities, the Company mostly places deposits with Kazakhstan banks.

The Company's treasury policy limits the amount of financial assets held at any one bank to the lower of a stipulated maximum threshold or a percentage of the bank's Tier I capital, which is linked to the banks long term counterparty credit rating, as measured by Standard and Poor's rating agency, (e.g. not greater than 40% for a BB rated bank at December 31, 2009). This policy also stipulates that banks with credit ratings less than two levels below that of the Kazakhstan government's sovereign credit rating, cannot be used to deposit financial assets. However as a result of delays in the Company's acquisition program, the Government's requirement to hold the majority of the Company's financial assets in Kazakhstan banks (Note 20) and a lack of banks within the requisite credit rating, the Company, as at December 31, 2009, is in violation of its treasury policy. The financial assets held at Kazkommertsbank and Halyk Bank both exceed the maximum threshold and maximum percentage of Tier I capital as at September 30, 2009, their latest published accounts.

As a result of the current lack of liquidity caused by the ongoing global financial crisis the Company may not be able to withdraw significant sums of cash without causing severe disruption in the banks.

Notes to the Consolidated Financial Statements continued

Tenge thousands unless otherwise stated

The table below shows the balances of investments and cash held in banks at the reporting date using the Standard and Poor's credit ratings.

Banks	Location	Rating[1] 2009	Rating[1] 2008	2009	2008
Halyk Bank	Kazakhstan	**B+ (negative)**	BB+ (negative)	**284,204,891**	184,726,459
Kazkommertsbank	Kazakhstan	**B (negative)**	BB (negative)	**197,375,592**	242,112,054
ATF Bank[2]	Kazakhstan	**Rating recalled**	Rating recalled	**43,506,484**	42,667,028
RBS Kazakhstan	Kazakhstan	**A**	A+	**38,916,400**	8,702,495
HSBC	Kazakhstan	**AA (negative)**	AA-	**25,679,952**	21,617,317
BTA Bank	Kazakhstan	**D**	BB (negative)	**24,307,599**	39,155,075
Citibank Kazakhstan	Kazakhstan	**A (stable)**	–	**17,254,342**	–
Deutche Bank	Germany	**A+ (stable)**	–	**4,626,872**	–
Credit Suisse	British Virgin Islands	**A+**	A+	**4,573,579**	3,439,832
ING Bank	The Netherlands	**A+**	AA	**1,997,796**	341,780
Other	Kazakhstan			**107,189**	765,142
				642,550,696	543,527,182

[1] Source: Interfax – Kazakhstan, Factivia, official sites of the banks as at December 31 of the respective year
[2] ATF Bank is a member of UniCredit Group

Liquidity risk

The Company monitors its liquidity risk using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables and other financial assets) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term deposits in local banks.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2009 based on contractual undiscounted payments:

Year ended December 31, 2009	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	254,991	45,920,835	92,751,802	4,454,030	143,381,658
Trade and other payables	34,402,259	–	–	–	–	34,402,259
	34,402,259	**254,991**	**45,920,835**	**92,751,802**	**4,454,030**	**177,783,917**

Year ended December 31, 2008	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	4,680,905	10,840,351	4,361,042	4,508,649	24,390,947
Trade and other payables	32,380,235	–	–	–	–	32,380,235
	32,380,235	4,680,905	10,840,351	4,361,042	4,508,649	56,771,182

Commodity price risk

The Company is exposed to the effect of fluctuations in the price of crude oil, which is quoted in US dollars on international markets. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

From May 1, 2009 the Company entered into oil price derivative transactions. The objective of the derivatives was to protect the Company's revenue and allow maintenance capital expenditure to continue at its core production areas should the oil price drop below a set price level. To achieve this a zero cost 'collar' was chosen as the appropriate instrument. For the year ended December 31, 2009 the Company recognized a realized loss on crude oil derivative instrument in the amount of 246,132 thousand Tenge. As at December 31, 2009 the Company has no crude oil derivative instruments.

The Company is not planning to hedge its exposure to the risk of fluctuations in the price of crude oil in the nearest future.

Capital management

Capital includes total equity. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

As at December 31, 2009 the Company had a strong financial position and a conservative capital structure. Going forward, the Company intends to maintain a capital structure in line with industry's norms and practices which will be achieved over a period of time, taking into account investment opportunities and availability of debt finance.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy or processes during the years ended December 31, 2009 and 2008.

19. Financial instruments

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

	Carrying amount		Fair value	
	2009	2008	**2009**	2008
Current financial assets				
Cash and cash equivalents	**107,626,368**	285,131,743	**107,626,368**	285,131,743
Held-to-maturity financial assets	**–**	10,758,938	**–**	10,710,003
US dollar-denominated term deposits	**447,254,500**	124,625,296	**447,254,500**	124,625,296
Tenge-denominated term deposits	**87,033,308**	129,292,592	**87,033,308**	129,292,592
Receivable from jointly controlled entity	**1,082,100**	–	**1,082,100**	–
Other financial assets	**270**	270	**270**	270
Non-current financial assets				
Receivable from jointly controlled entity	**20,268,928**	18,862,017	**20,268,928**	18,862,017
US dollar-denominated term deposits	**–**	3,863,736	**–**	3,863,736
Tenge-denominated term deposits	**636,520**	613,815	**636,520**	613,815
Other financial assets	**161,411**	630,470	**161,411**	630,470
Financial liabilities				
Borrowings floating rate interest	**128,982,970**	–	**128,982,970**	–
Borrowings fixed rate interest	**8,690,190**	20,438,076	**8,690,190**	20,438,076

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The Company's borrowings are at market rates of interest specific to those instruments and as such are stated at fair value. The fair value of other financial assets has been calculated using market interest rates.

20. Commitments and contingencies

Operating environment

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

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets and commodity price instability, significant deterioration of liquidity in the banking sector and tighter credit conditions within Kazakhstan. Consequently, the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting finance for Kazakhstan banks and companies. As part of these measures the Government of Kazakhstan, which is the ultimate controlling shareholder of the Company, has directed the Company to continue to deposit its cash and short-term investments with Kazakhstan banks (Note 18). This limits the Company's ability to diversify the majority of its credit risk beyond Kazakhstan.

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

Local market obligation

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 supplies of crude oil is agreed with the Company's Parent, 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 Company, 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 Company's business, prospects, financial condition and results of operations.

During the current year, in accordance with their obligations, the Company delivered 2,017,488 tons of oil (2008: 2,071,729 tons) and joint venture Kazgermunai have delivered 615,000 tons of oil (2008: 380,000 tons) on the domestic market.

Notes to the Consolidated Financial Statements continued

Tenge thousands unless otherwise stated

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances tax reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2009.

The Company underwent a comprehensive tax audit by the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan for the 2004 and 2005 years. As a result of the tax audit, which was commenced in 2007 and completed in August of 2009, the tax authorities have provided a tax assessment to the Company of 32,005,320 thousand Tenge, representing 16,170,934 thousand Tenge of the amount was for underpaid taxes, 8,034,790 thousand Tenge represented administration penalties and a further 7,799,596 thousand Tenge was for late payment interest, related, primarily, to the following matters:

i. Expensing rather than capitalizing of hydro fracturing, other workover, transportation, geological and geophysical expenses;
ii. Exclusion of the 1997 fixed asset valuation in the cost base of the EPT computation;
iii. Non-recognition of revenue for CIT purposes in respect of fixed asset revaluation based on the applicable tax legislation.

The Company's management believes its interpretations of the tax legislation were appropriate and that the Company has justifiable arguments for its tax positions and will dispute the tax assessment to the fullest extent possible under the law of the Republic of Kazakhstan. On September 15, 2009 the Company filed an appeal against the results of the above comprehensive tax audit with the Ministry of Finance. As a result, on February 9, 2010 the Ministry of Finance issued a new ruling whereby the principal tax assessment was reduced to 3,846,878 thousand Tenge and the corresponding late payment interest was reduced to 3,936,615 thousand Tenge (administration fines will likely follow). In light of this positive recent development, management is currently evaluating their options with respect to further appeals.

However, management believes the further outcome of the dispute is uncertain and further believes that the Company may not be entirely successful in their appeals due to the ambiguity contained in the tax legislation and a history of varying interpretations and inconsistent opinions of the authorities. Management has therefore accrued for certain matters that arose in the assessment. As at December 31, 2009 7,285,707 thousand Tenge relating to the assessment has been accrued for the 2004 and 2005 years and a further 4,135,935 thousand Tenge for these matters in the periods of 2006 through 2009, including late payment interest has also been accrued (Note 12).

Customs claim

On August 18, 2009 the customs committee of the Republic of Kazakhstan presented a claim to the Company of 17,574,728 thousand Tenge for underpaid export customs duty (including the principal of 15,260,014 thousand Tenge and the late payment interest of 2,314,714 thousand Tenge). This claim relates to January 2009 export shipments of crude oil, on which rent tax was fully paid per the regulations of the Republic of Kazakhstan, declared for customs clearance in December 2008.

On September 23, 2009 the Company filed the appeal with the court of first instance. On December 1, 2009 the court of first instance ruled in favor of the Company. However, on January 20, 2010 the appeal filed by the customs committee was satisfied by the court of second instance. On February 8, 2010 the Company filed the further appeal with the third instance court.

Management of the Company believes that the laws and regulations of the Republic of Kazakhstan do not allow for double taxation and therefore export customs duty can ultimately not be accrued on volumes of crude for export from January 1, 2009 (date of enactment of new tax code) on which rent tax has been accrued and paid. Management further 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, 2009.

Environment

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 civil litigation or changes in legislation cannot be reasonably estimated. Other than those amounts provided for in provisions (Note 12) management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Company's financial position, statement of income or cash flows.

Oilfield licenses

The Company 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 Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, statement of income or cash flows.

The Company's oil and gas fields are located on land belonging to the Mangistau and Atyrau regional administrations. Licenses are issued by the Ministry of Energy and Mineral Resources of Kazakhstan and the Company pays royalties and excess profits tax to explore and produce oil and gas from these fields.

The principle licenses of the Company and their expiry dates are:

Field	Contract	Expiry date
Uzen (8 fields)	No. 40	2021
Emba (1 field)	No. 37	2021
Emba (1 field)	No. 61	2016
Emba (23 fields)	No. 211	2018
Emba (15 fields)	No. 413	2020

Commitments arising from oilfield licenses and contracts

Year	Capital expenditures	Operational expenditures
2010	75,723,502	4,013,192
2011	841,000	4,013,192
2012	–	4,013,192
2013	–	4,013,192
2013-2021	–	22,840,168
Total	76,564,502	38,892,936

Crude oil supply commitments
The Company has obligations to supply oil and oil products to the local market under government directives (Note 17).

Commitments of Kazgermunai
The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2009:

Year	Capital expenditures	Operational expenditures
2010	3,436,917	1,720,192

Contingencies of Kazgermunai
In 2008 the tax authorities of the Kyzylorda region commenced legal actions against Kazgermunai in respect of obligations related to rates applied on the computation of penalties for gas flaring above regulated norms. The tax authorities are claiming that Kazgermunai understated its obligations related to excessive gas flaring for the period from January 1, 2007 through June 30, 2008. Kazgermunai is in the process of appealing the series of cases to the Supreme Court of the Republic of Kazakhstan. As at December 31, 2009 Kazgermunai accrued fines and penalties related to abovementioned in the amount of 111.9 million US Dollars or 17,089,219 thousand Tenge.

Although, the trial dates have been set for February 18, 2010, during 2009 Kazgermunai paid 94 million US Dollars or 13,601,860 thousand Tenge of the claims, in order to avoid enforced collection. The management of Kazgermunai assesses the ultimate outcome of the cases continually and determined that it has become probable that the action by the authorities will succeed and have therefore recognized the entire amount in the year ended December 31, 2009 as previously no amounts were accrued for this contingency.

These consolidated financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on February 17, 2010:

Ibrashev K. N.
Chief Executive Officer

Drader Sh., CA
Acting Chief Financial Officer

Ownership Structure

Republic of Kazakhstan

↓ 100%

Holding Samruk-Kazyna

→

Mining
- Kazakhmys (14.99%)
- ENRC (11.65%)

Finance sector
- BTA (75.1%)
- Halyk Bank (26.2%)
- Kazkommertsbank (21.2%)
- Alliance Bank (100%)

Other National Companies

↓ 100%

National Company KazMunayGas

←

Upstream
- TengizChevroil 20%
- Kashagan 16.81%
- KazMunaiTeniz 100%
- Kazakhoil-Aktobe 50%
- Kazakhturkmunai 51%
- Mangistaumunaigas (MMG) 50%

Transportation
- KazTransOil 100%
- KazTransGas 100%
- CPC 19%
- KCP 50%

Refining, marketing, services
- Trade House KMG 100%
- Atyrau refinery 99.5%
- Shymkent refinery 50%
- Pavlodar petrochemical plant 58%
- KazRosGas 50%
- TenizService 49%
- KING (research institute) 90%
- Rompetrol 100%

→ 63% [1]

KazMunaiGas Exploration Production

Core Assets
- Uzenmunaigas 100%
- Embamunaigas 100%

Acquisitions since IPO (in 2006)
- Kazgermunai 50% (Apr 2007)
- Karazhanbasmunai 50% (Dec 2007)
- PKI 33% (Dec 2009)

↑ 37% [1]

Free float
- London (LSE)
- Almaty (KASE)

[1] Ordinary shares, excluding treasury shares.

Shareholder Information

Annual General Shareholders' Meeting

The AGM will be held at 10:00 am, on May 25, 2010, at
Duman Hotel, Kurgalzhinskoye Shosse 2A,
Astana, 010000, Republic of Kazakhstan

Website

A wide range of information on the Company is available at www.kmgep.kz including details of activities, press releases and annual and interim reports.

Shareholders' Enquries

For information about proxy voting, dividends and to report changes in personal details, shareholders should contact the Company's registrar/depositary:

- Holders of ordinary and preferred shares:
  JSC Fondovyi Tsentr, 79 "A", Zheltoksan Street, Almaty, Republic of Kazakhstan.
  Tel.: +7 727 250 89 61, 250 89 60, Fax: +7 727 250 16 96.
- Holders of GDRs:
  The Bank of New York Mellon, Shareholder Services, PO Box 358516, Pittsburgh PA 15252-8516, United States of America.
  Tel.: +1 888 269 23 77 (toll free within the USA), +1 201 680 68 25 (outside USA), E-mail: shrrelations@bnymellon.com

Number of Shares in Issue

	Common Shares	Preferred Shares	Total Share Capital[2]
Total number of shares issued[1]	70,220,935	4,136,107	74,357,042

1 Including GDRs purchased to implement the Company's Option Program and held in trust (as of December 31, 2009 – 1,419,656 GDRs), and the shares and GDRs purchased in accordance with own share buyback programme (as of December 31, 2009 – 8,699,697 GDRs and 110,632 shares).

2 The Company's shares are listed on Kazakhstan Stock Exchange and the GDRs are listed on the London Stock Exchange. Each GDR corresponds to one sixth of an ordinary share.

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Reference Information

Caspian Pipeline Consortium (CPC)
This pipeline connects Tengiz field in Kazakhstan with Novorossiysk, Russian port on the Black Sea. It is an important route of oil transportation from the Caspian shores to the international market.

CCEL
CCEL (CITIC Canada Energy Limited, 100% owner of CCPL, previously Nations Energy Company Ltd, develops Karazhanbas field).

Chinese Investment Corporation (CIC)
State investment fund of the People's Republic of China. The main mission of CIC is long-term investment in order to reduce financial risks for its shareholders.

Embamunaigas (EMG)
One of two production branches of KMG EP, operating in 39 main fields in Atyrau Region in Western Kazakhstan.

Gaffney, Cline & Associates
Independent international consulting company specialising in evaluating hydrocarbon reserves.

Karazhanbasmunai (KBM)
JSC Karazhanbasmunai owns 100% of the rights to develop the Karazhanbas oil and gas field in Western Kazakhstan till 2020. The proved and probable (2P) reserves of the KBM as at the end of 2009, according to preliminary data, were 73 million tonnes.

KASE
Kazakhstan Stock Exchange

Kazgermunai (KGM)
Kazakhstani oil company, sixth largest in terms of production volume. Proved and probable reserves (2P) of KGM as at the end of 2009, according to preliminary data, were about 30 million tonnes (232 million barrels), production in 2009 was about 3.2 million tonnes (68 kbopd). The second member of KGM is PKI (through PetroKazakhstan Kumkol Resources).

LSE
London Stock Exchange

Mangistaumunaigas (MMG)
One of the largest oil and gas production companies in Kazakhstan. The main areas of MMG operation: oil prospecting, development, production and processing.

National Company KazMunaiGas (NC KMG)
A state oil and gas company of the Republic of Kazakhstan, in the form of a joint-stock company with 100% of its shares held in Samruk-Kazyna National Prosperity Fund.

PetroKazakhstan Inc. (PKI)
The PetroKazakhstan Inc. group of companies is involved in hydrocarbon exploration and production as well as in sales of oil and petroleum products. PetroKazakhstan has a share in 16 fields, 11 of which are in various development stages.

Samruk-Kazyna Fund
National Prosperity Fund, managing state assets, shares of national companies and financial institutions for Kazakhstan development.

Uzen – Atyrau – Samara (UAS)
An oil pipeline, a 1,500lm-long link over the territory of Atyrau and Mangistau Regions to Russia.

Uzenmunaigas (UMG)
One of two production branches of KMG EP, operating in 2 main fields in Mangistau Region.

Notes

Country facts:

Population: 16.2 million
(as of 01.01.2010).

Area: 2.7 million square kilometers.

GDP (2009): 15,888 billion Tenge
(US$107.7bn, 147.5 KZT per US$1);

Real GDP growth: 1.2% in 2009,
7.8% average in 2002 – 2010.

National currency: Tenge (148.36 KZT per US$1 as at December 31, 2009, 147.5 average for 2009 full year).

Capital city: Astana
(moved from Almaty in 1997).

Sources: National Bank of Kazakhstan, MEMR, BP Statistical Review of World Energy June 2009.

Kazakhstan Oil & Gas Industry facts

• **Estimated proved oil reserves** – 40 bnbbl.

• **Oil equivalent production in 2009** was 76.5 mmtpa (1.5 mmbopd) and export of oil equivalent reached 72.6 mt.

• **Oil output is projected** to reach 100 mt (2 mmbopd) by 2015.

• **Refining in 2009** totalled 12.1 mmtpa.

• There are more than **200 oil and gas fields in Kazakhstan**. The largest fields are Kashagan, Tengiz, Karachaganak.

• **Uzen – Atyrau – Samara (UAS)** is one of the three main pipelines which provided transportation of 17.5 mt or 26% out of total exported crude oil from Kazakhstan in 2009.

• **The Caspian Pipeline Consortium's (CPC)** current capacity is approximately 30.5 mmtpa (610 kbopd) with the expansion plans targeting the capacity of 67 mmtpa (1.3 mmbopd) in 2014, of which 50 mmtpa (1.0 mmbopd) will be reserved for Kazakhstani oil. In 2009 28.1 mt of crude oil was transported through CPC, which is 40% out of total exported oil from Kazakhstan.

• **The Kazakhstan-China pipeline's (KCP)** current capacity is 10 mmtpa (200 kbopd) which can be doubled with the implementation of phase 2 of the project. In 2009 6.2 mt of crude oil was transported through the CPC, which is 9% out of total exported oil from Kazakhstan.

• **Sea port of Aktau** has 3 oil terminals and its total capacity is around 11 mmtpa. Terminals of Aktau port provided transportation of 11.1 mt or 16% of total exported crude oil from Kazakhstan.

• **Oil refining industry of Kazakhstan** consists of Atyrau and Shymkent oil refining plants and Pavlodar oil-chemical plant, which in 2009 refined 4 mt, 4 mt and 4.1 mt of crude oil respectively.

KMG EP oil assets

1. Uzenmunaigas
2. Embamunaigas
3. Kazgermunai
4. Karazhanbasmunai
5. PetroKazakhstan

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