KazMunaiGas Exploration Production Joint Stock Company

Consolidated Financial Statements
For the year ended December 31, 2009

Contents

Page

Independent Auditors' Report

Consolidated Financial Statements

Consolidated Statement of Financial Position ---------- 1
Consolidated Statement of Comprehensive Income ---------- 2
Consolidated Statement of Cash Flows ---------- 3
Consolidated Statement of Changes in Equity ---------- 4
Notes to the Consolidated Financial Statements ---------- 5-36

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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 at 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

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 5 to 36 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 5 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Tenge thousands

	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 5 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Tenge thousands

	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 5 to 36 are an integral part of these consolidated financial statements.

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)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Adopted accounting standards and interpretations (continued)

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.

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New accounting developments (continued)

- 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.

2. Summary of significant accounting policies (continued)

Investment in associates and interests in joint ventures (continued)

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).

2. Summary of significant accounting policies (continued)

2.4 Oil and natural gas exploration and development expenditure (continued)

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.

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. Summary of significant accounting policies (continued)

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.

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

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.

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.

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

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.

2. Summary of significant accounting policies (continued)

2.12 Share capital (continued)

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. Summary of significant accounting policies (continued)

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.

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:

3. Significant accounting estimates and judgments (continued)

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.

3. Significant accounting estimates and judgments (continued)

Asset retirement obligations (continued)

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.

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.

6. Financial assets (continued)

Trade and other receivables (continued)

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%).

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.

7. Investments in and receivables from associates and jointly controlled entities (continued)

Investments in associates and jointly controlled entities (continued)

Petrokazakhstan Inc. (continued)

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.

7. Investments in and receivables from associates and jointly controlled entities (continued)

Investments in associates and jointly controlled entities (continued)

Petrokazakhstan Inc. (continued)

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)**

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.

7. Investments in and receivables from associates and jointly controlled entities (continued)

Receivable from jointly controlled entity (continued)

CCEL investment (continued)

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.

9. Share capital (continued)

9.2 Employee share option plans (continued)

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

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**

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**

16. Income taxes (continued)

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

17. Related party transactions (continued)

	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

18. Financial risk management objectives and policies (continued)

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.

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	**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**

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.

[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

18. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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.

20. Commitments and contingencies (continued)

Local market obligation (continued)

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.

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.

20. Commitments and contingencies (continued)

Customs claim (continued)

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).

20. Commitments and contingencies (continued)

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:

Chief Executive Officer	Ibrashev K. N.
Acting Chief Financial Officer	Drader Sh., CA

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