IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the Base Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE ‘‘SECURITIES ACT’’), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE FOLLOWING BASE PROSPECTUS SUPPLEMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Base Prospectus or make an investment decision with respect to the securities, investors must be either (1) Qualified Institutional Buyers (‘‘QIBs’’) (within the meaning of Rule 144A under the Securities Act) or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the United States. The Base Prospectus is being sent at your request and by accepting the e-mail and accessing the Base Prospectus, you shall be deemed to have represented to us that (1) you are (or, if you are acting for the account of another person, such person is) either (a) a QIB or (b) not a U.S. person and that the electronic mail address that you gave us and to which the Base Prospectus has been delivered is (or, if you are acting for the account of another person, that such person is) not located in the United States and (2) that you consent (and, if you are acting for the account of another person, such person consents) to delivery of the Base Prospectus by electronic transmission.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of KazMunaiGaz Finance Sub B.V. in such jurisdiction.

This Supplement has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Dealers (as defined in the Base Prospectus) nor any person who controls them nor any director, officer, employee nor agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from any such Dealer.

КазМунайГаз
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

KazMunaiGaz Finance Sub B.V.

(Incorporated in the Netherlands with limited liability)

U.S.$7,500,000,000
Global Medium Term Note Programme

unconditionally and irrevocably guaranteed by

JSC National Company KazMunayGas

(A joint stock company organised in the Republic of Kazakhstan)

Under this U.S.$7,500,000,000 Global Medium Term Note Programme (the "**Programme**"), KazMunaiGaz Finance Sub B.V. (the "**Issuer**") may from time to time issue notes (the "**Notes**") unconditionally and irrevocably guaranteed (the "**Guarantee**") by JSC National Company KazMunayGas (individually, the "**Guarantor**") denominated in any currency agreed between the Issuer, the Guarantor and the relevant Dealer(s) (as defined below). The Notes will be constituted by and have the benefit of a trust deed dated 18 June 2008 as supplemented by a supplemental trust deed dated 8 July 2009 and a further supplemental trust deed dated 15 April 2010 (together, and as may be further supplemented, amended or restated from time to time, the "**Trust Deed**") between the Issuer, the Guarantor and Citigroup Trustee Company Limited (the "**Trustee**", which term shall include any successor trustee under the Trust Deed). Effective 15 April 2010, the Issuer and the Guarantor increased the size of the Programme from U.S.$5,000,000,000 to U.S.$7,500,000,000. The maximum aggregate nominal amount of Notes outstanding under the Programme will not exceed U.S.$7,500,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement referred to herein), subject to increase as described herein. Any Notes issued after the date hereof are issued subject to the provisions hereof.

This Base Prospectus supersedes the Base Prospectus dated 8 July 2009 relating to the Programme.

Application has been made (i) to the Financial Services Authority (in such capacity the "**UK Listing Authority**"), in its capacity as the competent authority under the Financial Services and Markets Act 2000, as amended (the "**FSMA**"), for Notes issued under the Programme during the period of twelve months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the "**Official List**") and (ii) to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Regulated Market**"). References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Notice of the aggregate nominal amount of, interest (if any) payable in respect of, the issue price of, and any other terms and conditions not contained herein which are applicable to, each Tranche (as defined below) of Notes will be set forth in a Final Terms which, with respect to Notes to be admitted to the Official List and to be admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and to the London Stock Exchange on or before the date of issue of the Notes of such tranche.

The Programme also permits Notes to be issued on an unlisted basis or to be listed on such other or further listing authorities, stock exchanges or quotation systems as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s).

Factors which may affect the ability of the Issuer and the Guarantor to fulfil their obligations under the Programme and factors which are material for the purposes of assessing the risks associated with the Notes issued under the Programme are set out under "Risk Factors" beginning on page 21.

Neither the Notes nor the Guarantee have been or will be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. Notes may be offered and sold (i) within the United States to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) that are also qualified purchasers ("**QPs**") as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended, (the "**Investment Company Act**") in reliance on the exemption from registration provided by Rule 144A (the "**Rule 144A Notes**") and (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S ("**Regulation S**") under the Securities Act (the "**Regulation S Notes**" and, together with the Rule 144A Notes, the "**Notes**"). Prospective purchasers are hereby notified that sellers of Notes may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The minimum denomination of any Notes issued under the Programme shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

Joint Arrangers

Citi | **Credit Suisse** | **The Royal Bank of Scotland**

Dealers

Citi | **Credit Suisse** | **HSBC** | **J.P. Morgan** | **The Royal Bank of Scotland**

The date of this Base Prospectus is 15 April 2010

This Base Prospectus should be read and construed together with any supplements hereto and, in relation to any Tranche of Notes, should be read and construed together with the relevant Final Terms. This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**").

Subject thereto and in compliance with all applicable legal, regulatory and/or central bank requirements, Notes will be issued in such denominations as may be specified in the relevant Final Terms.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "General Description of the Programme" and any additional Dealer or Dealers appointed under the Programme from time to time by the Issuer and the Guarantor (each, a "**Dealer**" and, together, the "**Dealers**"), which appointment may be for a specific issue of Notes or an ongoing basis. In the context of a discussion of an issue of a particular Tranche of Notes, reference in this Base Prospectus to "relevant Dealer" or "relevant Dealers" shall be to the Dealer or Dealers agreeing to subscribe for the particular Tranche of Notes.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or the Guarantor or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Trustee or any Dealer.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Guarantor, the Dealers or the Trustee that any recipient of this Base Prospectus, or any other information supplied relating to the Programme or any Notes, should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or the Guarantor or any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes in any jurisdiction where such offer or invitation is prohibited.

No representation or warranty is made or implied by the Dealers, the Trustee or any of their respective affiliates, and none of the Dealers, the Trustee nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Furthermore, none of the Issuer, the Guarantor, the Dealers or the Trustee makes any comment about the treatment for taxation purposes of payments or receipts in respect of any Notes received by any Noteholder. Each investor contemplating acquiring Notes under the Programme must seek such tax or other professional advice as it considers necessary for the purpose.

The distribution of this Base Prospectus, any supplement and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus, any supplement or any Final Terms comes are required by the Issuer, the Guarantor and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus, any supplement or any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*."

This Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Guarantor, the Dealers or the Trustee or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and the Guarantor.

This Base Prospectus has been prepared on the basis that, except to the extent sub paragraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by any Final Terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer, the Guarantor or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a base prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such base prospectus has subsequently been completed by Final Terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such Base Prospectus or Final Terms, as applicable. Except to the extent sub paragraph (ii) above may apply, neither the Issuer, the Guarantor nor any Dealer has authorised, or does authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Guarantor or any Dealer to publish or supplement a base prospectus for such offer.

NEITHER THE NOTES NOR THE GUARANTEE HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE GUARANTEE OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation or over allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ADDITIONAL INFORMATION

Neither the Issuer nor the Guarantor is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). For so long as neither the Issuer nor the Guarantor is a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3 2(b) thereunder, the Issuer and the Guarantor will, upon request, furnish to each holder of Notes that are "restricted securities" (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder upon request of such holder or prospective purchaser, in connection with a transfer or proposed transfer of any such Rule 144A Notes under the Securities Act, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. As long as the relevant Notes are represented by a Rule 144A Global Note, for the purposes of this paragraph the expression "holder" shall be deemed to include account holders in the clearing systems who have interests in the relevant Rule 144A Global Note.

U.S. INFORMATION

This Base Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs that are also QPs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Notes may be offered or sold within the United States only to QIBs that are also QPs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Notes is hereby notified that the offer and sale of any Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Rule 144A Global Note or any Notes issued in exchange or substitution therefor (together "**Legended Notes**") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale*" and "*Transfer Restrictions*."

PRESENTATION OF FINANCIAL, RESERVES AND CERTAIN OTHER INFORMATION

Financial Information

The independent auditors of the Company (as defined in "*Appendix I—Glossary of Frequently-Used Terms*"), Ernst & Young LLP, issued an audit opinion dated 25 March 2010, relating to the Company's consolidated financial statements as at and for the year ended 31 December 2009, which include comparative data as at and for the year ended 31 December 2008 (the "**2009 Financial Statements**"). Prior to 2009, the Company employed the proportionate consolidation method for its treatment of jointly-controlled entities. Starting with the year ended 31 December 2009, the Company changed its accounting policy from the proportionate consolidation method to the equity method in respect of its interests in jointly-controlled entities. In respect of jointly-controlled assets, the Company continues to recognise its share of jointly-controlled assets, classified in accordance with the nature of the assets, as well as the related share in liabilities and its proportional share of income and expenses as required by IAS 31.

As required by IFRS, the Company has restated the financial information as at and for the year ended 31 December 2008 included in the 2009 Financial Statements and elsewhere in this Base Prospectus using the equity method of accounting for jointly-controlled entities (rather than the proportionate consolidation method). Ernst & Young LLP's audit opinion in respect of the 2009 Financial Statements appears on page F-4 of this Base Prospectus. The financial information set forth herein relating to the Company, unless otherwise indicated, has been derived from the 2009 Financial Statements. Readers are advised that the financial information of the Company set forth herein should be read together with the 2009 Financial Statements and the notes thereto contained in this Base Prospectus beginning on page F-1.

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The 2009 Financial Statements contained elsewhere in this Base Prospectus are presented in Tenge. However, for convenience some financial

information in this Base Prospectus is presented in U.S. Dollars, which information is based on the Tenge amounts contained in the 2009 Financial Statements as translated at the exchange rates indicated. Such translation should not be construed as a representation that the Tenge amounts have been or could be converted into U.S. Dollars at these rates or any other rate.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates

Subsidiaries are entities over which the Company directly or indirectly has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50 per cent. of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company or one of its subsidiaries. Unless otherwise indicated, in this Base Prospectus, information presented for the Company's direct and indirect subsidiaries relating to production and reserves and other similar information reflect the subsidiaries' total interest therein, irrespective of the Company's percentage ownership thereof.

In September 2006, the Company sold 42.05 per cent. of the common shares of JSC KazMunaiGas Exploration Production ("**KMG EP**"), its principal onshore exploration and production company, and KMG EP listed (i) its common shares on the Kazakhstan Stock Exchange and (ii) global depositary receipts representing its common shares (the "**KMG EP GDRs**") on the London Stock Exchange. As at 31 December 2009, the Company owned 61.36 per cent. of the ordinary voting shares of KMG EP. The financial position and results of operations of KMG EP are consolidated with those of the Company in the 2009 Financial Statements, and such Financial Statements reflect the amounts attributable to the public minority interest. Unless otherwise indicated, in this Base Prospectus, data presented for KMG EP relating to production and reserves and other similar data reflect KMG EP's entire ownership interest.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures of the Company exist in two forms – jointly-controlled entities and jointly-controlled assets. A jointly-controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. Joint ventures in the form of jointly-controlled assets do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves; rather, each venturer has control over its share of future economic benefits through its share of the jointly-controlled asset.

Under IAS 31, which applies specifically to interests in joint ventures, jointly-controlled entity participants have traditionally been given a choice between two methods of accounting for their interests in their jointly-controlled entities in their consolidated financial statements: "proportionate consolidation" or "equity method" accounting. Through 31 December 2008, interests of the Company and its subsidiaries in jointly-controlled entities were accounted for using the proportionate consolidation method, which involves recognising a proportionate share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items in an entity's financial statements on a line-by-line basis. Starting with the year ended 31 December 2009, the interests of the Company and its subsidiaries in jointly-controlled entities are accounted for using the equity method of accounting. Under the equity method, the Company's consolidated statement of comprehensive income simply reflects the share of the Company and its subsidiaries' of the net profit or loss of the jointly-controlled entity as a single line item. While such revised treatment materially reduces the Company's revenue, gross profit and expense items attributable to its jointly-controlled entities, it does not materially affect the Company's net profit. It also materially reduces the Company's assets and liabilities, but does not materially affect the Company's net asset position. Because this change to the equity method of accounting for jointly-controlled entities also serves to reduce the Company's overall liabilities, including borrowings, as these appear in its consolidated financial statements, it is expected to provide more flexibility to the Company in terms of maintaining the financial ratios and other financial covenants under its various financing facilities.

Interests in jointly-controlled assets continue to be accounted for under the proportionate consolidation method as this is the only method allowed by IFRS for jointly-controlled assets. The Company's significant interest in jointly-controlled assets is represented by its interest in the North Caspian Project (Kashagan Field).

Associates are entities over which the Company directly or indirectly has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 per cent. of the voting rights. Investments in associates, as is the case with investments in jointly-controlled entities, are accounted for using the equity method of accounting. The Company's and its subsidiaries' interests in associates are limited to their share of the net profit or loss of such associates and are reflected as a single line item in the Company's consolidated statement of comprehensive income of the 2009 Financial Statements.

As required by IFRS, the Company has restated the financial information as at and for the year ended 31 December 2008 included in the 2009 Financial Statements and elsewhere in this Base Prospectus using the equity method of accounting for jointly-controlled entities (rather than the proportionate consolidation method).

Unless otherwise indicated, information presented in this Base Prospectus with respect to production and reserves and other similar information of joint ventures of the Company or its subsidiaries reflects the Company's or the relevant subsidiaries' proportionate interests in the joint ventures. Similarly, information presented in this Base Prospectus relating to production and reserves and other similar information of associates reflects the Company's and its subsidiaries' proportionate interest in the associates. In certain sections of this Base Prospectus, the Company has provided information on production and reserves and other similar information of the Company and its subsidiaries and jointly-controlled assets separately from the production and reserves and other similar information of jointly-controlled entities accounted for under the equity method in order to permit some correlation to the financial accounting for the respective entities.

The Company acquired a 50 per cent. interest in CITIC Canada Energy Limited ("CCEL") in December 2007. Due to the way the transaction was structured and the arrangements entered into between the Company and its joint venture partner, the Company (i) retains no equity in CCEL for the purposes of its Financial Statements and (ii) is guaranteed the payment of a dividend. As a result, the Company does not recognise any income from CCEL in the line item "Share of income of joint ventures and associates", as it does with other jointly-controlled entitites, but the Company does recognise income from CCEL in the line item "Finance income". Because the Company exercises joint control over the operations of CCEL, data relating to CCEL's production and reserves and other similar data are separately presented in this Base Prospectus, although all references in this Base Prospectus to the A+B+C1 reserves or the production of the Company and its subsidiaries, joint ventures and associates do not include CCEL's reserves or production, as the case may be.

In this Base Prospectus, "**A+B+C1 reserves**" refers to reserves of crude oil and gas classified as category A, B and C1 under Kazakhstan methodology, "**Company's A+B+C1 reserves**" refers to the A+B+C1 reserves of crude oil and gas of the Company and its subsidiaries and the Company's and the Company's subsidiaries' proportionate share in the A+B+C1 reserves of crude oil and gas of their respective joint ventures and associates, collectively, and "**Company's production**" refers to the crude oil and gas production of the Company and its subsidiaries and the Company's and the Company's subsidiaries' proportionate share in the crude oil and gas production of their respective joint ventures and associates, collectively. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations—Acquisitions*" and "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*".

See Notes 3 and 36 of the 2009 Financial Statements for additional information regarding how the Company accounts for its subsidiaries, joint ventures and associates.

Certain Reserves Information

The Company calculates its reserves using Kazakhstan methodology, a system employed in the former Soviet Union, which differs significantly from both (i) the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers (the "**PRMS**") and (ii) the reserves classifications permitted by the SEC ("**SEC Standards**"), in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. While Kazakhstan methodology permits the inclusion of highly speculative reserve quantities attributable to highly speculative acreage, the Company has elected to include in this Base Prospectus only A+B+C1 reserves. Even so, estimates derived according to Kazakhstan methodology may be substantially higher than those derived in accordance with PRMS and the SEC Standards because Kazakhstan methodology differs in significant ways from those standards. Until recently, the SEC Standards permitted oil and gas companies, in their filings with the SEC, to disclose only proven reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. However, the SEC has recently adopted revisions to the SEC Standards that make such regulations more consistent with PRMS, including allowing for the voluntary disclosure of probable and possible reserves in addition to proven reserves. These revisions became effective on 1 January 2010 and, accordingly, the Company expects to calculate its reserves on a consolidated basis using PRMS beginning from 1 January 2010. See "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*".

The reserves data contained in this Base Prospectus, unless otherwise stated, is taken from reserves analyses prepared in accordance with Kazakhstan methodology by the Company's professional engineering staff. The depreciation, depletion and amortisation data in the 2009 Financial Statements are prepared in accordance with IFRS, based on reserves estimates in accordance with PRMS, and were taken from published audited financial statements of certain of the Company's and its subsidiaries' joint ventures and the reserves report of KMG EP dated 21 January 2010 (the "**GCA Report**") prepared by Gaffney, Cline & Associates Ltd. ("**GCA**") in accordance with PRMS. Although the Company calculates its reserves using Kazakhstan methodology, some of the Company's subsidiaries and joint ventures calculate their reserves, or have

had their reserves calculated by independent petroleum engineering consultants, in accordance with PRMS. See "*Annex A—Report of Gaffney, Cline and Associates Ltd*" for the reserves report of the Company's principal onshore exploration and production company, KMG EP, prepared in accordance with PRMS. The reserves estimates reflected in the GCA Report are based on the assumptions outlined therein.

Hydrocarbon Data

References in this Base Prospectus to "**tonnes**" are to metric tonnes. One metric tonne equals 1,000 kilograms.

For informational purposes only, certain estimates in this Base Prospectus are presented as follows:

- oil and condensate in barrels and barrels per year. Barrel figures are converted from the Company's internal records presented in tonnes at a rate of 7.6 barrels per tonne. Barrel per day figures have been obtained by dividing annual figures by 365; and

- plant products, which include butane, propane, liquefied petroleum gas ("**LPG**") and liquid hydrocarbons, in barrels. Barrel figures are converted from the Company's internal records presented in tonnes at a rate of 7.6 barrels per tonne. Barrel per day figures have been obtained by dividing annual figures by 365.

For internal record keeping purposes, the Company's information relating to production, transportation and sales of crude oil and gas condensate is recorded in tonnes, a unit of measure that reflects the mass of the relevant hydrocarbon. For convenience, such information is presented in this Base Prospectus as both tonnes and in standard 42 gallon barrels ("**barrels**" or "**bbl**"), converted from tonnes as described above. The actual number of barrels of crude oil produced, shipped or sold may vary from the barrel equivalents of crude oil presented herein, as a tonne of heavier crude oil will yield fewer barrels than a tonne of lighter crude oil. The conversion rates for other companies for converting tonnes into barrels and for converting cubic feet into cubic metres may be at different rates.

Third Party Information Regarding the Company's Market and Industry

Statistical data and other information appearing in this Base Prospectus relating to the oil and gas industry in the Republic of Kazakhstan ("**Kazakhstan**") have, unless otherwise stated, been extracted from documents and other publications released by the National Statistical Agency of Kazakhstan (the "**NSA**"), the Ministry of Finance of Kazakhstan, the Ministry of Energy and Mineral Resources (the "**MEMR**"), the National Bank of Kazakhstan (the "**NBK**") and other public sources in Kazakhstan, including the NBK's Annual Report, the World Bank and International Monetary Fund, as well as from Kazakhstan press reports and publications, edicts and resolutions of the government of Kazakhstan (the "**Government**") and estimates of the Company (based on its management's knowledge and experience of the markets in which the Company operates). In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Any discussion of matters relating to Kazakhstan in this Base Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—The Company cannot ensure the accuracy of official statistics and other data in this Base Prospectus published by Kazakhstan authorities*".

The information described above has been accurately reproduced and, as far as the Issuer and the Company are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third party information has been used in this Base Prospectus, the source of such information has been identified.

The Company's estimates have been based on information obtained from the Company's subsidiaries, joint ventures, associates, customers, suppliers, trade and business organisations and other contacts in the markets in which the Company operates. The Company believes these estimates to be accurate in all material respects as at the dates indicated. However, this information may prove to be inaccurate because of the method by which the Company obtained some of the data for these estimates or because this information cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other inherent limitations and uncertainties.

This Base Prospectus contains illustrations and charts derived from the Company's internal information and the internal information of the Company's subsidiaries, joint ventures and associates, which have not been independently verified unless specifically indicated.

Certain Definitions and Terminology

Certain defined terms are used in this Base Prospectus. See Appendix I for a glossary of frequently used defined terms. Additionally, see Appendix II for a glossary of measurement and technical terms used in this Base Prospectus.

FORWARD-LOOKING STATEMENTS

This Base Prospectus, any related supplement and any Final Terms may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and certain of the plans, intentions, expectations, assumptions, goals and beliefs of the Company regarding such items. These statements include all matters that are not historical fact and generally, but not always, may be identified by the use of words such as "believes," "expects," "are expected to," "anticipates," "intends," "estimates," "should," "will," "will continue," "may," "is likely to," "plans" or similar expressions, including variations and the negatives thereof or comparable terminology.

Prospective investors should be aware that forward looking statements are not guarantees of future performance and that the Company's actual results of operations, financial condition and the development of the industry in which it operates may differ significantly from those made in or suggested by the forward-looking statements contained in this Base Prospectus. In addition, even if the Company's results of operations, financial condition and business and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Factors that could cause actual results to differ materially from the Company's expectations are contained in cautionary statements in this Base Prospectus and include, among other things, the following:

- price fluctuations in crude oil, gas and refined products markets and related fluctuations in demand for such products;
- operational limitations, including equipment failures, labour disputes and processing limitations;
- the continuing effects of the global financial crisis, whose duration and magnitude cannot be ascertained;
- the availability or cost of transportation routes and fees charged for arranging transportation;
- overall economic and business conditions, including commodity prices;
- changes in government regulations, including regulatory changes affecting the availability of permits, and governmental actions that may affect the Company's operations or planned expansion;
- unplanned events or accidents affecting the Company's operations or facilities;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- the Company's ability to increase market share for its products and control expenses;
- economic and political conditions in Kazakhstan and international markets, including governmental changes;
- incidents or conditions affecting the export of crude oil and gas;
- reservoir performance, drilling results and the implementation of the Company's oil and gas expansion plans;
- an inability to implement any potential acquisition or an inability to acquire such interests on terms proposed by the Company; and
- the timing, impact and other uncertainties of future actions.

The sections of this Base Prospectus entitled "*Risk Factors*" and "*Management's Discussion and Analysis of Results of Operations and Financial Performance*" contain a more complete discussion of the factors that could affect the

Company's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward looking events described in this Base Prospectus may not occur.

Neither the Issuer nor the Guarantor undertakes any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Issuer or the Guarantor or to persons acting on their behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Base Prospectus.

RESPONSIBILITY STATEMENT

This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Company which, according to the particular nature of the Issuer and the Company and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Company and of the rights attaching to the Notes. Where third party information has been used in this Base Prospectus, the source of such information has been identified. Such information has been accurately reproduced and, as far as the Issuer and the Company are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Issuer and the Guarantor accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer and the Guarantor (which have taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

GCA, whose registered address is Bentley Hall, Blacknest, Alton, Hampshire, GU34 4PU, United Kingdom, accepts responsibility for the GCA Report set out on pages A 1 to A 23 of this Base Prospectus. To the best of the knowledge of GCA (which has taken all reasonable care to ensure that such is the case), the information contained in the GCA Report is in accordance with the facts and contains no omission likely to affect the import of such information. GCA has authorised and not withdrawn its consent to the inclusion in this Base Prospectus of the GCA Report and of references thereto and to its name, each in the form and context in which they are included. GCA has no material interest in the Issuer or the Guarantor.

SUPPLEMENT TO THE BASE PROSPECTUS

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and the Guarantor and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

The Issuer and the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus that is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

The Issuer and the Guarantor may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event a supplemental Base Prospectus will be published, if appropriate, which will describe the effect of the agreement reached in relation to such Series of Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published and approved by, filed with or notified to the Financial Services Authority shall be incorporated in, and form part of, this Base Prospectus and, for so long as the Programme remains in effect and (in the case of either of the referenced Terms and Conditions of the Notes) Notes to which such Terms and Conditions of the Notes are applicable shall be outstanding, a copy of each such document may be inspected during normal business hours at the specified office of the Paying Agent:

- the section headed "Management's Discussion and Analysis of Operations and Financial Performance" contained in the previous Base Prospectus dated 8 July 2009 (pages 60-104 inclusive) prepared by the Issuer and the Guarantor in connection with the Programme, together with the Audited Consolidated Financial Statements of the Company as at and for the year ended 31 December 2008 contained in the Base Prospective dated 8 July 2009 (pages F-2 to F-63 inclusive) (investors should note, however, that figures contained in pages incorporated by reference have not been restated using the equity method of accounting for joint ventures and, therefore, are not directly comparable with figures stated in this Base Prospectus);

- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 8 July 2009 (pages 186-223 inclusive) prepared by the Issuer and the Guarantor in connection with the Programme; and

- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 18 June 2008 (pages 166-203 inclusive) prepared by the Issuer and the Guarantor in connection with the Programme.

Any information not listed in the cross reference list but included in the documents incorporated by reference is given for information purposes only.

ENFORCEMENT OF CIVIL LIABILITIES

The Guarantor is a joint stock company organised under the laws of Kazakhstan and all of its officers and certain of its directors and other persons referred to in this Base Prospectus are residents of Kazakhstan. All or a substantial portion of the assets of the Guarantor and most of such persons are located in Kazakhstan. As a result, it may not be possible (i) to effect service of process upon the Guarantor or any such person outside Kazakhstan, (ii) to enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (iii) to enforce against any of them, in Kazakhstan courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained in respect of the Notes or the Trust Deed in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The Issuer is incorporated under the laws of the Netherlands and its managing directors are residents of the Netherlands and Kazakhstan. A substantial portion of the assets of the Issuer and of its managing directors are located in the Netherlands and Kazakhstan. As a result, it may not be possible (i) to effect service of process upon the Issuer or any such person outside the Netherlands or Kazakhstan, as the case may be, (ii) to enforce against any of them, in courts of jurisdictions other than the Netherlands or Kazakhstan, as the case may be, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (iii) to enforce against any of them, in the courts of the Netherlands or Kazakhstan, as the case may be, judgments obtained in jurisdictions other than the Netherlands or Kazakhstan, respectively, including judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States. The Issuer has been advised by its legal counsel in the Netherlands, DLA Piper Nederland N.V., that the Netherlands does not currently have a treaty with the United States providing for reciprocal recognition and enforcement of judgments (other than arbitral awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon United States federal securities laws, would not be directly enforceable in the Netherlands. If the party in whose favour such final judgment is rendered brings a new suit in a competent court in the Netherlands, however, such party may submit to a Dutch court the final judgment that has been rendered in the United States. If the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on grounds which are internationally acceptable and that proper legal procedures have been observed, the Dutch court will, in principle, give binding effect to the final judgment which has been rendered in the United States unless such judgment contravenes public policy in the Netherlands.

The Notes and the Trust Deed are governed by the laws of England and the Issuer and the Guarantor have agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in London or, at the election of the Trustee or, in certain circumstances, a Noteholder (as defined in "*Terms and Conditions of the Notes*"), or to the non-exclusive arbitration of English courts. See Condition 18(b) under "*Terms and Conditions of the Notes*". Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, each of Kazakhstan and the United Kingdom are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "**Convention**") and, accordingly, an arbitral award under the Convention should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

The Law on International Commercial Arbitration (the "**Arbitration Law**") was adopted by the Parliament of Kazakhstan (the "**Parliament**") on 28 December 2004. The Arbitration Law is intended to resolve uncertainty created by prior decisions of the Constitutional Council of Kazakhstan regarding enforcement of the Convention in Kazakhstan that were effective 15 February 2002 and 12 April 2002 and were cancelled by the Constitutional Council in February 2008. The Arbitration Law provides clear statutory guidelines for the enforcement of arbitral awards under the conditions set forth in the Convention. In February 2010, the Parliament passed legislation amending the Arbitration Law to provide for certain immunities to government entities, including national companies, such as the Guarantor, in the context of arbitration and foreign court judgments. While these immunities should apply only to government entities to the extent they are performing sovereign functions and not commercial activities, and the issuance of Notes under the Programme should be considered a commercial activity (and, under the Trust Deed, the Company has, to the full extent permitted by applicable laws, waived any immunity that may be attributed to it in respect of the Notes or the Guarantee), under the amendments, whether a particular activity is deemed to be sovereign or commercial in nature is subject to determination by a Kazakhstan court on a case-by-case basis.

TABLE OF CONTENTS

	Page
STABILISATION	iii
NOTICE TO NEW HAMPSHIRE RESIDENTS	iii
ADDITIONAL INFORMATION	iv
U.S. INFORMATION	iv
PRESENTATION OF FINANCIAL, RESERVES AND CERTAIN OTHER INFORMATION	iv
FORWARD-LOOKING STATEMENTS	viii
RESPONSIBILITY STATEMENT	ix
SUPPLEMENT TO THE BASE PROSPECTUS	ix
DOCUMENTS INCORPORATED BY REFERENCE	ix
ENFORCEMENT OF CIVIL LIABILITIES	x
TABLE OF CONTENTS	xii
OVERVIEW OF THE COMPANY	1
OVERVIEW OF SELECTED FINANCIAL AND OTHER INFORMATION	7
GENERAL DESCRIPTION OF THE PROGRAMME	11
RISK FACTORS	15
USE OF PROCEEDS	42
THE ISSUER	43
CAPITALISATION	45
SELECTED FINANCIAL AND OTHER INFORMATION	46
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL PERFORMANCE	51
BUSINESS	83
ENVIRONMENTAL, HEALTH AND SAFETY MATTERS	128
MANAGEMENT	131
SHARE CAPITAL, SOLE SHAREHOLDER AND RELATED PARTY TRANSACTIONS	138
FORM OF FINAL TERMS	147
TERMS AND CONDITIONS OF THE NOTES	157
THE OIL AND GAS INDUSTRY IN KAZAKHSTAN	191
REGULATION IN KAZAKHSTAN	200
TAXATION	208
SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM	217
TRANSFER RESTRICTIONS	223
SUBSCRIPTION AND SALE	226
GENERAL INFORMATION	229
APPENDIX I - GLOSSARY OF FREQUENTLY USED DEFINED TERMS	231
APPENDIX II - GLOSSARY OF MEASUREMENT AND TECHNICAL TERMS	235
INDEX TO FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS	F-1
ANNEX A - REPORT OF GAFFNEY, CLINE & ASSOCIATES LTD	A-1

OVERVIEW OF THE COMPANY

This overview must be read as an introduction to this Base Prospectus, and any decision to invest in Notes should be based on a consideration of the Base Prospectus as a whole.

General Description of the Company

The Company is the national oil and gas company of Kazakhstan with vertically-integrated upstream, midstream and downstream operations located principally in Kazakhstan. The Company's management believes, based on NSA statistics and the Company's internal information, that, as at 31 December 2009, on a consolidated basis (including the proportionate interest of jointly-controlled entities and associates), the Company was the largest crude oil producer in Kazakhstan in terms of production volume. According to NSA statistics and the Company's internal information, the Company also operates the largest crude oil and gas pipeline networks in Kazakhstan in terms of length and throughput capacity. In addition, the Company holds a significant or controlling interest in each of the three principal refineries in Kazakhstan, as well as a major refinery in Romania.

The Company calculates its reserves using Kazakhstan methodology, which differs significantly from the internationally accepted classifications and methodologies established by PRMS and SEC Standards. See "Presentation *of Financial Reserves and Certain Other Information—Certain Reserves Information",* in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. According to Kazakhstan methodology, as at 31 December 2009, the Company's A+B+C1 reserves of crude oil were 748.1 million tonnes (359.0 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) and the Company's A+B+C1 reserves of gas were 102.2 bcm (58.8 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates). See "The Oil *and Gas Industry in Kazakhstan—Reserve Classifications".*

In 2009, the Company's production was 18.2 million tonnes (9.0 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil and 4.2 bcm (0.9 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas compared to 17.1 million tonnes (9.5 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil and 3.7 bcm (1.3 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas in 2008. The Company's production of crude oil represented 23.9 per cent. and 24.2 per cent. of the total crude oil production in Kazakhstan in 2009 and 2008, respectively, based on the Company's internal information and information obtained from the NSA.

As at 31 December 2009, the total length of the crude oil pipeline networks that the Company owns or operates was 7,279 km and the total length of the gas pipeline networks that the Company owns or operates was 12,577 km.

In 2009 and 2008, the Company produced a total of 12.0 million tonnes and 10.2 million tonnes, respectively (10.1 million tonnes and 8.2 million tonnes, respectively, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates), of refined (oil) products.

As at 31 December 2009, the Company's A+B+C1 reserves life for crude oil was 41.1 years (40.0 years, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) and the Company's A+B+C1 reserves life for natural gas were 24.2 years (63.6 years, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates). Reserves life is calculated by dividing the relevant reserves figure by the corresponding production figure. In 2009, the Company's A+B+C1 reserves replacement ratio for crude oil (calculated by comparing net new proved crude oil reserves additions in tonnes to yearly crude oil production in tonnes) was 439 per cent. (minus 22 per cent., excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) compared to 647 per cent. (641 per cent., excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates in 2008). This decrease in the Company's A+B+C1 reserves replacement ratio from 2008 to 2009 was primarily attributable to the larger effect of the Company's acquisition of an additional 8.48 per cent. interest in NCPC in 2008 compared to the effect of the Company's acquisition of a 50 per cent. interest in MMG in 2009.

The Company's total revenue decreased by 15.7 per cent. to KZT 1,589.5 billion in 2009 from KZT 1,885.6 billion in 2008. The Company's net profit also decreased by 51.3 per cent. to KZT 190.6 billion in 2009 from KZT 391.1 billion in 2008. As at 31 December 2009, the Company had total assets of KZT 5,126.0 billion compared to total assets of KZT 3,906.7 billion as at 31 December 2008.

The following table sets forth the Company's principal subsidiaries, joint ventures and associates, their principal lines of operations and certain information related thereto as at the date of this Base Prospectus:

Name and Line of Operation	% Interest	Description of Operations
Upstream Assets		
JSC KazMunaiGas Exploration Production (KMG EP)	61.36[(1)]	KMG EP is the Company's principal onshore exploration and production subsidiary and is its largest subsidiary based on reserves and production volumes. KMG EP extracts oil and gas from 46 oil and gas fields located in Western Kazakhstan, including the Uzen Field, which, as at 31 December 2009, accounted for 21.0 per cent. of the Company's reserves of crude oil. In 2009, KMG EP produced 9 million tonnes of crude oil and 924.4 mcm of gas and, as at 31 December 2009, according to Kazakhstan methodology, had A+B+C1 reserves of crude oil of 231.1 million tonnes and A+B+C1 reserves of gas of 58,771 mcm. • JV Kazgermunai LLP ("**Kazgermunai**") – 50.00%: Kazgermunai is a jointly-controlled entity between KMG EP and PKI (through a subsidiary), each with a 50 per cent. interest, which operates the Akshabulak Field in Southern Kazakhstan. In 2009, Kazgermunai produced 1.6 million tonnes of crude oil and 260.4 mcm of gas attributable to KMG EP and, as at 31 December 2009, according to Kazakhstan methodology, had A+B+C1 reserves of crude oil of 15.7 million tonnes attributable to KMG EP. • PetroKazakhstan Inc. ("**PKI**") – 33.00%: In December 2009, KMG EP completed its acquisition from the Company of 100 per cent. of the common shares of KMG PKI Finance, which, in turn, holds a 33 per cent. interest in PKI. PKI is KMG EP's principal oil exploration and production associate; it is majority owned by China National Petroleum Corporation ("**CNPC**"). PKI operates five production fields in Southern Kazakhstan. In 2009, PKI produced 2.1 million tonnes of crude oil and 291.9 mcm of gas attributable to KMG EP and, as at 31 December 2009, according to Kazakhstan methodology, had A+B+C1 reserves of crude oil of 21.2 million tonnes attributable to KMG EP. PKI, in turn, holds a 50 per cent. interest in each of the Kazgermunai and JSC Turgai Petroleum. The production and reserves of Kazgermunai and JSC Turgai Petroleum that are attributable to PKI are consolidated in the production and reserves information for PKI presented in this Base Prospectus. • CITIC Canada Energy Limited ("**CCEL**") – 50.00%: CCEL is a jointly-controlled entity between KMG EP and CITIC Resources Holdings Limited ("**CITIC**"), each with a 50 per cent. interest, which operates the Karazhanbas Field in Western Kazakhstan. In 2009, CCEL produced 0.9 million tonnes of crude oil and 7.7 mcm of gas and, as at 31 December 2009, according to Kazakhstan methodology, had A+B+C1 reserves of crude oil of 28.8 million tonnes, in each case, which were attributable to KMG EP based on KMG EP's ownership percentage in CCEL.
Tengizchevroil LLP ("**TCO**")	20.00	TCO is a jointly-controlled entity that operates primarily the Tengiz Field ("**Tengiz Field**") in Western Kazakhstan, which is among the largest fields in development in the world based on A+B+C1 reserves and which, as at 31 December 2009, accounted for 28.9 per cent. of the Company's A+B+C1 reserves of crude oil. In 2009, TCO produced 4.5 million tonnes of crude oil and 2,338.1 mcm of gas attributable to the Company and, as at 31 December 2009, according to Kazakhstan methodology, had A+B+C1 reserves of crude oil of 233.8 million tonnes attributable to the Company. The gas at TCO's primary field, Tengiz Field, is all associated gas which cannot be classified as category A, B or C1 under Kazakhstan methodology and, therefore, is not included in the reserve estimates presented in this Base Prospectus.
North Caspian Project Consortium ("**NCPC**")	16.81	NCPC is a consortium that operates, indirectly, the Kashagan Field in the Caspian Sea. In October 2008, the Company's interest in NCPC rose from 8.33 per cent. to 16.81 per cent. after all of the international parties to NCPC and the Kazakhstan authorities signed an agreement implementing a new contractual and governance framework for NCPC, and the transfer of an additional 8.48 per cent. interest in NCPC from the other participants in NCPC to the Company was completed. It is expected that the Kashagan Field will commence production by the fourth quarter of 2012. See "*Business—Exploration and Production—Exploration Projects—NCPC—Kashagan Field*". As at 31 December 2009, according to Kazakhstan methodology, NCPC had A+B+C1 reserves of crude oil of 127.9 million tonnes attributable to the Company, which accounted for 17.1 per cent. of the Company's A+B+C1 reserves of oil based on the Company's 16.81 per cent. interest in NCPC. In January 2009, operatorship of NCPC was transferred from Eni S.p.A. to North Caspian Operating Company ("**NCOC**"), a newly-formed jointly-controlled entity entered into by the participants.

Name and Line of Operation	% Interest	Description of Operations
JSC Mangistaumunaigas (“**MMG**”)	50.00	MMG is an upstream oil and gas company owned by Mangistau Investments B.V. (“**MIBV**”), a jointly-controlled entity between KMG and CPNC Exploration and Development Company Ltd (“**CNPC E&D**”), with each partner having a 50 per cent. interest. KMG acquired its interest in MMG on 25 November 2009. MMG is one of Kazakhstan’s largest oil producers and operates the Kalamkas Field, one of the largest fields in Kazakhstan, pursuant to a Subsoil Use Agreement that expires in 2027. As at 31 December 2009, the Kalamkas Field had estimated A+B+C1 reserves of crude oil of 44.2 million tonnes and A+B+C1 reserves of gas of 10,859.0 mcm attributable to the Company, representing 5.9 per cent. and 10.6 per cent. of the Company’s A+B+C1 reserves of crude oil and gas, respectively. MMG also operates the Zhetybai Field, which as at 31 December 2009, had estimated A+B+C1 reserves of crude oil of 32.4 million tonnes and A+B+C1 reserves of gas 13,692 mcm attributable to the Company, representing 4.4 per cent. and 13.4 per cent. of the Company’s A+B+C1 reserves of crude oil and gas, respectively.
Midstream Assets[(2)]		
JSC KazTransOil (“**KTO**”)	100.00	KTO is a transportation company, which owns and operates the largest crude oil pipeline network in Kazakhstan. The KTO pipeline network principally includes the Uzen Atyrau Samara pipeline (the “**UAS pipeline**”) in Western Kazakhstan, which delivers crude oil to Russia’s Transneft pipeline network for delivery to ports on the Black Sea or to Europe directly. As at 31 December 2009, the KTO pipeline network consisted of 5,071 km of pipe with diameters between 0.5 m and 1.8 m. In 2009, the KTO pipeline network transported 50.8 million tonnes of crude oil. • Kazakhstan China Pipeline JV LLP (“**KCP**”) - 50.00%: KCP is a jointly-controlled entity between KTO and China National Oil and Gas Exploration and Development Corporation (“**CNODC**”), each with a 50 per cent. interest. KCP constructed the Atasu-Alashankou pipeline and the Kenkiyak-Kumkol pipeline, comprising two of three pipeline systems forming the Kazakhstan-China pipeline network (the “**KC Pipeline**”) built to create a transport corridor for the export of Kazakhstan oil to China. As at 31 December 2009, the Atasu-Alashankou pipeline had a total length of 962 km of pipe with diameters between 0.5 m and 1.8 m. In 2009, the Atasu-Alashankou pipeline transported 7.7 million tonnes of crude oil, which amount is not included in the KTO pipeline network volume reported above. The Kenkiyak-Kumkol pipeline was completed in October 2009 with a total of 794 km of pipe with diameters between 0.5 m and 1.8 m. • JSC MunayTas North West Pipeline Company JV (“**MunayTas**”) - 51.00%: MunayTas is a jointly-controlled entity between KTO, with a 51 per cent. interest, and CNPC E&D, with a 49 per cent. interest. MunayTas constructed the Kenkiyak-Atyrau pipeline running from the city of Kenkiyak located in the Aktobe oblast of Western Kazakhstan to the city of Atyrau and comprising one of three pipeline systems forming the KC Pipeline (together with Atasu-Alashankou pipeline and the Kenkiyak-Kumkol pipeline). The Kenkiyak-Atyrau pipeline connects to the UAS Pipeline and the pipeline extending from the oil fields in Western Kazakhstan through Russia to CPC’s export marine terminal on the Black Sea near the Russian port of Novorossiysk (the “**CPC Pipeline**”). The Kenkiyak-Atyrau pipeline is operated by KTO. As at 31 December 2009, the Kenkiyak-Atyrau pipeline network had a total of 448.8 km of pipe with diameters between 0.5 m and 1.8 m. In 2009, the Kenkiyak-Atyrau pipeline transported 5.9 million tonnes of crude oil, which amount is not included in the KTO pipeline network volume reported above.
JSC KazTransGas (“**KTG**”)	100.00	KTG is a transportation company, which, through Intergas International B.V., owns a 100 per cent. interest in JSC Intergas Central Asia (“**ICA**”), which in turn operates the largest natural gas pipeline network in Kazakhstan. The ICA pipeline network includes the Central Asia Centre pipeline, the shortest pipeline route from the gas producing regions of Central Asia (principally Turkmenistan and Uzbekistan) through Russia to Europe. As at 31 December 2009, the ICA pipeline network had a total of 12,557 km of pipe comprised of 131 km of pipe with diameters less than 0.5m and 12,446 km of pipe with diameters between 0.5m and 1.4m. In 2009, the ICA pipeline network transported 91.1 bcm of gas. • Asia Gas Pipeline LLP (“**AGP**”) - 50.00%: AGP is a jointly-controlled entity between KTG and CNPC, each with a 50 per cent. interest, formed to construct and operate the Turkmenistan-China gas pipeline across Kazakhstan, which transmits gas from the other Central Asian Republics to major population centres in Southern Kazakhstan and to China (the “**Asia Gas Pipeline**”). On 12 December 2009, the first phase of this project, comprising a pipeline with a throughput capacity of 10 bcm per year, was completed.

Name and Line of Operation	% Interest	Description of Operations
Downstream Assets		
JSC Trade House KazMunaiGaz (“**KMG Trade House**”)	100.00	KMG Trade House is the Company’s principal refining, marketing and trading company. KMG Trade House’s principal operations include refining crude oil, operating filling station networks and trading the Company’s crude oil and oil products. The Company, through KMG Trade House, has a significant or controlling interest in all three of Kazakhstan’s principal oil refineries, the Atyrau Refinery, the Shymkent Refinery and the Pavlodar Refinery. In addition, KMG Trade House owns 100 per cent. of the Rompetrol Group N.V. (“**Rompetrol**”), which, in turn, has a controlling interest in the Petromidia Refinery in Romania (as defined below). In 2009, KMG Trade House produced 12.0 million tonnes of refined (oil) products. KMG Trade House’s principal refinery assets are as follows: • Pavlodar From August 2009, KMG Trade House, through TH KazMunaiGas N.V., holds a 100 per cent. interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery (the “**Pavlodar Refinery**”), together with a 58 per cent. interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 42 per cent. of Pavlodar Refinery JSC being held by the State). Refinery Company RT leases 100 per cent. of the assets comprising Pavlodar Refinery to Pavlodar Refinery JSC, which then operates the Pavlodar Refinery. As at 31 December, the Pavlodar Refinery had a design capacity of 20,548 tonnes of oil per day. In 2009, the Pavlodar Refinery refined 4.1 million tonnes of crude oil and produced 3.8 million tonnes of refined (oil) products. • Atyrau KMG Trade House owns a 99.17 per cent. interest in the Atyrau Refinery located in Atyrau, Western Kazakhstan (the “**Atyrau Refinery**”). As at 31 December 2009, the Atyrau Refinery had a design capacity of 13,698 tonnes of oil per day and its actual refining production was 10,748 tonnes of oil per day. In 2009, the Atyrau Refinery refined 4.0 million tonnes of crude oil and produced 3.7 million tonnes of refined (oil) products. • Shymkent KMG Trade House, through Valsera Holdings B.V., indirectly owns a 49.72 per cent. interest in PetroKazakhstan Oil Products LLP, which in turn owns the Shymkent Refinery located in Shymkent, Southern Kazakhstan (the “**Shymkent Refinery**”). As at 31 December 2009, the Shymkent Refinery had a design capacity of 15,068 tonnes of oil per day and its actual refining production was 11,021 tonnes of oil per day. In 2009, the Shymkent Refinery refined 4.0 million tonnes of crude oil and produced 1.9 million tonnes of refined (oil) products attributable to the Company. • Petromidia KMG Trade House, through Rompetrol, holds a 98 per cent. (76.39 per cent. as at 31 December 2009) interest in Rompetrol Rafinare S.A. (the “**Rompetrol Rafinare**”), which, in turn, owns the Petromidia Refinery located in Navoderi, Romania (the “**Petromidia Refinery**”). See “*Business—Refining, Marketing and Trading—Refining Facilities—Petromidia Refinery*". As at 31 December 2009, the Petromidia Refinery had a design capacity of 13,698 tonnes of oil per day and its actual refining production was 10,748 tonnes of oil per day. In 2009, the Petromidia Refinery refined 4.0 million tonnes of crude oil and produced 3.9 million tonnes of refined (oil) products.

Notes:
(1) As at 31 December 2009, as a percentage of ordinary voting shares of KMG EP.
(2) For details on throughput capacity of the Company’s pipelines, see “*Business—Transportation*”.

See “*Business—Corporate Structure*” below for an organisational chart reflecting the principal subsidiaries, joint ventures and associates of the Company.

General Description of the Issuer

The Issuer was incorporated as a private company with limited liability (besloten *vennootschap met beperkte aansprakelijkheid* or *B.V.)* under and subject to the law of the Netherlands on 9 June 2006 for an unlimited duration. Its number in the commercial register of Amsterdam, the Netherlands is 34249875. The Issuer is a direct, wholly-owned subsidiary of Coöperatieve KazMunaiGaz PKI U.A., registered in the Netherlands. The Company is a member of Coöperatieve KazMunaiGaz PKI U.A., together with LLP KMG KumKol, a wholly-owned subsidiary of the Company.

Sole Shareholder and Relationship with the State

The Government indirectly wholly owns the Company. See "*Share Capital, Sole Shareholder and Related Party Transactions—Samruk-Kazyna*". The Government has a strong influence over decisions at the Company and is able to determine the Company's strategy, make policy decisions in relation to the Company's business (including investments, borrowings, risk management and asset allocation) and supervise the implementation of such decisions.

As the national oil and gas company, the Company has been designated by the Government to be the beneficiary of the Government's pre-emptive right to acquire interests in various exploration and production licences and contracts (since 1999 subsoil operations have been based on contracts only) and production sharing agreements (collectively, the "**Subsoil Use Agreements**") when such agreements are offered for sale or when the entities that benefit from such agreements are offered for sale.

In 2002, the Government clarified the division of functions between the Company and petroleum-related state entities (Government Decree No.707 dated 29 June 2002). In 2002, the Government also adopted rules for the Company to represent the State's interests in subsoil use contracts by way of the Company's mandatory participation in petroleum projects (Government Decree No.708 dated June 29, 2002). The Company was empowered to act as the "authorised body" with regards to control, monitoring and regulation of petroleum operations under production sharing agreements ("**PSAs**").

The presidential edict of 12 March 2010 restructured several government ministries and, in particular, created the Ministry of Oil and Gas of the Republic of Kazakhstan ("**MOG**"). It is expected that, pursuant to this edict, certain non-commercial or regulatory functions of the Company as an "authorised body" of the Government, including, among other things, representing the State under the PSAs for the North Caspian Project (as defined below) and the Karachaganak Field, will be transferred to the MOG. The legislation implementing this reform is expected to be adopted in the near future. The creation of the MOG and the related transfer of non-commercial and regulatory functions from the Company to the MOG are not expected to adversely affect the Company's pre-emptive rights to acquire interests in Subsoil Use Agreements or its reserves or other commercial interests.

Key Strengths

The Company believes that it benefits from the following key strengths:

- Strong support from the Government, which has an indirect 100 per cent. interest in the Company;
- Largest producer of crude oil in Kazakhstan, on a consolidated basis, and the owner of significant interests in many of the largest oil and gas projects in Kazakhstan;
- Beneficiary of the Government's pre-emptive right to acquire interests in Subsoil Use Agreements when offered for sale or when the entities that benefit from such agreements are offered for sale;
- Operator of Kazakhstan's extensive oil and gas pipeline networks; and
- Current owner of significant interests in all three principal refineries in Kazakhstan, as well as a major refinery in Romania.

Strategy

The Company's goal is to maintain its position as the leading vertically-integrated oil and gas company in Kazakhstan by focusing on the following priorities:

- Increasing the Company's overall production and reserves through acquisitions and exploration;
- Enhancing its transportation systems by developing new transportation routes and increasing the capacity of existing networks;
- Enhancing its role in the oil and gas "value chain" through the marketing of oil products to the ultimate consumer of such oil products; and
- Enhancing the efficiency of its operations through the reorganisation of its corporate structure.

Credit Ratings

The Company has been assigned long-term foreign currency ratings of Baa2 (outlook negative) by Moody's Investors Service ("**Moody's**"), BB+ (outlook stable) by Standard & Poor's Rating Services ("**S&P**") and BBB- (outlook stable) by Fitch Ratings ("**Fitch**"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "*Risk Factors—Risk Factors Relating to the Notes—Recent experience has shown that credit ratings do not reflect all risks*".

Risk Factors

For a detailed discussion of the risks and other factors to be considered when making an investment decision with respect to Notes issued under the Programme, see "*Risk Factors*" and "*Forward Looking Statements*".

OVERVIEW OF SELECTED FINANCIAL AND OTHER INFORMATION

The financial information of the Company set forth below as of and for the years ended 31 December 2009 and 2008 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the 2009 Financial Statements, including the notes thereto, contained elsewhere in this Base Prospectus.

Prospective investors should read the selected financial and other information in conjunction with the information contained in the "Risk Factors," "Capitalisation," "Management's Discussion and Analysis of Results of Operations and Financial Performance," "Business" and the 2009 Financial Statements, including the notes thereto, and other financial data appearing elsewhere in this Base Prospectus.

Consolidated Balance Sheet Data

	As at 31 December			% change between the years ended 31 December 2008 and 2009
	2009[(1)] (unaudited)	**2009**	**2008[(2)]**	
	(USD in millions)	*(KZT in millions)*		
ASSETS				
Non-current assets				
Property, plant and equipment	14,933.8	2,215,574.1	1,797,313.8	23.3%
Exploration and evaluation assets	774.2	114,861.1	81,653.2	40.7%
Intangible assets	1,748.8	259,455.3	75,319.4	244.5%
Long-term bank deposits	124.5	18,464.4	29,694.2	(37.8)%
Investments in associates	4,346.3	644,811.2	525,187.2	22.8%
Deferred income tax assets	85.8	12,726.7	4,149.9	206.7%
Royalty prepaid and VAT recoverable	47.5	7,049.9	3,718.4	89.6%
Advances for non-current assets	125.7	18,647.1	14,041.9	32.8%
Bonds receivable	421.4	62,521.0	0.0	–
Note receivable from a joint venture	136.6	20,268.9	18,862.0	7.5%
Notes receivable from associate	108.4	16,075.4	0.0	–
Interest free loan to related party	54.1	8,028.2	0.0	–
Other non-current assets	69.4	10,300.1	7,153.3	44.0%
	22,976.4	3,408,783.5	2,557,093.2	33.3%
Current assets				
Inventories	1,086.9	161,249.7	99,580.3	61.9%
VAT recoverable	257.9	38,260.1	40,305.7	(5.1)%
Income taxes prepaid	80.7	11,979.8	7,790.7	53.8%
Trade accounts receivable	958.3	142,179.6	111,796.3	27.2%
Short-term financial assets	4,824.1	715,704.6	551,176.2	29.9%
Note receivable from a shareholder of a joint venture	7.3	1,082.1	0.0	–
Dividends receivable from associate	99.0	14,687.6	0.0	–
Other current assets	454.7	67,458.2	47,156.0	43.1%
Cash and cash equivalents	3,802.9	564,191.2	491,761.7	14.7%
	11,571.8	1,716,792.9	1,349,567.0	27.2%
Assets classified as held for sale	2.6	378.4	13.2	2,762.4%
	11,574.4	1,717,171.3	1,349,580.2	27.2%
TOTAL ASSETS	**34,550.8**	**5,125,954.7**	**3,906,673.4**	**31.2%**
EQUITY AND LIABILITIES				
Equity				
Share capital	1,076.1	159,647.5	158,049.4	1.0%
Additional paid-in capital	15.2	2,248.1	9,013.5	(75.1)%
Other equity	33.1	4,910.4	1,385.0	254.5%
Currency translation reserve	1,232.5	182,852.7	(27,799.0)	(757.8)%
Retained earnings	10,328.1	1,532,273.7	1,468,030.8	4.4%
Attributable to equity Shareholders of the parent	**12,684.9**	**1,881,932.4**	**1,608,679.9**	**17.0%**
Minority interest	3,210.5	476,310.3	421,294.5	13.1%
TOTAL EQUITY	15,895.4	2,358,242.7	2,029,974.3	16.2%

	As at 31 December			% change between the years ended 31 December 2008 and 2009
	2009[1] (unaudited)	2009	2008[2]	
	(USD in millions)	*(KZT in millions)*		
Non-current liabilities				
Borrowings	9,334.9	1,384,933.0	961,525.7	44.0%
Payable for the acquisition of additional interest in the project	2,103.3	312,052.1	239,500.8	30.3%
Payable for the acquisition of a subsidiary	56.7	8,405.2	0.0	–
Provisions	382.9	56,809.5	54,536.1	4.2%
Deferred income tax liabilities	842.1	124,938.9	70,827.3	76.4%
Other non-current liabilities	114.4	16,966.3	21,113.9	(19.6)%
	12,834.4	1,904,105.2	1,347,503.9	41.3%
Current liabilities				
Borrowings	3,051.6	452,741.1	188,445.5	140.3%
Provisions	312.1	46,306.8	40,247.6	15.1%
Income taxes payable	218.6	32,437.4	57,588.1	(43.7)%
Trade accounts payable	1,054.7	156,470.4	142,902.9	9.5%
Other taxes payable	566.1	83,986.6	36,517.7	130.0%
Put option liability	0.0	0.0	14,895.5	(100.0)%
Derivatives	1.6	240.7	105.8	127.5%
Other current liabilities	616.2	91,423.9	48,492.2	88.5%
	5,821.0	863,606.9	529,195.2	63.2%
Total liabilities	**18,655.4**	**2,767,712.0**	**1,876,699.1**	**47.5%**
TOTAL EQUITY AND LIABILITIES	**34,550.8**	**5,125,954.7**	**3,906,673.4**	**31.2%**

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2009, which was KZT 148.36 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) As required by IFRS, certain adjustments have been made to the 2008 financial information contained in the 2009 Financial Statements primarily to apply the change in accounting policy with respect to accounting for interests in jointly-controlled entities retrospectively and to conform the presentation of the 2008 financial information.

Consolidated Statement of Comprehensive Income Data

	For the year ended 31 December			% change between the years ended 31 December 2008 and 2009
	2009[1] (unaudited)	2009	2008[2]	
	(USD in millions)	(KZT in millions)		
Revenue	10,776.6	1,589,548.6	1,885,605.9	(15.7)%
Cost of sales	(7,098.3)	(1,047,000.9)	(1,199,360.3)	(12.7)%
Gross profit	3 678.3	542,547.8	686,245.6	(20.9)%
General and administrative expenses	(814.3)	(120,112.8)	(145,704.1)	(17.6)%
Transportation and selling expenses	(1,145.7)	(168,984.9)	(153,732.0)	9.9%
Impairment of goodwill	(8.9)	(1,306.5)	(23,553.1)	(94.5)%
Impairment of property, plant and equipment	(70.3)	(10,364.2)	(6,614.6)	56.7%
Gain/(loss) on disposal of property, plant and equipment, net	123.0	18,147.5	(725.0)	(2,603.2)%
Gain on disposal of subsidiaries	39.2	5,787.7	2,839.5	(103.8)%
Other operating income	84.2	12,416.6	8,243.0	50.6%
Other operating expenses	(99.0)	(14,606.4)	(6,394.4)	128.4%
Net foreign exchange loss	(55.5)	(8,180.3)	(13,103.9)	(37.6)%
Finance income	575.4	84,867.2	101,103.8	(16.1)%
Finance cost	(954.8)	(140,825.7)	(108,358.2)	30.0%
Unrealised (loss)/gain on crude oil derivative instrument	(22.6)	(3,336.5)	3,753.0	(188.9)%
Share of income in joint ventures and associates	1,164.3	171,738.1	239,771.1	(28.4)%
Profit before income tax	2,493.5	367,787.3	583,770.6	(37.0)%
Income tax expenses	(1,215.6)	(179,295.7)	(200,287.2)	(10.5)%
Profit for the year from continuing operations	1,277.9	188,491.6	383,483.4	(50.8)%
Discontinued operations				
Profit after income tax for the year from discontinued operations	14.4	2,127.6	7,637.8	(72.1)%
Profit for the year	1,292.3	190,619.3	391,121.2	(51.3)%
Equity holder of the Company	765.7	112,934.0	298,291.2	(62.1)%
Minority interest	526.7	77,685.3	92,830.0	(16.3)%
	1,292.3	190,619.3	391,121.2	(51.3)%
Other comprehensive income				
Foreign currency translation	1,528.9	225,506.1	3,098.3	7,178.4%
Realised loss on available-for sale financial investments reclassified to the profit for the period	–	–	435.9	(100.0)%
Other comprehensive income for the period	1,528.9	225,506.1	3,534.2	6,280.7%
Total comprehensive income for the period, net of tax	2,821.2	416,125.4	394,655.4	5.4%
Equity holder of the Company	2,193.8	323,585.7	301,732.6	7.2%
Minority interest	627.4	92,539.7	92,922.8	(0.4)%
	2,821.2	416,125.4	394,655.4	5.4%

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the average KZT/U.S.$ exchange rate for 2009, which was KZT 147.50 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) As required by IFRS, certain adjustments have been made to the 2008 financial information contained in the 2009 Financial Statements primarily to apply the change in accounting policy with respect to accounting for interests in jointly-controlled entities retrospectively and to conform the presentation of the 2008 financial information.

Key Financial Ratios

The following table sets forth key financial ratios used by the Company's management in assessing the Company's performance. The financial ratios set forth in this table reflect the operations of the Company:

	As at and for the year ended 31 December		
	2009 (unaudited)	**2009**	**2008[1]**
	(USD in millions)	*(KZT in billions, except ratios)*	
EBIT[4]	3,448.3[2]	508.6	692.2
EBITDA [5]	4,163.1[2]	614.0	790.6
Debt (including current portion)[6]	12,386.6[3]	1,837.7	1,150.0
Equity[7]	15,895.4[3]	2,358.2	2,030.0
Capitalisation[8]	28,282.0[3]	4,195.9	3,180.0
Net capitalisation[9]	24,479.4[3]	3,632.2	2,688.0
Net debt[10]	8,584.0[3]	1,274.0	658.0
Debt/EBITDA	2.98	2.99	1.45
Net debt/Net capitalisation	0.35	0.35	0.24
Debt/Equity	0.78	0.78	0.57
Current liquidity[11]	1.99	1.99	2.55
EBIT/Finance cost	3.61	3.61	6.39

Notes:

(1) As required by IFRS, certain adjustments have been made to the 2008 financial information contained in the 2009 Financial Statements primarily to apply the change in accounting policy with respect to accounting for interests in jointly-controlled entities retrospectively and to conform the presentation of the 2008 financial information.

(2) For convenience, these figures have been translated into U.S.$ at the average KZT/U.S.$ exchange rate for 2009 of KZT 147.50 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) For convenience, these figures have been translated into U.S.$ at the KZT/U.S.$ exchange rate on 31 December 2009, which was KZT 148.36 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(4) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost for such period.

(5) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion and amortisation for such period.

(6) Debt is current portion of the borrowings plus non-current portion of the borrowings as at 31 December of the relevant period.

(7) Equity is total equity as at 31 December of the relevant period.

(8) Capitalisation is debt plus equity as at 31 December of the relevant period.

(9) Net capitalisation is net debt plus equity as at 31 December of the relevant period.

(10) Net debt is debt minus cash and cash equivalents as at 31 December of the relevant period.

(11) Current liquidity is current assets as at 31 December of the relevant period divided by current liabilities as at 31 December of the relevant period.

The following table sets forth a reconciliation of EBIT and EBITDA to profit before corporate income tax from continuing operations:

	As at and for the year ended 31 December		
	2009[1] (unaudited)	**2009**	**2008[2]**
	(USD in millions)	*(KZT in billions, except ratios)*	
Profit before income tax	2,493.5	367.8	583.8
Finance cost	(954.8)	(140.8)	(108.4)
EBIT[3]	3,448.3	508.6	692.2
Depreciation, depletion and amortisation	714.8	105.4	98.4
EBITDA[4]	4,163.1	614.0	790.6

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the average KZT/U.S.$ exchange rate for 2009 of KZT 147.5 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) As required by IFRS, certain adjustments have been made to the 2008 financial information contained in the 2009 Financial Statements primarily to apply the change in accounting policy with respect to accounting for interests in jointly-controlled entities retrospectively and to conform the presentation of the 2008 financial information.

(3) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost for such period.

(4) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion and amortisation for such period.

GENERAL DESCRIPTION OF THE PROGRAMME

The following general description does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus. Words and expressions defined in "Summary of the Provisions Relating to the Notes in Global Form" or "Terms and Conditions of Notes" below shall have the same meanings in this general description.

Issuer..	KazMunaiGaz Finance Sub B.V.
Guarantor...	JSC National Company KazMunayGas.
Arrangers	Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and The Royal Bank of Scotland plc.
Dealers	Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, HSBC Bank plc, J.P. Morgan Securities Ltd., The Royal Bank of Scotland plc and any other Dealer(s) appointed in accordance with the Dealer Agreement.
Trustee	Citigroup Trustee Company Limited.
Principal Paying Agent.........................	Citibank N.A., London.
Registrar	Citigroup Global Markets Deutschland AG & Co. KGaA.
Paying Agent and Transfer Agent.......	Citibank N.A., London.
Programme Size	U.S.$7,500,000,000 (or its equivalent in other currencies calculated in accordance with the provisions of the Dealer Agreement) outstanding at any one time. The Issuer may increase the amount of the Programme at any time in accordance with the Dealer Agreement.
Issuance	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations. Each Tranche will be the subject of Final Terms which, for the purposes of that Tranche only, supplements the Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes are the Conditions of the Notes as supplemented, amended and/or replaced by the relevant Final Terms.
Forms of Notes	Each Series of Notes will be issued in registered form only. The Regulation S Notes and the Rule 144A Notes will initially be represented by the Regulation S Global Note and the Rule 144A Global Note, respectively. The Global Notes will be exchangeable for Definitive Notes (as defined herein) in the limited circumstances specified in the Global Notes.
Clearing Systems..................................	Unless otherwise agreed, DTC (in relation to any Rule 144A Notes) and Clearstream, Luxembourg and Euroclear (in relation to any Regulation S Notes) and such other clearing system as may be agreed between the Issuer, the Guarantor, the Principal Paying Agent, the Trustee and the relevant Dealer(s).

Currencies .... Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Status of the Notes .... The Notes will constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Issuer which rank and will rank *pari passu* amongst themselves and *pari passu* in right of payment with all other present and future unsubordinated obligations of the Issuer save only for such obligations as may be preferred by mandatory provisions of applicable law. See Condition 3(a).

Status of the Guarantee........................ The Notes will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under its guarantee in respect of the Notes will constitute direct, general, unconditional and (subject to Condition 4) unsecured and will rank *pari passu* amongst themselves and *pari passu* in right of payment with all other present and future unsubordinated obligations of the Guarantor save only for such obligations as may be preferred by mandatory provisions of applicable law. See Condition 3(b).

Issue Price... Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms.

Maturities .... Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Redemption .... Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Final Terms. Notes may also be redeemable on such dates and in such manner as may be specified in the relevant Final Terms.

Optional Redemption .... Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Final Terms.

Notes may also be redeemed at the option of the Noteholder upon the occurrence of (i) a Change of Status (as defined in Condition 6(d)).

Tax Redemption................................... Except as described in "Optional Redemption" above or following an Event of Default, early redemption will only be permitted for tax reasons as described in Condition 6(c).

Interest.. Notes may be interest bearing or non interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.

Denominations .... The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant specified currency, and save that the minimum denomination of each Note will be €50,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

However, for so long as the Notes are represented by a Global Note, and the relevant clearing system(s) so permit, the Notes shall be tradeable only in the minimum authorised denomination of €50,000 and higher integral multiples of any smaller amount specified in the relevant Final Terms.

Interests in the Rule 144A Notes shall be held in amounts of not less than U.S.$100,000 or its equivalent in another currency.

Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FMSA will have a minimum denomination of £100,000 or its equivalent in another currency.

Fixed Rate Notes .... Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s).

Floating Rate Notes.............................. Floating Rate Notes will bear interest at a rate determined:

(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or

(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s).

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Notes.

Index Linked Notes.............................. Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.

Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).

Dual Currency Notes .... Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.

Negative Pledge .... The Notes will have the benefit of a negative pledge, as more fully described in Condition 4.

Covenants .... The Notes will have the benefit of the following covenants: (i) limitation on payment of dividends; (ii) limitation on sales of assets and subsidiary stock; (iii) limitations on indebtedness; (iv) financial information; (v) limitations on dividends from material subsidiaries; (vi) maintenance of authorisations; (vii) mergers and consolidations; (viii) transactions with affiliates; (iv) payment of taxes and other claims; (x) officers' certificates; and (xi) change of business, each as more fully described in Condition 5.

Cross Default..	The Notes will have the benefit of a cross default clause as described in Condition 10(c).
Taxation..	All payments in respect of Notes will be made free and clear of withholding taxes of the Netherlands and Kazakhstan unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 8) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Governing Law	English law.
Listing..	Application has been made for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the Regulated Market. This Base Prospectus and any supplement will only be valid for listing Notes on the Official List and admitting Notes to trading on the Regulated Market in respect of Notes having a denomination of at least €50,000 (or its equivalent in any other currency as at the date of issue of the Notes) during a period of twelve months from the date of this Base Prospectus. The Programme also permits Notes to be issued on an unlisted basis outside Kazakhstan or to be listed on such other or further listing authorities, stock exchanges or quotation systems outside Kazakhstan as may be agreed with the Issuer. In addition, the Issuer may apply for Notes issued under the Programme to be listed on the Kazakhstan Stock Exchange and may apply for Notes to be listed on the Regional Financial Centre of Almaty, although no assurance can be given that such listing will be obtained.
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom, Kazakhstan, the Netherlands and the European Economic Area, see "*Subscription and Sale*".

RISK FACTORS

Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under Notes and the Guarantee, as applicable, issued under the Programme. Some of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring or not occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below. If any of the risks described below actually materialises, the Company's business, prospects, financial condition, cash flows or results of operations may be materially adversely affected. If that were to happen, the trading price of the Notes may decline, or the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes and the Company may be unable to honour the Guarantee and investors may lose all or part of their investment. Furthermore, Notes issued under the Programme may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily, or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer or the Company to pay interest, principal or other amounts on or in connection with any Notes, or otherwise perform their obligations under any Notes or the Guarantee, may occur for other reasons which may not be considered significant risks by the Issuer and the Guarantor based on information currently available to them or for reasons which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

The order in which the risk factors are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Company's business, prospects, financial condition, cash flows or results of operations.

Risk Factors Relating to the Issuer

The Issuer's ability to fulfil its obligations in respect of Notes issued under the Programme is entirely dependent on the Company and in turn the Company is dependent on receipt of funds from its subsidiaries, joint ventures and associates.

The Issuer's principal purpose is to provide funding, through the international capital markets, to the Company. Therefore, the Issuer's ability to fulfil its obligations under any Notes is entirely dependent on the performance of the Company, and in turn the Company is dependent upon its subsidiaries, joint ventures and associates as a source of revenue. As a result, in considering the risks that may affect the Issuer's ability to fulfil such obligations, potential investors should focus on the risk factor analysis set out below in respect of the Company and its ability to fulfil its obligations under the Guarantee, which is equally applicable to the Issuer's ability to fulfil its obligations under the Notes. If a prospective investor purchases Notes, it is relying on the creditworthiness of the Company and no other person. In addition, an investment in any Notes involves the risk that subsequent changes in the actual or perceived creditworthiness of the Company may adversely affect the market value of Notes.

Risk Factors Relating to the Company's Business

The Company's revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company's control. The decline in international prices for crude oil in 2008 and early 2009 adversely affected the amount of revenue generated by the Company's crude oil and other sales. Although oil prices have recovered to some extent since mid-2009, there can be no assurance that oil prices will not decline again. Any future declines in the price of oil may have an adverse affect on the Company's business, prospects, financial condition, cash flows or results of operations.

Crude oil sales are the Company's material source of revenue and the price of crude oil is affected by a variety of factors beyond the Company's control. The Company's business, prospects, financial condition, cash flows and results of operations are heavily dependent on prevailing crude oil prices. Historically, crude oil prices have been highly volatile. The Company's revenue and net income fluctuate significantly with changes in crude oil prices. Such volatility was particularly pronounced over the course of 2008 and 2009, during which period prices fluctuated widely. Crude oil prices reached a peak in July 2008 and then sharply fell in the second half of 2008, remaining low during the first half of 2009,

before beginning to recover in the second half of 2009. According to the EIA, the average monthly price for Brent crude oil as at December 2008 was U.S.$40/bbl, a decrease of about 70 per cent. from U.S.$133/bbl as at July 2008. While oil prices increased overall in 2009 to U.S.$74/bbl as at December 2009, an 85 per cent. increase from prices as at December 2008, as at the date of this Base Prospectus, the price of crude oil remains significantly below the record high prices, which prevailed prior to the recent global financial crisis and had a considerable positive impact on the Company's business, prospects, financial condition, cash flows and results of operations. As at 31 March 2010, the price for Brent crude oil was U.S.$82.7/bbl. The Company can give no assurance as to the level of oil prices that will be maintained in the future.

The Company's profitability derived from crude oil sales is determined in large part by the difference between the income received for the crude oil the Company produces and its operating costs, as well as costs incurred in transporting and selling its crude oil. Therefore, lower crude oil prices may reduce the amount of crude oil that the Company is able to produce economically or may reduce the economic viability of the production levels of specific wells or of projects planned or in development because production costs would exceed anticipated income from such production. The sharp decline in oil prices in the second half of 2008 and continued depressed oil prices in the first half of 2009 had an adverse impact on the Company's revenue and EBITDA for 2009. While oil prices have recovered to some extent since mid-2009, there can be no assurance that the Company will continue to receive the improved (or better) prices per barrel for crude oil as it currently receives. Any further declines (even relatively modest declines) in oil prices or any resulting curtailment in the Company's overall production volumes may result in a reduction in net income, impair the Company's ability to make planned capital expenditures and to incur costs necessary for the development of the Company's fields and materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

Prices for crude oil are subject to large fluctuations in response to a variety of factors beyond the Company's control, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and petroleum products;
- the impact of recessionary economic conditions on the Company's customers, including reductions in demand for gas and oil products;
- global and regional socioeconomic and political conditions and military developments, particularly in the Middle East and other oil-producing regions;
- weather conditions and natural disasters;
- access to pipelines, railways and other means of transporting crude oil, gas and petroleum products;
- prices and availability of alternative fuels;
- the ability of the members of the Organisation of Petroleum Exporting Countries ("**OPEC**"), and other crude oil producing nations, to set and maintain specified levels of production and prices;
- Kazakhstan and foreign governmental regulations and actions, including export restrictions and taxes; and
- market uncertainty and speculative activities.

The Company is relatively highly leveraged and has embarked on long-term growth plans that may entail an increased debt burden over the coming years. As a result, the Company may be constrained by the financial covenants contained in its debt agreements, non-compliance with which could result in acceleration of payment of borrowed funds, including in respect of Notes, or termination of some or all of the Company's debt agreements.

The Company is relatively highly leveraged with short-term and long-term debt outstanding as at 31 December 2009 of KZT 1,838 billion. The Company's outstanding debt may increase over the long-term as the Company continues to pursue an acquisition-driven growth strategy and increased capital expenditures. For example, in 2009, Notes issued under the Programme in the aggregate principal amount of U.S.$1.5 billion were guaranteed by the Company; the Company issued bonds on the KASE for a total amount of KZT 120 billion, which were fully subscribed by the Development Bank of Kazakhstan, to finance a portion of its share of the 2009 cash call for the North Caspian Project (Kashagan Field); and, in connection with its purchase of the Pavlodar Refinery, the Company issued bonds on the KASE for a total amount of KZT 190 billion, which were fully subscribed by Samruk-Kazyna and in exchange for bonds issued by Samruk-Kazyna to the Company on the KASE in the same amount, which bonds were, in turn, utilised by the Company in connection with a repurchase transaction with the NBK. In particular, the Company expects the capital expenditure-intensive programme

for the North Caspian Project (Kashagan Field), which must be funded by the Company in proportion to its 16.81 per cent. interest in NCPC as at 31 December 2009, the Company's capital expenditure programmes relating to transportation projects with joint ventures, in particular the Asia Gas Pipeline, and the potential redemption of the Rompetrol Convertible Note (as defined below) may require the Company to assume additional debt as well as use the Company's cash resources. In addition, although TCO and CPC expect to fund their respective capital expenditures out of their own cash flows or, to the extent necessary, external financings, there can be no assurance that the Company will not at some point be required to provide cash to cover all or a portion of such capital expenditures. No assurance can be given that the Company will be able to fund all or most of its capital expenditures through the Company's cash resources. While the Company's adoption, from 2009 onwards, of the equity method of accounting in relation to its joint ventures, rather than the proportionate consolidation method, has reduced the Company's overall liabilities as they appear in its consolidated financial statements, and the Company's utilisation of non-recourse financing where possible has improved the Company's overall debt profile, there can be no assurance that the Company's debt levels will not continue to increase in the future. In addition, no assurance can be given that the Company will be able to refinance its indebtedness at maturity on terms that are favourable or acceptable to the Company or at all. A failure to refinance its outstanding indebtedness could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company is also subject to certain financial and other restrictive covenants under the terms of its indebtedness that limit its ability to borrow, including, among others, under KMG Trade House's U.S.$2.5 billion syndicated loan facility with Deutsche Bank AG, as agent, dated 4 September 2008 (the "**Trade House Facility**") in relation to which the Company must comply with a number of financial covenants. These include maintaining (i) a ratio of consolidated indebtedness to EBITDA of not more than 3.5:1, (ii) a ratio of consolidated indebtedness of "material subsidiaries" (as defined in the Trade House Facility), excluding financial indebtedness guaranteed by the Company, to EBITDA of such material subsidiaries of not more than 2.5:1 and (iii) a ratio of consolidated net debt to net capitalisation of not more than 50 per cent. Two other facilities to which the Company is a party have similar financial covenants. The Company's ability to meet its financial covenants and tests under the terms of its indebtedness may be affected by events beyond the Company's control. The Company's management cannot give any assurance that the Company will be able to meet these tests. If the Company is unable to comply with the restrictions and covenants in its current or future debt and other agreements, a default under the terms of those agreements may result. In the event of a default under these agreements, the parties may terminate their commitments to further lend to the Company or accelerate the loans and declare all amounts borrowed due and payable triggering events of default in other finance agreements. If any of these events occurs, the Company cannot guarantee that its assets would be sufficient to repay in full all of its indebtedness, or that the Company would be able to secure alternative financing. Even if the Company could obtain alternative financing, the Company's management cannot guarantee that such financing would be on terms that are favourable or acceptable to the Company.

In the past, certain of the Company's subsidiaries have been in breach of certain covenants under a number of their financing facilities. Although all such breaches have been cured, there can be no assurance that similar or other breaches will not occur in the future.

In 2009, two of Rompetrol's subsidiaries, Rompetrol Rafinare S.A. and Rompetrol Petrochemicals SRL, were each in breach of certain covenants in respect of financial maintenance ratios contained in certain financing agreements, which could have triggered events of default or cross acceleration provisions in other financing agreements of Rompetrol and the Company. The Company secured waivers or other assurances from the relevant lenders, and no defaults or accelerations were declared under any of Rompetrol's or the Company's financing agreements in respect of such breaches.

In 2009, the Company was in breach of certain covenants in relation to a U.S.$52 million loan facility agreement between HSBC Bank plc ("**HSBC**") and KTG (the "**HSBC Facility**"). Although these breaches could also have triggered a number of outstanding cross defaults on other financing agreements of the Company, HSBC agreed not to call a default in order to allow KTG time to repay the loan and the loan was repaid in full in July 2009.

In addition, in 2009, KTG Tbilisi, a subsidiary of KTG, was in breach of a U.S.$50 million loan facility agreement between Credit Suisse AG, London Branch ("**CS**") and KTG Tbilisi, guaranteed by KTG and ICA (the "**CS Facility**"), including in respect of payment of amounts due under the CS Facility and the guarantee thereunder. Following two conditional waivers granted by CS and a demand letter sent by CS to KTG Tbilisi and the guarantors under the CS Facility, KTG entered into a new U.S.$50 million loan facility with Credit Suisse International ("**CSI**"), guaranteed by ICA (the "**CSI Facility**"), which replaced the CS Facility. As of the date of this Base Prospectus, KTG is in compliance with the terms of the new CSI facility.

The Company and its respective subsidiaries have taken all necessary steps to resolve all outstanding covenant breaches and, as at the date of this Base Prospectus, neither the Company nor any of its subsidiaries is in breach of any covenants under its respective existing facilities. There can be no assurance, however, that further breaches of covenants by any of the Company's subsidiaries will not occur in the future. Any such breaches could, in the event that the relevant lenders consequently decide to accelerate their loans, result in the cross-acceleration of other facilities of the Company, which

could put significant financial strain on the Company and result in the triggering of an event of default under the Notes. The Company may, from time to time, use a portion of the proceeds of Notes offered under the Programme to repay existing indebtedness, particularly if necessary to cure future breaches (if any) under other financing facilities.

Serious financial difficulties experienced by a number of major Kazakhstan banks could result in the loss of significant cash deposits of the Company held with such banks.

The Company has substantial deposits with JSC BTA Bank ("**BTA Bank**"), JSC Halyk Bank ("**Halyk Bank**") and JSC Kazkommertsbank ("**Kazkommertsbank**"). Each of BTA Bank and Kazkommertsbank and, to a lesser extent, Halyk Bank has encountered considerable financial difficulties and BTA Bank is the subject of restructuring proceedings, which are ongoing. As at 31 March 2010, the Company had deposits of U.S.$8.1 billion (U.S.$7.7 billion as at 31 December 2009) with Kazakhstan banks, of which U.S.$2.8 billion (U.S.$2.5 billion as at 31 December 2009) was held with Kazkommertsbank, U.S.$2.7 billion (U.S.$2.6 billion as at 31 December 2009) was held with Halyk Bank and U.S.$1.1 billion (U.S.$1.2 billion as at 31 December 2009) was held with BTA Bank. Both Halyk Bank and Kazkommertsbank have been the recipients of significant state aid, with the Government, through Samruk-Kazyna, taking a 21 per cent. stake in Halyk Bank and a 25 per cent. interest in JSC Kazkommertsbank. In addition, Samruk-Kazyna has acquired over 75 per cent. of BTA Bank and 67 per cent. of JSC Alliance Bank, another large Kazakhstan bank ("**Alliance Bank**"). Since the peak of the banking crisis at the beginning of 2009, BTA, JSC Alliance Bank, JSC Temirbank and JSC Astana Finance have defaulted on their contractual payments and breached certain regulatory requirements of the Regulation and Supervision of Financial Market and Financial Organisations ("**FMSA**"). BTA Bank has declared a moratorium on the payment of principal on outstanding debt pending the possible restructuring of its financial indebtedness. Alliance Bank has announced that is has completed its restructuring. There is a possibility that the restructuring efforts in respect of the Kazakhstan financial sector will still fail and that the banks with which the Company has deposits, and possibly others, will still become bankrupt. In this event, unsecured creditors, such as the Company, may be unable to recover any portion of the amounts deposited with such banks. Although none of the Company's deposits at any of these banks are frozen, and the Company has not attempted to withdraw the funds, the Company believes that the Company's ability to access these deposits is limited in practice and that, at least in the short-term, it is unlikely to be able to withdraw the money. On 7 July 2009, S&P downgraded the long-term credit rating of the Company to BB+ (outlook stable) partly in view of the Company's significant exposure to the troubled Kazakhstan banking sector, despite S&P's expectation of continued strong support from the Government. In a press release dated 7 April 2010, Moody's announced that it has concluded that the current ratings and negative outlooks of the Company and its subsidiaries remain unchanged despite the recent change in the outlook on the sovereign rating of Kazakhstan to stable from negative, pending a further analysis of the Company's weakened financial position against the continuing assumptions of high support from the Government.

The Company relies heavily on oil and gas transportation systems operated by foreign governments (including the Russian Federation ("Russia")) and other third parties to transport its products and its customers' products to markets outside Kazakhstan.

Kazakhstan's crude oil for export is transported primarily through pipelines, and also by rail and sea, using routes through other countries. The Company currently exports its crude oil through Russian pipelines to Black Sea ports for shipment to Europe, and through Azerbaijan by rail to the Batumi Port and Oil Terminal Facilities (as defined below) for shipment to Europe. Therefore, the Company is largely dependent upon the intergovernmental agreements between Kazakhstan, Russia and other countries to transport its oil.

Although failures of the Russian pipeline system to date have not resulted in the Company suffering significant losses, any reduction or cessation in the availability of these pipelines, whether due to maintenance breakdowns, security issues, political developments or natural disasters among other things, would materially adversely affect exports, which, in turn, would have an impact on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company, representing the Government, which is a participant in the Caspian Pipeline Consortium ("**CPC**"), recently took part in negotiations to increase the capacity of the Kazakhstan and Russian segments of the CPC Pipeline to accommodate increased production from TCO and the expected production from the Kashagan Field, once commercial production commences. On 17 December 2008, the MEMR, the Russian Ministry of Energy and all other CPC shareholders (except LukArco B.V.) agreed to proceed with the expansion process and signed a memorandum on expansion, which was approved by the other CPC shareholders in the first half of 2009. A final agreement on the expansion of the CPC pipeline was signed on 19 December 2009, and the expansion is expected to be completed by 2015. See "*Business—Transportation—Transportation of Crude Oil—CPC Pipeline*".

In February 2010, the Company, Transneft (a Russian company) and Chevron were appointed by CPC's shareholders as operators of the expansion project. The expansion project is intended to comprise an increase in pipeline capacity from 33 million tonnes to 67 million tonnes per year (and up to 75 million tonnes per year with the application of drag reducing agents); the construction of ten pumping stations (two in Kazakhstan and eight in Russia), six tank farms in Novorossiysk and a third berth unit in the oil terminal in Novorossiysk; and the replacement of 88 km of the pipeline in Kazakhstan.

Transneft will manage the expansion project in Russia, Chevron at Novorossiysk port and the Company in Kazakhstan. There can be no assurance that the CPC shareholders will not raise issues relating to the expansion project that could jeopardise its completion or that the completion of the expansion project will not otherwise be subject to delays or cost overruns.

Moreover, as a result of its purchase of a 49.9 per cent. interest in Kazakhstan Pipeline Ventures LLC ("**KPV**") from BP plc ("**BP**") in April 2009, which resulted in an increase in its effective beneficial interest in CPC to 20.75 per cent., the Company's throughput rights in CPC have substantially increased, together with the corresponding tariffs paid by the Company to utilise those rights. See "*Business—Transportation—Transportation of Crude Oil—CPC Pipeline"*. In addition, despite increased throughput rights, the Company cannot be certain that it will be successful in obtaining sufficient CPC Pipeline capacity allocation to meet anticipated production volumes at the Kashagan Field. Failure to access additional CPC Pipeline capacity and any further material increase in the tariff for the use of the CPC Pipeline may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

Users of the gas transportation network operated by ICA, the Company's natural gas transportation subsidiary, are dependent upon connections to third-party pipeline networks in Turkmenistan, Uzbekistan and Russia to receive and deliver natural gas. Accordingly, a reduction in the allocation of usage rights capacity of third-party pipelines located in Turkmenistan, Uzbekistan and Russia, due to maintenance breakdowns, security issues, political developments or natural disasters among other things, could result in the reduction of volumes of gas transported by ICA. For example, the volume of gas transported in 2009 was 22 per cent. lower than in 2008 due to a disagreement between Russia and Turkmenistan over gas purchase prices and other conditions, which resulted in Russia restricting the volume of gas imported from Turkmenistan into Russia and correspondingly lower usage of ICA's gas transportation network. Any similar or other future reductions may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

Many of the Company's production, transportation and refining facilities were constructed many years ago and will require significant further investment.

The Company's production, transportation and refining facilities largely rely on old infrastructure, which could materially adversely affect the Company's activities.

The natural gas transportation systems operated by ICA, including the pipelines and compressor stations, were largely constructed over 30 years ago. Most of the pipelines are over 25 years old with some parts of the pipeline more than 35 years old. Considerable sums of money have been invested by the Company to overhaul and improve the pipeline network and compressor stations to bring them in compliance with internationally accepted standards. While recently there have been no significant delays or curtailments of the supply of natural gas to the Company's customers, there can be no assurance that such delays or curtailments will not occur in the future due to the stress and corrosion of pipelines, defective construction of compressor stations, problems associated with the harsh climate or the insufficient maintenance or refurbishment of the network. The Company's subsidiaries, joint ventures and associates have, on a small number of occasions, experienced power outages at their fields. Any problem or adverse change affecting the power supply for the Company's operations or other operational infrastructure provided by third parties could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Atyrau Refinery in Western Kazakhstan was commissioned in 1945 and is the oldest of the three operating refineries in Kazakhstan. The Atyrau Refinery only operates at slightly above the break-even point and the low utilisation rate primarily results from plant and equipment constraints. See "*Business—Refining and Trading—Refining Facilities—Atyrau Refinery"*. Although between March 2003 and September 2006, the Atyrau Refinery underwent a refurbishment and modernization as a result of which much of the outdated equipment was replaced and technological processes and equipment were updated to allow the production of refined products in line with Kazakhstan standards, considerable investment remains to be made by the Company to improve the utilisation rate and profitability of the Atyrau Refinery and improve the quality of the refined (oil) products produced by the Company at the Atyrau Refinery.

The Company's oil and natural gas transportation operations may also be adversely affected by, among other things, the breakdown or failure of equipment or processes leading to performance below expected levels of output or efficiency. A large number of the Company's facilities and large segments of its networks are located in areas that experience severe weather conditions, particularly in winter, and extreme variability in winter and summer weather, which can accelerate wear and tear on pipelines and related equipment. Extremely harsh weather conditions and the remoteness of certain of the Company's facilities can make it difficult to gain access to conduct repair or maintenance quickly. By way of example, the Batumi Port and Oil Terminal Facilities, acquired by the Company in 2008, are located in Georgia, and the Company has no immediate access to this facility in case of any malfunctions or curtailments. In addition, any political unrest or military actions in this region may limit the Company's ability to use the Batumi Port and Oil Terminal Facilities on its export routes. For instance, operations at the Batumi Port and Oil Terminal Facilities were interrupted for a period of three months in the wake of the Russian-Georgian hostilities of August 2008.

The Company's business requires significant capital expenditures and the Company may be unable to finance its planned capital expenditures.

The Company's business requires significant capital expenditures related to exploration and development, production, transportation, refining and trading and compliance with environmental laws and regulations. Although in 2009 the Company reduced its overall capital expenditures programme in response to the global financial crisis, the Company expects to return to higher historical levels of capital spending and investment in 2010 and beyond.

For example, TCO plans to undertake a future generation expansion project (the "**FGP**") in the Tengiz Field using the technologies used in its recently completed second generation plant and sour gas injection project, after receiving all the necessary approvals by the appropriate regulatory authorities and partners. The FGP is expected to further increase TCO's oil field production and plant processing capacity. The total combined cost of the project is expected to be up to U.S.$15 billion (excluding the cost of the drilling programme and assuming a design capacity of 12 million tonnes per year) and is expected to be completed in 2016. TCO expects to pay the total cost of the project out of its own cash flows and, to the extent necessary, through external financings. See "*Business—Exploration and Production –Significant Production Fields of Other Joint Ventures and Associates—TCO*".

In October 2008, the Company acquired an additional 8.48 per cent. interest in NCPC to increase its interest in NCPC to 16.81 per cent. retroactively to 1 January 2008. With the increase of its interest in NCPC, the Company's share in the capital expenditures programme for the Kashagan Field, which was U.S.$909.3 million in 2008, increased to U.S.$1.29 billion in 2009 and is expected to increase further to U.S.$1.46 billion in 2010. It is expected that the Kashagan Field will commence production by the fourth quarter of 2012. See "*Business—Exploration and Production—Exploration Projects—NCPC—Kashagan Field".*

Increased oil production from the Tengiz Field and commencement of commercial production at the Kashagan Field will require increased capacity of the transportation infrastructure. Among other things, it is planned that the CPC Pipeline will be expanded to provide enhanced production capacity for the Tengiz Field and Kashagan Field. The estimated capital expenditures for expanding the CPC Pipeline is up to U.S.$4.5 billion. While CPC expects to pay the total cost of the project out of its own cash flows from the proceeds of oil transportation services provided to the CPC shareholders pursuant to their preferential capacity rights and excess capacity rights on a ship-or-pay basis and, to the extent necessary, through external financings, there can be no assurance that CPC will not seek funding from its shareholders. See "*Business— Transportation—Transportation of Crude Oil–CPC Pipeline*".

The Comprehensive Plan to Develop the Refineries of the Republic of Kazakhstan for 2009-2015 was approved by the Government in May 2009 and is currently being implemented. The Company plans to invest in the modernisation and expansion of its controlled or jointly-controlled refineries in order to enhance production and to comply with new ecological standards. Over the next six years, the Company plans to invest U.S.$2.2 billion, U.S.$0.55 billion and U.S.$1.3 billion toward upgrades to the Atyrau, Shymkent and Pavlodar Refineries, respectively. Additionally, the Company expects Rompetrol's total capital expenditures between 2008 and 2010 on the modernisation of the Petromidia Refinery will amount to U.S.$337 million, of which U.S.$30.2 million was spent in 2008, U.S.$65.0 million was spent in 2009 and U.S$241.8 million remains to be funded in 2010.

The Company's investments into hydrocarbon exploration projects (whether on its own or in a joint venture) pursuant to certain Subsoil Use Agreements that failed to yield commercial discoveries or reserves are generally at the Company's sole risk and, due to applicable tax ring-fencing rules, are not-recoverable from revenue streams generated from the Company's other projects (except where this risk is contractually borne by the Company's joint venture partners).

The Company expects to fund a substantial part of its capital expenditures out of net cash provided by its operating activities, although the Company itself has limited direct access to cash flows and is largely dependent on dividends from its subsidiaries and joint ventures. See *"Risk Factors—Risk Factors Relating to the Company's Business— The Guarantee is structurally subordinated to the creditors of the Company's subsidiaries, jointly-controlled entities and associates".*

In addition, if (among other things) international oil prices decrease, the Company may have to finance more of its planned capital expenditures from outside sources, including bank borrowings and offerings of debt securities in the domestic and international capital markets. The Company may be unable to raise the financing required for its future capital expenditures, on a secured basis or otherwise, on acceptable terms or at all. Lack of sufficient funds in the future may require the Company to delay or terminate some of its anticipated projects.

Although the Company may also seek financing from the Government, its sole, indirect shareholder, through capital increases or otherwise, the Company can give no assurance that it will be able to receive additional financing from the Government on acceptable terms or at all.

If the Company is unable to raise necessary financing either from the Government, the banks or the capital markets, it will have to reduce planned capital expenditures, downsize, curtail or abandon certain projects, which could adversely affect its operating results and financial condition. In such circumstances, any such reduction in capital expenditures could adversely affect the Company's ability to expand its business, and if the reductions are severe enough, could adversely affect its ability to maintain its operations at current levels.

The Guarantee is structurally subordinated to the creditors of the Company's subsidiaries, jointly-controlled entities and associates.

The Guarantee is exclusively an obligation of the Company. The Company's subsidiaries, jointly-controlled entities and associates are separate and distinct legal entities and they have no obligation to pay any amounts due under the Notes or the Guarantee or to make any funds available for that purpose, whether by dividends, distributions, loans or other payments.

In recent years, a significant amount of the Company's cash flows has been derived from dividends paid to the Company by its subsidiaries, jointly-controlled entities and associates. However, future dividends to the Company may decrease to the extent the subsidiaries, jointly-controlled entities and associates of the Company are required to fund capital expenditures or meet other costs or fines, including environmental fines, among other things, out of cash. See *"Risk Factors—Risk Factors Relating to the Company's Business—The Company's business requires significant capital expenditures and the Company may be unable to finance its planned capital expenditures"*. The Company can give no assurance that future dividends from the Company's subsidiaries, jointly-controlled entities and associates, if forthcoming, will be of a similar magnitude as those received over the past few years.

Additionally, the Company's right to receive any assets of any of the Company's subsidiaries, joint ventures or associates upon their liquidation or reorganisation, and therefore the right of the holders of the Guarantee to participate in those assets, will be effectively subordinated to the claims of that subsidiary, jointly-controlled entities or associate's creditors, including trade creditors. In addition, even if the Company were a creditor of any of its subsidiaries, jointly-controlled entities or associates, the Company's rights as a creditor would be subordinate to any security interest in the assets of the Company's subsidiaries, jointly-controlled entities or associates and any indebtedness of those entities senior to that held by the Company.

The Company operates in remote or otherwise inaccessible areas.

Because of the remote location of many of the Company's operations, the Company generally does not have ready access to equipment or facilities to address problems such as, among other things, equipment breakdown or failures, and delays may occur in accessing required materials or supplies in order to carry out necessary repairs or maintenance. In addition, equipment breakdown or failures affecting certain key parts of the Company's facilities, such as the Company's transportation operations and the interface between the field gathering system and its processing facilities, might affect the Company's ability to use all of its facilities and substantially curtail or stop production.

The remote location of many of the Company's operations also makes its assets and infrastructure susceptible to acts of terrorism or sabotage and natural disasters. In addition, political unrest or military actions may limit the Company's ability to use certain of its assets, such as the Batumi Port and Oil Terminal Facilities, which are located outside Kazakhstan. For instance, operations at the Batumi Port and Oil Terminal Facilities were interrupted for a period of three months in the wake of the Russian-Georgian hostilities of August 2008. Because of the remote or otherwise inaccessible nature of the Company's operations, the Company may not be able to immediately respond to or repair damage resulting from such acts.

Should any of these events occur, it could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Sustained periods of high inflation could adversely affect the Company's business.

The Company's operations are located principally in Kazakhstan and a majority of the Company's costs are incurred in Kazakhstan. Since the majority of the Company's expenses are denominated in Tenge, inflationary pressures in Kazakhstan are a significant factor affecting the Company's expenses. For example, employee and contractor wages, consumable prices and energy costs have been, and are likely to continue to be, particularly sensitive to monetary inflation in Kazakhstan. In a low oil price environment, the Company may not be able to sufficiently increase the prices that it receives from the sale of crude oil, gas and oil products in order to preserve existing operating margins, particularly in the case of the Company's domestic crude oil and oil product sales. See "*Risk Factors Relating to the Republic of Kazakhstan—Most of the Company's operations are conducted, and a substantial part of its assets are located, in*

Kazakhstan; therefore, the Company is largely dependent on the economic and political conditions prevailing in Kazakhstan".

The Company relies on the services of third parties.

The Company relies to a large extent on external contractors to carry out maintenance of the Company's assets and infrastructure. For example, 85 per cent. of the maintenance work relating to upstream and midstream operations performed by the Company is carried out by external contractors. The Company relies on external contractors in all regions of Kazakhstan to perform major works, such as wells workovers and maintenance, repairs and maintenance of equipment, drilling, repairing pumping units, pipe isolation systems and electrochemical protection systems, maintaining and replacing pipe and other general building and structure maintenance. As a result, the Company is largely dependent on the satisfactory performance by its external contractors and the fulfilment of their obligations.

If an external contractor fails to perform its obligations satisfactorily, this may lead to delays or curtailment of the production, transportation, refining or delivery of oil and gas and related products, which could have an adverse effect on the Company's results of operations.

Weaknesses in the Company's accounting systems and internal controls may adversely affect its ability to comply with financial reporting under IFRS.

In 2008 and 2009, the Company identified, and may in the future identify, areas of internal control over financial reporting that require improvement.

In connection with the audit of the 2009 Financial Statements, Ernst & Young, the independent auditors of the Company, has indicated that it will again report material weaknesses in the Company's internal controls with respect to the Company's financial statements closing process and that it intends to propose several recommendations to improve those internal controls. Specifically, Ernst & Young has advised that it has identified weaknesses in the controls over the Company's preparation of its financial statements in accordance with IFRS and an inadequacy of resources within the Company's IFRS reporting team. Under the applicable international auditing standard, a material weakness is a weakness in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period either by employees in the normal course of performing their assigned functions or by management in the normal course of business. As a result, there is a higher than normal risk that critical business decisions regarding budgeting, planning and other matters may be based on incomplete or inaccurate information, and that reporting to management and the Board of Directors and press releases may contain material errors.

While the Company's management believes that the Company's accounting systems and internal controls are more developed than those of its peer companies in Kazakhstan, the Company has not reduced to an acceptably low level the risk that material errors in its consolidated financial statements may occur and may not be detected within a timely period by the Company in the normal course of business.

Despite the steps the Company is taking to address these issues, it may not be successful in remedying these material weaknesses or preventing future material weaknesses. In addition, the Company's growth in recent years and its strategy for continued growth may place an additional strain on accounting personnel and make it more difficult for the Company to remedy the identified material weaknesses or prevent future material weaknesses. If the Company is unable to remedy these material weaknesses or prevent future material weaknesses, it may not be able to prevent or detect a material misstatement in its annual or interim IFRS consolidated financial statements in the future. This could delay the Company's preparation of timely and reliable interim and annual consolidated financial statements, distort its operating results and cause investors to lose confidence in its reported financial information. Notwithstanding these deficiencies, the Company believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

The Government, which indirectly controls the Company, may cause the Company or a subsidiary, joint venture or associate of the Company to engage in business practices that may not be in the interests of the Noteholders and may cause the appointment or removal of members of the Company's management team.

The Company was established as the national oil and gas company of Kazakhstan. The Government, through Samruk-Kazyna, indirectly wholly owns the Company and, therefore, controls the Company. There can be no assurance that the Government will not cause the Company to engage in business practices that may materially affect the Company's ability to operate on a commercial basis or in a way that is consistent with the best interests of the Noteholders. As has been the case in the past with other Government-owned companies, the Government may cause the

Company, and specifically its transportation subsidiaries, to indirectly subsidise local communities through regulated domestic transportation tariffs at rates lower than market rates. In addition, the Company may be forced by the Government to sell gas at below market prices, engage in activities outside of its core activities or acquire assets not on an arm's length basis. The Government may also impose other social duties, such as construction of social and recreational infrastructure, charitable activities and implementation of community development programmes on the Company.

Further, the Government is in a position to appoint and remove, or influence the appointment and removal of, the members of management of the Company and its subsidiaries. By way of example, on 29 May 2008, the then-President of the Company, Mr. Uzakbay Karabalin, was replaced by Mr. Serik Burkitbayev and, on 20 August 2008, Mr. Serik Burkitbayev was replaced by Mr. Kairgeldy Kabyldin. There can be no assurance that the Government will not make further or frequent management changes at the Company, which could be disruptive to its operations.

The Government has in the past and may in the future require the Company to make deliveries of crude oil to domestic refineries at prices that may be materially below international market prices in furtherance of the implementation of the Government's social and economic development programmes.

The Government has in the past and may in the future require all oil producers in Kazakhstan to supply a portion of their crude oil production to domestic refineries to meet domestic energy requirements, primarily in the agriculture sector. Additionally, since the Government, through the Company and its subsidiary, KMG Trade House, owns more than a 50 per cent. interest in the Atyrau Refinery, the refinery must procure its feedstock pursuant to an annual public tender in conformity with the Rules for Conducting of Procurement by JSC "National Welfare Fund" "Samruk-Kazyna" and Entities 50 and More Percent of Voting Shares (Participatory Interests) in Which are Directly or Indirectly Owned by Samruk-Kazyna, dated 18 November 2009 (the "**S-K Rules**"). KMG EP is obligated to participate in these tenders until 2015. Pursuant to these tenders, KMG EP provides oil to the Atyrau Refinery at prices that are significantly below those prevailing on the open market. See "*Share Capital, Sole Shareholder and Related Party Transactions—Relationships Between the Subsidiaries, Joint Ventures and Associates of the Company -Atyrau Refinery Supply Arrangements*".

As domestic consumption of oil and oil products rises, the Company may be compelled by the Government to sell an increasingly larger portion of its production in furtherance of socially mandated policies. Between June 2008 and January 2009, the Government instituted a temporary ban on the export of gasoline and diesel fuel from Kazakhstan in order to stabilise the prices of oil products in the domestic market. See "*—Risk Factors Relating to the Republic of Kazakhstan—The Company is exposed to the risk of Government intervention*". When the Company supplies crude oil and produces oil products pursuant to socially mandated policies or a request by the Government or is subject to an export ban, these sales usually generate substantially less revenue than sales of crude oil and oil products in the export market at international market prices and the Company's business, prospects, financial condition, cash flows or results of operations may be materially adversely affected.

The operations of the Company's subsidiaries, joint ventures and associates' are dependent on compliance with the obligations under their respective licences, contracts and field development plans.

The Company's operations must be carried out in accordance with the terms of its Subsoil Use Agreements and annual working programmes and budgets as set forth in the Subsoil Use Agreements. The law provides that fines may be imposed and a Subsoil Use Agreement may be suspended or terminated if a licence holder or party to the contract fails to comply with its obligations under such Subsoil Use Agreement, or fails to make timely payments of levies and taxes for the subsoil use, provide the required geological information or meet other reporting requirements. See *"The Oil and Gas Industry in Kazakhstan—Subsoil Use Agreements"* for a detailed discussion of the role Government-issued licences and contracts play in production and exploration in Kazakhstan.

In addition, the Company's subsidiaries, joint ventures and associates have obligations to develop the fields in accordance with the specific requirements under the applicable Subsoil Use Agreements, field development plans, laws and regulations. If they were to fail to satisfy such obligations with respect to a specific field, the Subsoil Use Agreement for that field may be suspended, revoked or terminated.

A draft new Subsoil Use Law, replacing the current law, is being considered by the Parliament and expected to be adopted in April 2010. The draft further tightens the Government's control over the natural resources industry, including oil and gas production.

The authorities in Kazakhstan can, and do from time to time, inspect the Company's compliance with its Subsoil Use Agreements and relevant laws. There can be no assurance that the views of the Government agencies regarding the development of the Company's fields or compliance with the terms of its Subsoil Use Agreement, will coincide with the Company's views, which might lead to disagreements that cannot be resolved. The suspension, revocation or termination of any of the Company's Subsoil Use Agreements, as well as any delays in the continuous development of or production

at the Company's fields caused by these disagreements, could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The reported quantities or classifications of the Company's crude oil and gas reserves may be lower than estimated because of inherent uncertainties in the calculation of reserves and because of the use of Kazakhstan methodology.

There are numerous uncertainties inherent in estimating the quantity of reserves and in projecting future rates of production, including many factors beyond the Company's control. Estimating the quantity of reserves is a subjective process, and estimates made by different experts often vary significantly. In addition, the results of drilling, testing and production subsequent to the date of an estimate may result in revisions to that estimate. Accordingly, reserves estimates may be different from the quantity of crude oil and natural gas that is ultimately recovered and, consequently, the revenue therefrom could be less than that currently expected. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they are based, the quality of the information available and the ability to verify such information against industry standards.

The reserves data contained in this Base Prospectus, unless otherwise stated, is taken from reserves analyses prepared in accordance with Kazakhstan methodology by the Company's professional engineering staff. The reserve data used to calculate the Company's consolidated depreciation, depletion and amortisation expenses for financial reporting purposes was taken from reserve reports prepared utilising PRMS, including the GCA report related to the reserves of KMG EP. Estimates derived using Kazakhstan methodology may differ substantially from those derived using PRMS, SEC Standards and other international standards. See "*Presentation of Financial, Reserves and Certain Other Information—Certain Reserves Information*".

In particular, to the extent that reserves data contained in this Base Prospectus is based on Kazakhstan methodology rather than PRMS or SEC Standards, such data may, by international standards, significantly overstate the Company's recoverable reserves. In any case, all reserves data comprises estimates only and should not be construed as representing exact quantities. These estimates are based on production data, prices, costs, ownership, geological and engineering data, and other information assembled by the Company's subsidiaries, joint ventures and associates, and they assume, among other things, that the future development of the Company's oil and gas fields and the future marketability of the Company's oil and gas will be similar to past development and marketability. These assumptions may prove to be incorrect. Moreover, the reserves data used to calculate the Company's consolidated depreciation, depletion and amortisation expenses for financial reporting purposes may differ substantially from the reserves data contained in this Base Prospectus. Potential investors should not place undue reliance on the forward looking statements contained herein concerning the Company's reserves or production levels.

If the assumptions upon which the Company's estimates of reserves of crude oil or gas have been based are wrong, the Company may be unable to produce the estimated levels of crude oil or gas set out in this Base Prospectus and the Company's business, prospects, financial condition or results of operations could be materially and adversely affected. See "*Certain Reserves Information*" and "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*".

The Company may not be able to achieve its strategic objective to increase overall production levels.

Currently, 30.9 per cent. of the Company's reserves, specifically represented by UzenMunaiGas ("**UMG**") and EmbaMunaiGas ("**EMG**"), production divisions of KMG EP that are located in the Mangistau and Atyrau oblasts in Western Kazakhstan, are quite mature and production from those reserves is declining over time. The Company intends to achieve production levels by various field development and rehabilitation projects, including drilling and completing new wells, completing well workovers and introducing secondary enhanced and well stimulation techniques. The Company also intends to increase overall production levels by replacing reserves through new discoveries over the long-term and making new acquisitions of producing oil and gas fields, both in Kazakhstan and internationally. No assurance can be given, however, that the Company will be successful in achieving these strategic objectives, and the Company's business, prospects, financial condition or results of operations could be materially and adversely affected if the Company is not successful in achieving these objectives.

The Company's natural gas transportation revenue is heavily dependent upon the volumes of natural gas transported by Gazprom, which volumes are in turn dependent on the international demand for natural gas.

The Company's natural gas transportation subsidiary, ICA, lacks a diversified customer base. ICA's revenue is heavily dependent on the volumes of natural gas that it transports through Kazakhstan's natural gas transportation system for Gazprom (the Russian state owned oil and gas company), which is ICA's single largest customer, accounting for 90 per cent. of the gas transportation fees of ICA in 2009. While the Company has sought to mitigate its dependence on Gazprom by certain ship-or-pay arrangements between ICA and Gazprom, ICA's current contracts with Gazprom, including such provisions, expire in 2010. Although it is expected that these contracts will be renewed before the end of the year,

negotiations between the Company and Gazprom are on-going and there can be no assurance that the new terms of the contracts will be the same as those previously in effect.

Gazprom's volume requirements for Turkmen, Uzbek and Kazakhstan gas transit are determined by demand for gas in Russia, the Ukraine, Eastern Europe and, to a lesser extent, Western Europe. Factors affecting natural gas consumption in these countries, including weather (demand increases in winter months), electricity generation from gas and other end uses of gas, can have a significant effect on demand from these countries. Natural gas prices can also have an effect on demand for natural gas.

International natural gas prices are typically linked to international prices for oil products. International oil prices have fluctuated widely in response to changes in a number of factors over which the Company has no control. These include factors such as economic and political developments in oil producing regions, particularly in the Middle East; global and regional supply and demand and expectations regarding future supply and demand for oil products; the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels; other actions taken by major crude oil producing or consuming countries to increase or decrease oil supply or demand; prices and availability of alternative fuels; global economic and political conditions; prices and availability of new technologies; and weather conditions. For example, the volume of gas transported in 2009 was adversely affected by a disagreement between Russia and Turkmenistan over gas purchase prices and other conditions, which resulted in Russia restricting the volume of gas imported from Turkmenistan into Russia. A decline in international prices for oil products, a change in international demand or a change in Gazprom's demand for natural gas, in Gazprom's arrangements with its suppliers in Turkmenistan, Uzbekistan or Kazakhstan or in the terms of ICA's contracts with Gazprom could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Regulated oil and gas transportation tariffs may be set by the Government at below market rates.

The Company's tariffs for oil and, to a lesser extent, natural gas transportation are subject to regulation and approval by the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies (the "**Anti-Monopoly Agency**"). KTO, which is classified as a natural monopoly in Kazakhstan, charges the Company's subsidiaries, joint ventures and associates and other shippers flat tariffs for shipments through its pipeline systems. Once approved, the tariffs remain in effect subject to the Company's right to apply to the Anti-Monopoly Agency with a request to review and modify such tariffs. The Anti-Monopoly Agency also has the right to initiate a review of the transportation tariffs. KTO's domestic transportation tariffs are significantly affected by social and political considerations and have historically been kept at artificially low levels. No assurance can be given that any actions of the Anti-Monopoly Agency in setting domestic oil and gas transportation tariffs at lower than market rates will not have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company conducts several of its significant operations through jointly-controlled entities in which it has a non-controlling interest.

The Company directly or through its subsidiaries is party to several jointly-controlled entities, some of which are a significant part of the Company's current and prospective net profit, such as TCO, KazRosGas, NCPC and Kazgermunai and, from November 2009, MMG. The Company may in the future enter into additional jointly-controlled entities as a means of conducting its business. The Company cannot fully control the operations or the assets of these entities, nor can it unilaterally make major decisions with respect to such entities. This lack of control constrains the Company's ability to cause such entities to take an action that would be in the best interests of the Company or refrain from taking an action that would be adverse to the interests of the Company.

In accordance with the decision of the Kutaisy city court dated 16 March 2009, the Company lost control over its subsidiary, KTG Tbilisi, as a result of the transfer of the latter to the special governance of the Georgian National Energy and Water Regulating Committee. As a result, the Company lost its right to determine the financial and operational activities of KTG Tbilisi, losing control, in the process, of the subsidiary and the rights to the economic benefits associated with control. KTG Tbilisi ceased to be consolidated as of 16 March 2009, the date of the loss of control.

In recent years, the Company and its subsidiaries have become party to several significant jointly-controlled entities or investments with Chinese government-controlled entities as China continues to enhance its presence in Kazakhstan's oil and gas industry. Additionally, Chinese government-controlled entities have also provided financing or guaranteed the financing required to fund certain of these projects. These jointly-controlled entities and associates include, among others, (i) PKI, an oil producer which is majority owned by CNPC; (ii) CCEL, a joint venture with CITIC; (iii) KCP, a jointly-controlled entity with CNODC formed to construct and operate the KC Pipeline; (iv) AGP, a jointly-controlled entities with CNPC to construct the Turkmenistan-China gas pipeline across Kazakhstan, which transmits gas from the other Central Asian Republics to major population centres in Southern Kazakhstan and to China; (v) MMG, an oil producer owned by MIBV, a 50-50 joint venture with CNPC E&D; and (vi) MunayTas, which operates the Kenkiyak-Atyrau pipeline and in which CNPC E&D owns a 49.0 per cent. interest. Chinese entities, whether privately or

publicly owned, exercise considerable control over these projects. Although relations between the Company and the Chinese partners are currently strong and the Company's management does not foresee any deterioration in its relationship with its Chinese partners, the Company cannot be sure that relations will remain so in the future. In addition, Kazakhstan's National Security Law permits restrictions on investments if such investments may harm national security. Consequently, a deterioration in the Company's relationship with its Chinese partners or a deterioration in the Government's relationship with the Chinese government could have an adverse impact on these various jointly-controlled entities and, accordingly, the Company's business.

The Company's operations in the ordinary course of business subject it to developing and uncertain environmental and operational health and safety regulations, non-compliance with which could result in severe fines and suspension or permanent shut down of activities.

The Company's operations are subject to the environmental risks inherent in oil and gas exploration, production, transportation and refining. There are environmental issues with current and past sites of operations caused by the Company's subsidiaries, joint ventures and associates and their predecessors. The Company's primary environmental liabilities currently result from land contamination, gas flaring, the disposal of waste water and oil spills.

Although the level of pollution and potential clean up is difficult to assess, the Company's subsidiaries, joint ventures and associates, like most other oil and gas companies operating in the Commonwealth of Independent States ("**CIS**"), are burdened with a Soviet era legacy of environmental mismanagement. There are problems relating to the maturity of fields at past production sites, some of which have been exploited for more than 30 years. Poor environmental awareness in the past allowed a number of incidents of oil leakage due to pipeline failures. Temporary reservoirs for the storage of drilling mud, liquid waste and oil were not repaired or disposed of properly causing severe pollution of the Atyrau and Mangistau regions. More than 500 oil reservoirs in these regions contain 3.7 to 7.3 million barrels of oil production waste and saturation of the topsoil in some places is 10 to 15 centimetres deep. In total, an area of two km^2 is polluted by hydrocarbon waste products in the Atyrau and Mangistau regions.

The legal framework in Kazakhstan for environmental protection and operational health and safety is developing. Stricter environmental requirements, such as those governing discharges to air and water, the handling and disposal of solid and hazardous wastes, land use and reclamation and remediation of contamination are being imposed and environmental authorities are moving towards a stricter interpretation of environmental legislation. Compliance with environmental requirements may make it necessary for the Company, at costs which may be substantial, to undertake new measures in connection with the storage, handling, transport, treatment or disposal of hazardous materials and wastes and the remediation of contamination.

In August 2008, the tax authorities filed a claim against Kazgermunai for the alleged breach of obligations regarding excessive gas flaring for the period from 1 January 2007 until 30 June 2008. In 2009, Kazgermunai paid U.S.$94 million to avoid further enforcement in respect of the claim. Kazgermunai is in the process of filing an appeal with the Supreme Court. There can be no assurance that Kazgermunai will be successful in this appeal or that it will not be subject to future similar claims, which could be material.

In February 2009, the Government ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "**Kyoto Protocol**"). Ratification of the Kyoto Protocol, which is intended to limit or discourage emissions of greenhouse gases such as carbon dioxide, will have an impact on environmental regulation in Kazakhstan. The effect of such ratification in other countries is still unclear; accordingly, potential compliance costs associated with the Kyoto Protocol are unknown. Nonetheless, the likely effect will be to increase costs for electricity and transportation, restrict emissions levels, impose additional costs for emissions in excess of permitted levels and increase costs for monitoring, reporting and financial accounting. Increases in such costs could have a material adverse effect on the Company's business, prospects, financial condition, cash flows and results or operations.

The costs of environmental compliance in the future and potential liability due to any environmental damage that may be caused by the Company could be material. Moreover, the Company could be adversely affected by future actions and fines imposed on a subsidiary, joint venture or associate of the Company by the environmental authorities, including the potential suspension or revocation of one or more of the Company's subsoil licences. To the extent that any provision in the Company's accounts relating to remediation costs for environmental liabilities proves to be insufficient, this could have a material adverse effect on the Company's business, prospects, financial condition or results of operations.

Although the Company is obliged to comply with all applicable environmental laws and regulations, it cannot, given the changing nature of environmental regulations, guarantee that it will be in compliance at all times. Any failure to comply with these environmental requirements could subject the Company to, among other things, civil liabilities and penalty fees and possibly temporary or permanent shutdown of the Company's operations. Moreover, the Company cannot be certain that its environmental liabilities will not increase due to recent and future acquisitions, including the Batumi Port and Oil Terminal Facilities, the Shymkent Refinery, the Petromidia Refinery and the Pavlodar Refinery. Any imposition

of environmental fines, increase in the costs associated with compliance or suspension or revocation of licences or contracts could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Oil at several of the Company's fields contains a high sulphur content and produces a high level of sulphur by product that must be managed in an environmentally sensitive manner.

Several of the Company's fields contain high amounts of hydrogen sulphide. The production of oil and gas with high hydrogen sulphide content requires additional processing to convert the hydrogen sulphide into elemental sulphur, a useful product. Elemental sulphur is stored in block form until it can be sent to market. TCO estimates that it was storing 6.9 million tonnes of elemental sulphur in block form as at 31 December 2009. TCO strives to store block sulphur according to internationally accepted practices and has included the storage of sulphur in its annual environmental use permits and pays fees accordingly. The potential environmental and health impacts from open storage of sulphur has been studied by various institutes selected by an interdepartmental coordination council made up of the Ministry of Environmental Protection of the Republic of Kazakhstan (the "**MEP**"), the MEMR and the Ministries of Health and Emergency Situations. The results of this study were presented in a public hearing in Atyrau and have been expertised by the MEP. The conclusions of this study confirmed that the impact from open storage of sulphur beyond the immediate area of the blocks is insignificant. In 2008, TCO began selling sulphur to third parties in order to decrease the amount of sulphur that it is required to store and thereby reduce the risk of incurring fines connected to sulphur storage in the future. In 2009, TCO sold 2.2 million tonnes of sulphur to third parties and expects to sell 2.6 million tonnes in 2010. TCO was assessed penalties of U.S.$307 million in 2007 (which TCO paid) and of U.S.$307 million in 2008 (which TCO did not pay) for alleged breaches of environmental regulations in connection with the storage of sulphur. In May 2009, the Government and TCO entered into a memorandum of understanding pursuant to which: (i) the proceedings relating to both the 2007 and 2008 assessments will be cancelled (upon issuance of a formal resolution by the Government, which is expected before the end of April 2010); (ii) TCO will be reimbursed the full amount of the U.S.$307 million administrative penalty paid by it in respect of the 2007 proceedings, through an off-set against TCO's royalty obligations, and the U.S.$307 million administrative penalty in respect of the 2008 proceedings will be cancelled; and (iii) TCO will build appropriate sulphur storage facilities and undertake certain other social programmes. There can be no assurances, however, that TCO will not incur similar penalties in the future, in which case, there may be a negative impact on the Company's business prospects, financial condition, cash flows or results of operations in the future. See "*—The Company's operations in the ordinary course of business subject it to developing and uncertain environmental, operational health and safety regulations, non-compliance with which could result in severe fines and suspension or permanent shut down of activities*" and "*Business—Litigation*".

The Company faces drilling, exploration and production risks and hazards that may affect the Company's ability to produce crude oil and gas at expected levels and costs.

The Company's future success will depend, in part, on its ability and the ability of its subsidiaries, joint ventures and associates to develop crude oil and gas reserves in a timely and cost effective manner. The Company's drilling activities may be unsuccessful and the actual costs incurred to drill and operate wells and to complete well workovers will have an impact on the Company's profits. Due to the technological complexity of the Caspian shelf, there are few service providers in the region that have suitable offshore drilling equipment. Oil operators in the region currently are experiencing long lease times to get use of existing off shore drilling rigs in the Caspian Sea. Lack of availability of service equipment, including drilling platforms, could slow exploratory work, particularly with respect to the Kashagan Field.

The Company may be required to curtail, delay or cancel any drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, premature declines in reservoirs, blowouts, uncontrollable flows of crude oil, natural gas or well fluids, pollution and other environmental risks, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

In addition, the Company's crude oil and gas exploration programme may result in unproductive wells or wells that are not economically feasible to produce. In particular, first commercial production at the Kashagan Field, which was initially expected to occur in 2005, is now expected to occur in the fourth quarter of 2012. See "*Business—Exploration and Production—Exploration Projects—NCPC—Kashagan Field*". The Company can not be certain that there will not be further delays. Completion of a well does not guarantee a profit on the investment or recovery of drilling, completion and operating costs. Also, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells. The occurrence of any of these events could have a material adverse effect on the Company's business, prospects, financial condition cash flows or results of operations.

The Company's production operations are also subject to risks associated with natural disaster, fire, explosion, blowouts, encountering formations with abnormal pressure, the level of water cut, cratering and crude oil spills, each of which could result in substantial damage to the crude oil wells, production facilities, other property, the environment or result in personal injury or death. Any of these risks could result in loss of crude oil and gas or could lead to environmental pollution and other damage to the Company's properties or surrounding areas, and increased costs or claims against the Company's subsidiaries, joint ventures or associates.

Any of these drilling, production and exploration risks and hazards could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions.

The Company has a unified insurance programme for substantially all of its subsidiaries and affiliates. This insurance programme covers third party environmental liability, property and business interruption risks relating to production assets, out of control wells, third party liability coverage (including employer's liability insurance and hazardous object insurance) and directors and officers liability insurance. However, the amount of such insurance coverage is more limited than that which would normally be acquired by similar companies in more developed economies. For example, the Company does not carry insurance against environmental damage caused by its own operations, sabotage or terrorist attacks. The Company can give no assurance that the proceeds of insurance are adequate to cover increased costs and expenses relating to these losses or liabilities. Accordingly, the Company may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage.

Failure to integrate recent or future acquisitions successfully or to complete prospective acquisitions may lead to increased costs or losses for the Company.

The Company has recently expanded its operations significantly through acquisitions and expects to continue to do so in the future. The Company's most recent significant acquisitions were its purchases of a 50 per cent. interest in the upstream assets of MMG in November 2009; a 100 per cent. interest in the assets of the Pavlodar Refinery, together with a 58 per cent. interest in the licences to operate the Pavlodar Refinery in August 2009; a 75 per cent. interest in Rompetrol in November 2007, which was subsequently increased to a 100 per cent. in June 2009; and a 100 per cent. interest in each of Batumi Industrial Holdings Limited and Batumi Capital Partners Limited, which own and operate the Batumi Port and Oil Terminal Facilities, in February 2008. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations—Acquisitions*".

The integration of acquired businesses requires significant time and effort on the part of the Company's senior management and may require additional capital expenditures. Integration of new businesses can be difficult because the Company's operational and business culture may differ from the cultures of the businesses it acquires, cost cutting measures may be required and internal controls may be more difficult to maintain, including control over cash flows and expenditures. Any failure to successfully integrate past or future acquisitions could adversely affect the Company's business, prospects, financial condition, cash flows or results of operations. Moreover, even if the Company is successful in integrating newly acquired businesses, expected synergies and cost savings may not materialise, resulting in lower than expected profit margins.

In particular, although the Company believes that the integration of Rompetrol's operations with its own existing operations has progressed satisfactorily to date, there can be no assurance that significant difficulties will not arise in the future, that material additional expenditures beyond those already incurred for the integration will not be necessary and that it will achieve the anticipated cost savings or other expected benefits of the acquisition. On 24 June 2009, the Company exercised a put-call option (the "**Rompetrol Option**") with respect to the remaining 25 per cent. of the issued and outstanding share capital in Rompetrol, previously held by Mr. Dinu Patriciu. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Acquisitions*". As part of the transaction, Mr. Patriciu resigned as CEO in June 2009, and he resigned as a member of Rompetrol's management board in February 2010. The Company anticipates that further managerial changes at Rompetrol may be made. The Company may not be able to effectively manage its growth and expansion if it cannot hire a sufficient number of qualified managers. Additionally, there may be other integration problems at Rompetrol yet unknown to the Company.

The Company may be required to record a significant charge to earnings if it must reassess goodwill or other intangible assets as a result of changes in assumptions underlying the recorded value in use of certain assets.

As at 31 December 2009, the Company had KZT 199.0 billion in goodwill, including KZT 162.1 billion in connection with its acquisition of the Pavoldar Refinery. Goodwill and other intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill may be

impaired. The Company performed impairment tests on the carrying value of goodwill as at both 31 December 2008 and 2009 and recorded impairment charges of KZT 1.3 billion and KZT 23.6 billion, respectively. The 2009 and 2008 impairment of goodwill both principally reflected the write-down of goodwill related to the acquisition of the Batumi Port and Oil Terminal Facilities, while the 2008 impairment also reflected the Company's acquisition of Rompetrol.

In performing goodwill impairment tests, the Company is required to estimate the value in use of the related cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows of the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Accordingly, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounted cash flow techniques. Although the Company believes its estimates and projections are appropriate based on currently available information, the actual operating performance of an asset or group of assets, which has been tested for impairment, may differ significantly from current expectations. Moreover, the Company may make changes in the assumptions used in estimating value in use of its cash generating units. In such an event, the carrying value of goodwill may be required to be reduced from amounts currently recorded. Any such reductions may materially affect asset values and the Company's financial condition and results of operations. No assurance can be given as to the absence of significant impairment charges in future periods.

The Company may not be able to effectively manage its growth and expansion if it cannot hire a sufficient number of experienced managers.

The Company has experienced rapid growth and development in a relatively short period of time and the Company expects to continue to expand its business through internal growth in the future. The Company's management of that growth will require, among other things, stringent control of financial systems and operations, the continued development of the Company's management control, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the continued consistency in the quality of its services. Failure to successfully manage growth and development, including through the retention of qualified and experienced managers, could have a material adverse effect on the overall growth of the Company's business, prospects, financial condition, cash flows or results of operations.

Rompetrol's financial results in 2009 and 2008 have been negative and have had an adverse effect on the Company's downstream results of operations and may continue to do so.

Rompetrol reported net losses of U.S.$161.8 million and U.S.$296.0 million in 2009 and 2008, respectively. Rompetrol's poor results in 2008 and 2009 were exacerbated by the global economic crisis, which has led to a significant decrease in prices for refined (oil) products and put extreme pressure on refining margins. In addition, Rompetrol had negative shareholders equity and negative working capital as at 31 December 2009 and 2008. While the Company and Rompetrol's management believe these problems have been largely addressed through the refinancing of Rompetrol's debt and cost reduction and operational efficiency projects, the Company cannot be certain that Rompetrol will not incur further losses in 2010 and beyond, which will continue to adversely affect the Company's results of operations.

Rompetrol may become subject to civil fines for alleged actions of certain of its officers and directors.

Criminal proceedings before a court of law were initiated by the Department of Investigation of Organised Crime and Terrorism on 7 September 2006 against the then chairman of the board and CEO and former minority shareholder of Rompetrol, Mr. Dinu Patriciu, as well as Mr. Alexandru Bucsa and ten others, all of whom are, or were at the relevant time, officials in Romanian state agencies, licensed securities brokers or traders or businessmen. The proceedings before the court involve a number of allegations, including embezzlement, money laundering, insider trading and manipulation of capital markets. A number of other allegations remain subject to formal criminal investigation.

In accordance with a judicial order dated 26 March 2007, the Romanian Ministry of Public Finance intervened as a civil party in the trial and Rompetrol was introduced in the criminal proceedings as a party with potential civil, but not criminal liability, which means that should the prosecutors be successful in pressing charges against the criminal defendants, Rompetrol may be found jointly and severally liable together with the criminal defendants to compensate the financial loss incurred by the Romanian State budget. Although Mr. Patriciu resigned as CEO of Rompetrol in June 2009 and as a member of Rompetrol's management board in February 2010. Rompetrol has not been dismissed as a party in the proceedings. The Company estimates that Rompetrol is exposed to potential monetary damages amounting to U.S.$88 million, excluding interest and penalties.

As at the date of this Base Prospectus, the presiding court has not issued a ruling in the court case and both the court case and the investigation are expected to proceed slowly. If Rompetrol is subject to civil penalties, it could materially adversely affect Rompetrol's business, prospects, financial condition, cash flows or results of operations.

The Company could lose control of the Petromidia Refinery.

Prior to the Company's acquisition of Rompetrol, Rompetrol Rafinare issued a convertible debt instrument in the amount of EUR 570.3 million (KZT 101 billion) to the government of Romania (the "**Rompetrol Convertible Note**"). The Rompetrol Convertible Note may be paid in cash or in shares of Rompetrol Rafinare and matures on 30 September 2010. If the Rompetrol Convertible Note were converted on maturity into shares, Rompetrol would lose control of Rompetrol Rafinare and the Petromidia Refinery. Although, in 2004, the board of directors of Rompetrol adopted the position that the Rompetrol Convertible Note would be repaid exclusively in shares, the Company's management has since repeatedly expressed its intention to effect the settlement of the Rompetrol Convertible Note partially in shares and partially in cash so that Rompetrol maintains control over Rompetrol Rafinare and the Petromidia Refinery. Particularly because settlement of the Rompetrol Convertible Note in a manner that permits Rompetrol to retain control of Rompetrol Rafinare and the Petromedia Refinery will require that at least a portion of the Rompetrol Convertible Note is repaid in cash, no assurance can be given that the Rompetrol Convertible Note will be repaid in a manner permitting the Company to retain control over Rompetrol Rafinare and the Petromidia Refinery. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations—Acquisitions*". If the Company loses control of Rompetrol Rafinare and the control of the Petromidia Refinery, it may have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Risk Factors Relating to the Republic of Kazakhstan

The Company is subject to Kazakhstan specific risks, including, but not limited to, local currency devaluation, civil disturbances, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes with respect to taxes, withholding taxes on distributions to foreign investors, changes in anti-monopoly legislation, nationalisation or expropriation of property and interruptions or embargos on the export of hydrocarbons or other strategic material. The occurrence of any of these factors or any of the factors described below could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Emerging markets are generally subject to greater risk than more developed markets and actual and perceived risks associated with investing in emerging economies could dampen foreign investment in Kazakhstan.

The disruptions recently experienced in the international and domestic capital markets have led to reduced liquidity and increased credit risk for certain market participants and have resulted in a reduction of available financing. Companies located in countries in emerging markets such as Kazakhstan may be particularly susceptible to these disruptions and reductions in the availability of credit or increased financing costs, which could result in financial difficulties. In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in these markets, and, as such, any factors that impact market confidence, for example, a decrease in credit ratings or state or central bank intervention in one market could affect the price or availability of funding for entities within any of these markets.

Investors in emerging markets, such as in Kazakhstan, should be aware that these markets are subject to greater risk because of the undeveloped nature of these markets, including, in some cases, significant legal, economic and political risks. Investors should also note that emerging markets, such as Kazakhstan, are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and prospective investors are urged to consult with their own legal and financial advisers before making an investment in any Notes.

As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies may dampen foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. In addition, during such times, companies operating in emerging markets can face severe liquidity constraints as foreign funding resources are withdrawn. Thus, whether or not Kazakhstan's economy is relatively stable, financial turmoil in any emerging market country, in particular countries in the CIS or Central Asian regions, which recently have experienced significant political instability (including terrorism), could seriously disrupt the Company's business. Any such disruption would have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Most of the Company's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Company is largely dependent on the economic and political conditions prevailing in Kazakhstan.

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan has experienced significant change as it emerged from a centrally controlled command economy to a market oriented economy. The transition was initially marked by political uncertainty and tension, a recessionary economy marked by high inflation, instability of the local currency and rapid, but incomplete, changes in the legal environment.

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free market economy through privatisation of Government-owned enterprises and deregulation and is more advanced in this respect than some other countries of the former Soviet Union. However, as with any transition economy, there can be no assurance that such reforms and other reforms described elsewhere in this Base Prospectus will continue or that such reforms will achieve all or any of their intended aims.

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, natural gas, steel, copper, ferro-alloys, iron ore, aluminium, coal, lead, zinc and wheat. Thus, Kazakhstan is dependent upon good relations with its neighbours to ensure its ability to export. Should access to these export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Moreover, adverse economic factors in regional markets may adversely impact Kazakhstan's economy.

Since the dissolution of the Soviet Union, a number of former Soviet Republics have experienced periods of political instability, civil unrest, military action and popular changes in governments or incidents of violence. Changes to the Constitution in May 2007 introduced the concept of the first president and established that the first president (i.e., the current president) enjoys a number of privileges and is not subject to limitation as to the number of consecutive re-elections. Commentators on Kazakhstan suggest that there is political in-fighting among the potential successors to President Nazarbayev, who became the first president of Kazakhstan upon its independence in 1991, having previously been the chairman of the Supreme Soviet since 1990, and there are concerns about possible dynastic succession. As there is currently no clear successor, the issue is a potential cause for instability in Kazakhstan. Further, if a future president is elected with a different political outlook, the business regime in Kazakhstan could change. Upon the results of parliamentary elections held in 2007, the Nur Otan party headed by President Nazarbayev became the sole party represented in the Majilis, the lower chamber of the Parliament. Changes to Kazakhstan's property, tax or regulatory regimes or other changes could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

According to figures compiled by the Kazakhstan National Statistics Agency, GDP grew in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5 per cent. in 2001, 9.8 per cent. in 2002, 9.2 per cent. in 2003, 9.4 per cent. in 2004, 9.4 per cent. in 2005, 10.7 per cent. in 2006 and 8.9 per cent. in 2007. The pace of GDP growth decreased, however, to 3.2 per cent. in 2008 and GDP shrank by 2.0 per cent. in 2009.

Kazakhstan is currently experiencing a general economic slowdown, which has resulted, and is likely to continue to result, in higher unemployment, reduced corporate profitability, increased corporate insolvency rates, increased personal insolvency rates and increased interest rates. This in turn may reduce borrowers' ability to repay loans, cause prices of residential or commercial real estate or other asset prices to fall further, thereby reducing the value of the collateral securing many bank loans, increasing writedowns and negatively affecting the ability and willingness of companies and individuals to place deposits with domestic banks.

Factors outside Kazakhstan have also had an impact on Kazakhstan's economy, specifically the finance and banking sector. For example, in February 2009, S&P downgraded the credit ratings of five of Kazakhstan's largest commercial banks, while Moody's downgraded the bank financial strength ratings of six banks. The rating agencies have stated that these downgrades are the consequence of the increasingly negative impact of the global economic crisis on the Kazakhstan economy and its financial institutions and specifically mounting asset quality and liquidity problems and the inability of Kazakhstan banks to refinance their large foreign wholesale debt in large part because of the recent devaluation of the Tenge in February 2009. Several commercial banks in Kazakhstan have experienced difficulty in refinancing maturing international debt and, as a result, have sought short-term funding from the NBK and substantially limited issuance of new loans. Pursuant to the terms of financial stability legislation adopted by the Government in February 2009, two of Kazakhstan's largest banks, BTA Bank and Alliance Bank, were effectively nationalised by the Government in the wake of the new fiscal stability legislation. It is not clear what impact this will have on the prospects of Kazakhstan's banks and its customers, including the Company. See "*Risk Factors—Risk Factors Relating to the Company's Business -Serious financial difficulties experienced by a number of major Kazakhstan banks could result in the loss of significant cash deposits of the Company held with such banks*" The housing and construction industries and small and medium sized enterprises have been particularly affected while larger companies, subsoil use companies and

State owned companies have continued to have access to offshore funding albeit on a more limited basis and on less favourable terms.

A downgrade of Kazakhstan's sovereign credit rating and liquidity problems in Kazakhstan's economy could adversely affect its economic development, which could in turn, materially and adversely affect the Company's prospects, business, financial condition and results of operations. Although S&P upgraded its outlook on Kazakhstan's sovereign rating to stable from negative in May 2009, on 7 July 2009, S&P downgraded the Company's long-term credit rating to BB+ (outlook stable) in view of the Company's heavy exposure to the troubled Kazakhstan banking sector, despite S&P's expectation of continued strong support from the Government. On 7 July 2009, Moody's reaffirmed the Company's credit rating at Baa2 (outlook negative), which had been downgraded by Moody's from Baa1 (outlook stable) on 13 May 2009, reflecting Moody's downgrade of the local currency rating of Kazakhstan. On 16 December 2009, Fitch upgraded its credit rating of the Company at BBB-(outlook stable), which had been downgraded by Fitch from BBB- (outlook negative) in February 2009. On 5 April 2010, Moody's changed the outlook on the sovereign rating of Kazakhstan to stable from negative, based on its analysis of evidence that the economic downturn is proving shallower than expected and that the Government will emerge relatively unscathed from Kazakhstan's serious banking crisis. Nevertheless, in a press release dated 7 April 2010, Moody's announced that it has concluded that the current ratings and negative outlooks of the Company and its subsidiaries remain unchanged despite the recent change in the outlook on the sovereign rating of Kazakhstan, pending a further analysis of the Company's weakened financial position against the continuing assumptions of high support from the Government.

Kazakhstan has experienced relatively high levels of inflation in recent years. According to the NBK, inflation was 9.5 per cent. and 6.2 per cent., respectively, in 2007, 2008 and 2009. Moreover, according to the IMF, inflation is expected to be 7.5 per cent. in 2010. Inflation in 2008 and 2009 was primarily attributable to increases in food and oil prices in Russia and Ukraine (from which Kazakhstan imports a substantial part of its food products), as well as the rise of prices generally and substantial increases in nominal wages and social payments. There can be no assurance that the Government and the NBK will be able to control inflationary pressures and that the upward trend in inflation witnessed in 2008 and 2009 and expected in 2010 will not continue in the future. Accordingly, no assurance can be given that changes in the rates of inflation will not materially adversely affect the Company's business, prospects, financial condition or results of operations.

Additionally, the Company's subsidiaries, joint ventures and associates are in many regions the largest employers in cities in which they operate. While the Company does not have any specific legal obligation or responsibilities with respect to these regions, its ability to reduce the number of its employees may nevertheless be subject to political and social considerations. Any inability to reduce the number of employees or make other changes to the Company's operations in such regions could have an adverse effect on the Company's business, prospects, financial condition or results of operations.

In August 2009, Kazakhstan enacted a new currency control law that may affect the Company's foreign currency dealings.

In July 2009, the President of Kazakhstan signed into law various amendments to Kazakhstan's currency control legislation, which came into force as at 10 August 2009. These amendments are substantially similar to the amendments to the currency law proposed by the Government in June 2009.

Based on the amendments, the President of Kazakhstan is empowered to introduce a special currency regime, which would (i) require the compulsory sale of foreign currency received by Kazakhstan residents; (ii) require the placement of a certain portion of funds resulting from currency transactions into a non-interest bearing deposit in an authorised bank or the NBK; (iii) restrict the use of accounts in foreign banks; (iv) limit the volumes, amount and currency of settlements under currency transactions; and (v) require a special permit from the NBK for conducting currency transactions. Moreover, pursuant to the power granted to the President under the new currency regime, he may impose other requirements and restrictions on currency transactions. Notwithstanding the broad powers that may be granted by the new currency regime, however, in order for Kazakhstan to remain in compliance with its membership obligations under the IMF Charter, the new currency regime cannot restrict residents from repaying foreign currency denominated loans. It is unclear how this new currency regime will ultimately impact the Company, but it could place significant restrictions on the Company's foreign currency dealings.

The outcome of the implementation of further market based economic reforms is uncertain.

The need for substantial investment in many enterprises has driven the Government's privatisation programme. The programme has excluded certain enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain large oil and gas producers, mining companies and the national telecommunications company. However, there remains a need for substantial investment in many sectors of Kazakhstan's economy and there are areas in which economic performance in the private sector is still

constrained by an inadequate business infrastructure. Further, the significant size of the shadow economy (or black market) in Kazakhstan may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving the business infrastructure and tax administration and by continuing the privatisation process. However, there can be no assurance that these measures will be effective and any failure to implement them may materially and adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

Kazakhstan is heavily dependent upon export trade and commodity prices, particularly with respect to the oil and gas industry, and weak demand for its export products and low commodity prices may adversely affect Kazakhstan's economy in the future.

As Kazakhstan is negatively affected by low commodity prices, particularly in respect of the oil and gas sector, and economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy. Notwithstanding these efforts, weak demand in its export markets and low commodity prices, especially with respect to the oil and gas industry, may adversely affect Kazakhstan's economy in the future, which may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations. Most of the Company's operations are conducted, and a substantial part of its assets are located, in Kazakhstan, therefore, the Company is largely dependent on the economic and political conditions prevailing in Kazakhstan. See "*—The Company is exposed to the risk of Government intervention*".

The decline in world prices for oil and other commodities from 2008 through early 2009 had a negative impact on the growth prospects of the Kazakhstan economy. The national budget for 2009-2011 initially projected revenue on the basis of world oil prices of U.S.$60 per barrel. These projections, which were initially revised to U.S.$40 per barrel in light of the continuing decline in world oil prices, have been further revised to U.S.$50 for 2009-2010 and U.S.$60 for 2011-2014 as the price of oil has increased. Although oil prices have recovered to some extent, there can be no assurance that further revisions of the national budget will not be required in light of continuing oil price volatility.

The Kazakhstan economy is highly dependent on oil exports, foreign investment in domestic oil sector infrastructure and the overall condition of the global oil industry.

Countries in the Central Asian region, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil and oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility or a sustained decline in oil and other commodity prices or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects. In addition, any fluctuations in the value of the U.S. Dollar relative to other currencies may cause volatility on earnings from U.S. Dollar-denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities or weakening of the U.S. Dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which, in turn, could indirectly have an adverse effect on the business, financial condition and results of operations of the Company.

Kazakhstan's legislative, tax and regulatory framework is underdeveloped and evolving; therefore, court decisions can be difficult to predict and tax liabilities can be difficult to ascertain.

Although a large volume of legislation has been enacted since early 1995 (including new tax codes in January 2002 and January 2009, laws relating to foreign arbitration and foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, and State enterprise reform and privatisation), the legal framework in Kazakhstan (although one of the most developed among the countries of the former Soviet Union) is still evolving compared to countries with established market economies.

The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces. For example, there have been instances of improper payments being made to public officials. Therefore, court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law based jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions.

Further, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, including, in particular, the uncertainty surrounding judgments rendered under the 2009 Tax Code, as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

It is also expected that tax legislation in Kazakhstan will continue to evolve, which may result in additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the business and financial condition and on the results of operations of companies operating in Kazakhstan, including the Company.

The 2009 Tax Code was adopted at the end of 2008 and came into force as at 1 January 2009. While the 2009 Tax Code provides for reduced rates for certain taxes, including the corporate income tax rate from 30 per cent. in 2008 to 20 per cent. in 2009, 2010, 2011 and 2012 (and further to 17.5 per cent. in 2013 and 15 per cent. in 2014), the 2009 Tax Code has also effectively repealed the duty on exports of oil and gas condensate and introduced a new rent tax which imposes the tax at progressive rates ranging from 0 to 32 per cent. depending on the price of oil. If oil prices are under U.S.$40/bbl or above U.S.$122/bbl, the new rent tax is imposed at a lower tax rate than the oil export duty; however, between U.S.$40/bbl and U.S.$122/bbl, the rent tax is more onerous. Given the volatility of oil prices, it is difficult to establish whether or not the new rent tax will have a positive or negative impact on the Company's financial position going forward.

Under the 2009 Tax Code, the excess profit tax has also been revised. While the former excess profit tax was based on the internal rate of return of each field, the new excess profit tax is based on revenue and deductible expenses for each field as determined in accordance with Kazakhstan tax accounting, and ranges from 0 to 60 per cent. based on the revenue-to-expense ratio of each field. The Company's management expects that the new excess profit tax will be less onerous with respect to fields with a low revenue-to-expense ratio, but higher with respect to fields with a high revenue-to-expense ratio.

The Company's management believes that the new mineral extraction tax, which effectively replaces the royalty regime (except for TCO, which continues to pay royalty to the Government) will result in an increase in the overall tax burden for upstream companies. The previous royalty rate was levied at 2 to 6 per cent. of the weighted average price of oil produced by the relevant entity, less transport and certain additional expenses; the new mineral extraction tax, under the 2009 Tax Code, as amended, is based on the world oil price multiplied by amounts of oil and gas produced by the relevant entity, without deductions, and is levied at the following rates: 5 to 18 per cent. in 2009, 2010, 2011 and 2012, 6 to 19 per cent. in 2013 and 7 to 20 per cent. in 2014. For sales of crude oil and gas condensate to Kazakhstan refineries, the aforementioned rates of mineral extraction tax are multiplied by a coefficient of 0.5. The Government has the option to lower the mineral extraction tax on a case-by-case basis in respect of oil produced from fields with difficult production conditions. The Company is currently in negotiations with the Government to apply more favourable tax treatment to oil produced by mature fields.

Due to the recent financial crisis, the Government has reconsidered the overall tax burden on the oil and gas extraction industry and has postponed an increase in its taxation of this industry. However, the full impact of the 2009 Tax Code on the Company cannot be determined at this time. Additionally, there can be no assurance that any tax legislation passed in the future will not materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

In February 2009, the NBK devalued the Tenge by 18 per cent. Any further devaluation of the Tenge could have an adverse impact on the Company and Kazakhstan's public finances and economy.

The Tenge is convertible for current account transactions, although it is not a fully convertible currency for capital account transactions outside Kazakhstan. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly, although, until its devaluation by the NBK in February 2009, the Tenge had generally appreciated in value against the U.S. Dollar over the past decade. Exchange rates may also be affected by the levels of inflation in Kazakhstan as high rates of inflation tend, over time, to lead to a depreciation of currency.

On 4 February 2009, the NBK devalued the Tenge by 18 per cent. against the U.S. Dollar, due in part to pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas). Devaluation of the Tenge was also intended to enhance the competitiveness of Kazakhstan exports. As at 31 December 2009, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 148.36 per U.S.$1.00, reflecting depreciation of the Tenge against the U.S. Dollar by 22.8 per cent. from 31 December 2008. On 13 April 2010, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 146.67 per U.S.$1.00.

While certain of the Company's subsidiaries, which have significant U.S. Dollar revenue and relatively minor U.S. Dollar denominated liabilities, such as KMG EP, may benefit from a devaluation of the Tenge against the U.S. Dollar, because a significant majority of the Company's borrowings and accounts payable are in U.S. Dollars, the Company's accounts are sensitive to currency exchange rate fluctuations, and the devaluation of the Tenge against the U.S. Dollar may have an overall adverse effect on the Company.

Kazakhstan has a less developed securities market than the United States, the United Kingdom and the rest of Western Europe, which may hinder the development of Kazakhstan's economy.

An organised securities market was established in Kazakhstan only in the mid to late 1990s and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, including an initiative to develop Almaty as a regional financial centre, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan as they are in the United States, the United Kingdom and other Western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan entities, such as the Company's subsidiaries, joint ventures and associates, may be publicly available to investors in such entities than is available to investors in entities organised in the United States, the United Kingdom or other Western European countries. The above-mentioned factors may impair foreign investment in Kazakhstan, which may hinder the development of Kazakhstan's economy.

The Company is exposed to the risk of Government intervention.

The oil and gas industry is central to Kazakhstan's economy and its future prospects for development. The oil and gas industry can be expected to be the focus of continuing attention and debate. In similar circumstances in other developing countries, petroleum companies have faced the risks of expropriation or re-nationalisation, breach or abrogation of project agreements, application of laws and regulations from which such companies were intended to be exempt, denials of required permits and approvals, increases in royalty rates and taxes that were intended to be stable, application of exchange or capital controls and other risks.

On 3 November 2007, legislation came into force providing the Government with the right to initiate reviews of subsurface use terms and under certain circumstances to unilaterally terminate subsoil production sharing agreements and other contracts in respect of deposits of strategic importance. See "*Regulation in Kazakhstan—State Pre-Emption and Regulation of Subsoil Use Rights*".

Although, under the 2009 Tax Code, the export duty for crude oil imports was effectively replaced with a rent tax, the Government may nevertheless re-introduce an export duty for crude oil exports as it did in 2008.

On 19 May 2008, the Government announced a temporary export ban on oil products effective 1 June 2008 until 1 September 2008, which was subsequently extended until 1 January 2009. The ban was intended to shield domestic consumers from the soaring cost of oil products, such as diesel and gasoline, by removing foreign demand for such products, which was believed to be driving up domestic prices. Economic sectors such as the agricultural sector were particularly badly affected by the high prices of petroleum products. When the Company is required to supply crude oil and oil products domestically pursuant to a request by the Government or as a result of an export ban on products, such sales typically generate substantially less revenue than sales of crude oil and oil products in the export market at prevailing prices, which may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations. Although the export ban on oil products has expired, the Government may re-impose such a ban at any time.

The Company cannot ensure the accuracy of official statistics and other data in this Base Prospectus published by Kazakhstan authorities.

Official statistics and other data published by State authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. Neither the Issuer nor the Company has independently verified such official statistics and other data and any discussion of matters relating to Kazakhstan in this Base Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Base Prospectus has been extracted from official Government sources and was not prepared in connection with the preparation of this Base Prospectus.

In addition, certain information contained in this Base Prospectus is based on the knowledge and research of the Company's management using information obtained from non-official sources. This information has not been independently verified and, therefore, is subject to uncertainties due to questions regarding the completeness or reliability of such information, which was not prepared in connection with the preparation of this Base Prospectus.

Material Factors for Assessing Market Risks associated with Notes

In addition to the risks associated with investing in emerging markets such as Kazakhstan, each potential investor in Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of Notes, the merits and risks of investing in Notes and the information contained or incorporated by reference in this Base Prospectus and any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in Notes and the impact Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's home currency;

- understand thoroughly the terms of Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes, which are complex financial instruments, unless it has the expertise (either alone or with a financial advisor) to evaluate how Notes will perform under changing conditions, the resulting effects on the value of Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risk Factors Relating to the Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer.

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes.

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;

- they may receive no interest;

- payment of principal or interest may occur at a different time or in a different currency than expected;

- they may lose all or a substantial portion of their principal;

- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial, tax and legal advisors about the risks entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly paid Notes.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse floating rate Notes.

Inverse floating rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of these Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of such Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/floating rate Notes.

Fixed/floating rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the fixed/floating rate Notes may be less favourable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium.

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

Trading in the clearing systems.

The Terms and Conditions of the Notes provide that Notes shall be issued with a minimum denomination of €50,000 (or its equivalent in another currency) and integral multiples of an amount in excess thereof in the relevant Specified Currency. Where Notes are traded in a clearing system, it is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the minimum denominations specified in the relevant Final Terms related to an issue of Notes. If Definitive Notes are required to be issued in relation to such Notes in accordance with the provisions of the terms of the relevant Global Notes, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of

its entitlement in the form of Definitive Notes unless and until such time as its holding becomes an integral multiple of the minimum denomination.

Risk Factors Relating to the Notes

An active trading market for Notes may not develop.

Notes issued under the Programme may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Application has been made for the listing of Notes on the Official List and for trading on the Regulated Market of the London Stock Exchange. There can be no assurance that either such listing or declaration will be obtained or, if such listing or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for Notes will depend on the number of holders of Notes, the interest of securities dealers in making a market in Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for Notes.

The market price of Notes may be volatile.

The market price of Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Guarantor's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Guarantor operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for notes issued by or on behalf of Kazakhstan as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of Notes without regard to the Guarantor's results of operations, prospects or financial condition. Factors including increased competition, fluctuations in commodity prices or the Company's operating results, the regulatory environment, availability of reserves, general market conditions, natural disasters, terrorist attacks and war may have an adverse effect on the market price of Notes.

Financial turmoil in emerging markets may lead to unstable pricing of Notes.

The market price of Notes is influenced by economic and market conditions in Kazakhstan and, to a varying degree, economic and market conditions in other CIS countries and emerging markets generally. Financial turmoil in other emerging markets in the past has adversely affected market prices in the world's securities markets for companies that operate in those and other developing economies. Even if Kazakhstan's economy remains relatively stable, financial turmoil in other emerging markets could materially adversely affect the market price of Notes.

Insolvency laws in Kazakhstan may not be as favourable to holders of Notes as English or United States insolvency laws or those of another jurisdiction with which the Noteholders may be familiar.

The Guarantor is organised in Kazakhstan and is subject to the bankruptcy law of Kazakhstan. Kazakhstan bankruptcy law may prohibit the Guarantor from making payments pursuant to the Guarantee under certain circumstances. From the moment bankruptcy proceedings are initiated in court, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions.

After the initiation of bankruptcy proceedings, creditors of the debtor may not pursue any legal action to obtain payment to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor until completion of the bankruptcy procedure. Contractual provisions, such as those contained in the Guarantee, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, would accelerate the amount due but each accelerated amount becomes part of the total liabilities within the proper priority class. Specifically, Kazakhstan bankruptcy law provides that transactions or payments entered into or made (i) at any time prior to the commencement of bankruptcy proceedings which infringe Kazakhstan law or (ii) within the period beginning three years prior to commencement of the bankruptcy proceedings for no consideration or below market value or favourable treatment of a creditor over the other creditor may be clawed back by a Kazakhstan court. Since Kazakhstan's courts are not experienced with complex commercial issues, there is no way to predict the outcome of a bankruptcy proceeding.

Also, there is a likelihood that recently promulgated bank restructuring legislation may be made applicable to non-banking institutions, which could present significant risks to investors in the event of a default in respect of the Notes.

Exchange rate risks exist to the extent the Issuer and Guarantor make payments in a currency other than the currency in which an investor's activities are denominated.

The Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. In addition, such risks generally depend on economic and political events over which the Issuer and the Guarantor have no control. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of payment of principal or interest, if any, on a Note. As a result, investors may receive less interest or principal than expected, or no interest or principal. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note not denominated in U.S. Dollars would not be available at such Note's maturity. In that event, the Issuer or the Guarantor, as the case may be, would make required payments in U.S. Dollars on the basis of the market exchange rate on the date of such payment, or if such rate of exchange is not then available, on the basis of the market exchange rate as at the most recent practicable date.

Interest rate risks exist because Notes have a fixed rate and the prevailing interest rates in the future may be higher than the fixed rate.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Recent experience has shown that credit ratings do not reflect all risks.

The Guarantor's credit ratings are an assessment by the relevant rating agencies of its ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Base Prospectus, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Guarantor and its management.

The Guarantor is a company organised under the laws of Kazakhstan and a substantial part of its businesses, assets and operations are located in Kazakhstan. In addition, a substantial majority of its directors and executive officers reside in Kazakhstan and substantially all of their assets are located in Kazakhstan. As a result, it may not be possible to effect service of process within the United States or elsewhere outside Kazakhstan upon the Guarantor or such directors or executive officers, including with respect to matters arising under United States federal securities laws or applicable United States state securities laws. Moreover, Kazakhstan does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and many other countries. As a result, recognition and enforcement in Kazakhstan of judgments of a court in the United States, the United Kingdom and many other jurisdictions in relation to any matter may be difficult. See "*Enforcement of Civil Liabilities*".

Further, in February 2010, the Parliament passed legislation amending the Arbitration Law to provide for certain immunities to government entities, including national companies, such as the Guarantor, in the context of arbitration and foreign court judgments. While these immunities should apply only to government entities to the extent they are performing sovereign functions and not commercial activities, and the issuance of Notes under the Programme should be considered a commercial activity (and, under the Trust Deed, the Company has, to the full extent permitted by applicable laws, waived any immunity that may be attributed to it in respect of the Notes or the Guarantee), under the amendments, whether a particular activity is deemed to be sovereign or commercial in nature is subject to determination by a Kazakhstan court on a case by case basis.

Return on an investment in Notes will be affected by charges incurred by investors.

An investor's total return on an investment in any Notes will be affected by the level of fees charged by any Agent, nominee service provider and/or clearing system used by the investor. Such a person or institution may charge fees for the opening and operation of an investment account, transfers of Notes, custody services and on payments of interest and principal. Potential investors are, therefore, advised to investigate the basis on which any such fees will be charged on the relevant Notes.

English law governs Notes and all agreements under the Programme.

Prospective investors should note that each Series of Notes will be governed by and construed in accordance with the laws of England and that the courts of England (solely for the purpose of any legal action or proceeding brought to enforce the Issuer's or the Guarantor's obligations under the Base Prospectus) shall have exclusive jurisdiction in respect of any disputes involving the Notes. English law may be materially different from the equivalent law in the home jurisdiction of prospective investors in its application to the Notes. If a prospective investor is in doubt as to the implication of English law being the governing law in respect of the Notes, such investor should consult its legal advisors.

No assurance can be given as to the impact of any possible judicial decision or changes in English law or administrative practice after the date of this Base Prospectus.

Provisions of Notes permit defined majorities to bind all Noteholders and permit the Trustee to take certain action without Noteholder consent.

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of the Guarantor or any of its other Subsidiaries as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 11(c).

Payments made in respect of Notes may be subject to withholding tax and have other tax consequences for investors.

Generally, payments of interest on borrowed funds made by a Kazakhstan entity to a non-resident are subject to Kazakhstan withholding tax at the rate of 15% for legal entities, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

If payments in respect of any Notes are subject to withholding of Kazakhstan tax as a result of which the Issuer or the Guarantor (as the case may be) would reduce such payments by the amount of such withholding, the Issuer or the Guarantor (as the case may be) is obliged to increase payments as may be necessary so that the net payments received by holders of Notes will not be less than the amounts they would have received in the absence of such withholding. It should be noted, however, that gross-up provisions may not be enforceable under Kazakhstan law where such provisions may be viewed by the Kazakhstan tax authorities as constituting payments of taxes on behalf of third parties.

EU Savings Directive may impose tax withholding.

Under the EU Council Directive on taxation of savings income in the form of interest payments (the "**EU Savings Directive**") 2003/48/EC, each Member State is required to provide to the tax authorities of another Member State, details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, each of Belgium, Luxembourg and Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (the end of that transitional period is dependent upon the conclusion of certain agreements relating to information exchange within certain non-EU countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer, nor the Company, nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

USE OF PROCEEDS

Unless otherwise specified in any applicable Final Terms, the net proceeds from each issue of Notes will be lent by the Issuer to the Guarantor, which will use those net proceeds for its general corporate purposes, which may include refinancing, retiring or otherwise restructuring existing indebtedness. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

THE ISSUER

General

The Issuer was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid* or *B.V.*) under and subject to the law of the Netherlands on 9 June 2006 for an unlimited duration. Its number in the commercial register of Amsterdam, the Netherlands is 34249875. The Issuer is a direct, wholly-owned subsidiary of Coöperatieve KazMunaiGaz PKI U.A., registered in the Netherlands. The Company is a member of Coöperatieve KazMunaiGaz PKI U.A., together with LLP KMG KumKol, a wholly-owned subsidiary of the Company.

The following table sets out the capitalisation of the Issuer as at 31 December 2009:

	As at 31 December 2009 (unaudited)
	(U.S.$ thousands)
Senior long-term liabilities[1]	4,462,408
Subordinated long-term liabilities	0
Total shareholders' equity	11,434
Total shareholders' equity and long-term liabilities	**4,473,842**

Notes:
(1) Senior long-term liabilities represent liabilities that fall due after one year and are not subordinated.

The authorised share capital of the Issuer is EUR 90,000, divided into ordinary registered shares with a par value of EUR 100 each. As at the date of the Issuer's incorporation, the Issuer's total paid-in capital was EUR 18,000, consisting of 180 ordinary shares which were issued and fully paid at par and are directly owned by Coöperatieve KazMunaiGaz PKI U.A. A share premium contribution of U.S.$7,800,000 was made to the Issuer's capital in May 2008, in the ordinary course, in compliance with applicable Netherlands laws and regulations.

There has been no material change in the capitalisation of the Issuer since 31 December 2009.

Business

As set out in Article 3 of its Articles of Association, the Issuer was incorporated for the purpose of, among other things, borrowing and/or lending moneys. The Issuer has been established as a special purpose vehicle and has no employees or subsidiaries.

Other than the Notes issued and outstanding under this Programme and its obligations under the Deutsche Bank 2010 Credit Facility (as defined below), the Issuer has no outstanding indebtedness in the nature of borrowings, guarantees or contingent liabilities as at the date of this Base Prospectus. See *"Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations"*.

There are no and have been no governmental, legal or arbitration proceedings against the Issuer (including any such proceedings which are pending or threatened of which the Issuer is aware) during the last 12 months preceding the date of this Base Prospectus, which may have, or have had in the recent past significant effects on the Issuer's financial position or profitability, nor is the Issuer aware of any pending or threatened proceedings of such kind.

Management

The Issuer has four managing directors: United International Management B.V. ("**United**"), a limited liability company incorporated in the Netherlands, which has its registered office at Strawinskylaan 411 (WTC Tower A, 4th Floor), 1077 XX Amsterdam, the Netherlands; Mr. Otmar E. Carolus, who has his business address at the business address of the Issuer; Mr. Ardak Kassymbek, who is also a General Manager for Corporate Strategy and Asset Management of the Company; and Ms. Aigul Beknazarova, who is also Director of the Corporate Finance Department of the Company. Both Mr. Kassymbek and Ms. Beknazarova have their business address at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

United has appointed, *inter alia*, Mr. Igmar den Heijer and Mr. Jan Hendrik Siemssen as proxyholders, each authorised to represent United as a managing director of the Issuer. The business address of each proxyholder is Strawinskylaan 411 (WTC Tower A, 4th Floor), 1077 XX Amsterdam.

There is no potential conflict of interest between any duties of the managing directors towards the Issuer and their private interests and/or other duties.

There is no potential conflict of interests between any duties of the directors or proxyholders of United towards either the Issuer or United and their private interests and/or other duties.

The directors or proxyholders of United perform no principal activities outside United that are significant with respect to either United or the Issuer.

General Information

The business address of the Issuer is Strawinskylaan 807 (WTC Tower A, 8th Floor), 1077 XX Amsterdam, the Netherlands and its telephone number is +31 020 5752397. Administrative services are provided to the Issuer by United, whose business address is Strawinskylaan 411 (WTC Tower A, 4th Floor), 1077 XX Amsterdam, the Netherlands.

The Issuer has obtained all necessary consents, approvals and authorisations in the Netherlands in connection with the issuance of the Notes and the performance of its obligations in relation thereto.

The Issuer will not be required to obtain a licence from the Dutch Central Bank (*De Nederlandsche Bank*) pursuant to Article 2:11 of the Dutch Act on financial supervision (*Wet op het financieel toezicht*) ("**AFS**"). In order to fall under the exception set forth in the AFS in respect of obtaining a bank licence and the raising of monies repayable on demand or subject to a notice given, such repayable monies may solely be obtained by the Issuer from professional market parties (as defined in Article 1:1 of the AFS).

The Issuer complies and will continue to comply with the financial reporting obligations for issuers whose securities are admitted to trading on a regulated market in the European Union that follow from the EU Transparency Directive (2004/109/EC), which is implemented in Dutch law via the AFS (Article 5:25a *et seq*) with an effective date 1 January 2009. So long as (i) the registered seat for the Issuer is in the Netherlands, (ii) the Notes are listed on a regulated market in a Member State and (iii) the minimum denomination of each Note is at least €50,000, the Issuer may opt for disclosure to be made in either the Member State where the Issuer is established (*i.e.*, the Netherlands) or the Member State where the Notes are admitted to trading on a regulated market.

The obligations under the Dutch law provisions implementing the EU Transparency Directive are qualified by the fact that certain provisions do not apply for issuers, such as the Issuer, that exclusively issue bonds or other securities that are issued with a nominal value per unit of at least €50,000 (or the equivalent in any other currency).

The Issuer will be subject to insider trading and market abuse rules in the Netherlands pursuant to Article 5:56 et seq. of the AFS so long as any Notes issued and outstanding under the Programme are listed on a regulated market.

CAPITALISATION

The following table sets forth the Company's capitalisation as at 31 December 2009, as derived from the 2009 Financial Statements. This table should be read in conjunction with the sections entitled "*Selected Financial and Other Information" and "Management's Discussion and Analysis of Results of Operations and Financial Performance*" and the 2009 Financial Statements and the related notes thereto included elsewhere in this Base Prospectus.

	As at 31 December 2009[(1)] **(unaudited)**	**As at 31 December 2009**
	(U.S.$ millions)	*(KZT millions)*
Current portion of borrowings	3,051.6	452,741.1
Long-term borrowings, net of current portion	9,334.9	1,384,933.0
Total borrowings	**12,386.5**	**1,837,674.1**
Share capital	1,076.1	159,647.5
Additional paid-in capital	15.2	2,248.1
Other equity	33.1	4,910.4
Currency translation reserve	1,232.5	182,852.7
Retained earnings	10,328.1	1,532,273.7
Minority interest	3,210.5	476,310.3
Total Shareholders' equity	**15,895.4**	**2,358,242.7**
Total capitalisation (total borrowings plus total shareholders' equity)	**28,281.9**	**4,195,916.8**

Note:

(1) For convenience, these figures have been translated into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2009, which was KZT 148.36 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Since 31 December 2009, the Company has incurred or repaid and retired the following debt:

- On 19 January 2010, KTG and ICA entered into a loan facility for working capital purposes with The Royal Bank of Scotland plc in the principal amount of U.S.$50 million. Amounts may be borrowed under this facility on a revolving basis in either U.S. Dollars or Tenge. Outstanding amounts in U.S. Dollars bear interest at the rate of LIBOR plus 3.0 per cent. per annum, while outstanding amounts in Tenge bear interest at the rate of KAZPRIME plus 3.0 per cent. per annum. The facility has a final maturity date of 18 January 2011. As of the date of this Base Prospectus, this facility has been fully drawn down and remains outstanding.

- On 25 February 2010, the Issuer entered into a credit facility agreement with Deutsche Bank AG, London Branch (the "**Deutsche Bank 2010 Credit Facility"**), in the principal amount of U.S.$ 300 million, which is guaranteed by the Company. This facility bears interest at a rate of LIBOR plus 3.5 per cent. per annum and matures on 25 February 2011. As of the date of this Base Prospectus, this facility has been fully drawn down and remains outstanding.

- On 10 March 2010, KTO prepaid the remaining U.S.$137 million of the amount due under a U.S.$275.0 million syndicated loan facility entered into on 28 August 2008 with BTMU (Europe) Limited, ING Bank N.V. and Natixis.

Except as described above, there has been no material change in the Company's total capitalisation since 31 December 2009.

SELECTED FINANCIAL AND OTHER INFORMATION

The financial information of the Company set forth below as at and for the years ended 31 December 2009 and 2008 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the 2009 Financial Statements, including the notes thereto, contained elsewhere in this Base Prospectus.

Prospective investors should read the selected financial and other information in conjunction with the information contained in the "Risk Factors," "Capitalisation," "Management's Discussion and Analysis of Results of Operations and Financial Performance," "Business" and the 2009 Financial Statements, including the notes thereto, and other financial data appearing elsewhere in this Base Prospectus.

Consolidated Balance Sheet Data

	As at 31 December			% change between the years ended 31 December 2008 and 2009
	2009[1] (unaudited)	2009	2008[2]	
	(USD in millions)	*(KZT in millions)*		
ASSETS				
Non-current assets				
Property, plant and equipment	14,933.8	2,215,574.1	1,797,313.8	23.3%
Exploration and evaluation assets	774.2	114,861.1	81,653.2	40.7%
Intangible assets	1,748.8	259,455.3	75,319.4	244.5%
Long-term bank deposits	124.5	18,464.4	29,694.2	(37.8)%
Investments in associates	4,346.3	644,811.2	525,187.2	22.8%
Deferred income tax assets	85.8	12,726.7	4,149.9	206.7%
Royalty prepaid and VAT recoverable	47.5	7,049.9	3,718.4	89.6%
Advances for non-current assets	125.7	18,647.1	14,041.9	32.8%
Bonds receivable	421.4	62,521.0	0.0	–
Note receivable from a joint venture	136.6	20,268.9	18,862.0	7.5%
Notes receivable from associate	108.4	16,075.4	0.0	–
Interest free loan to related party	54.1	8,028.2	0.0	–
Other non-current assets	69.4	10,300.1	7,153.3	44.0%
	22,976.4	3,408,783.5	2,557,093.2	33.3%
Current assets				
Inventories	1,086.9	161,249.7	99,580.3	61.9%
VAT recoverable	257.9	38,260.1	40,305.7	(5.1)%
Income taxes prepaid	80.7	11,979.8	7,790.7	53.8%
Trade accounts receivable	958.3	142,179.6	111,796.3	27.2%
Short-term financial assets	4,824.1	715,704.6	551,176.2	29.9%
Note receivable from a shareholder of a joint venture	7.3	1,082.1	0.0	–
Dividends receivable from associate	99.0	14,687.6	0.0	–
Other current assets	454.7	67,458.2	47,156.0	43.1%
Cash and cash equivalents	3,802.9	564,191.2	491,761.7	14.7%
	11,571.8	1,716,792.9	1,349,567.0	27.2%
Assets classified as held for sale	2.6	378.4	13.2	2,762.4%
	11,574.4	1,717,171.3	1,349,580.2	27.2%
TOTAL ASSETS	**34,550.8**	**5,125,954.7**	**3,906,673.4**	**31.2%**

	As at 31 December			% change between the years ended 31 December 2008 and 2009
	2009[1] (unaudited)	**2009**	**2008[2]**	
	(USD in millions)	*(KZT in millions)*		
EQUITY AND LIABILITIES				
Equity				
Share capital	1,076.1	159,647.5	158,049.4	1.0%
Additional paid-in capital	15.2	2,248.1	9,013.5	(75.1)%
Other equity	33.1	4,910.4	1,385.0	254.5%
Currency translation reserve	1,232.5	182,852.7	(27,799.0)	(757.8)%
Retained earnings	10,328.1	1,532,273.7	1,468,030.8	4.4%
Attributable to equity Shareholders of the parent	**12,684.9**	**1,881,932.4**	**1,608,679.9**	**17.0%**
Minority interest	3,210.5	476,310.3	421,294.5	13.1%
TOTAL EQUITY	15,895.4	2,358,242.7	2,029,974.3	16.2%
Non-current liabilities				
Borrowings	9,334.9	1,384,933.0	961,525.7	44.0%
Payable for the acquisition of additional interest in the project	2,103.3	312,052.1	239,500.8	30.3%
Payable for the acquisition of a subsidiary	56.7	8,405.2	0.0	–
Provisions	382.9	56,809.5	54,536.1	4.2%
Deferred income tax liabilities	842.1	124,938.9	70,827.3	76.4%
Other non-current liabilities	114.4	16,966.3	21,113.9	(19.6)%
	12,834.4	1,904,105.2	1,347,503.9	41.3%
Current liabilities				
Borrowings	3,051.6	452,741.1	188,445.5	140.3%
Provisions	312.1	46,306.8	40,247.6	15.1%
Income taxes payable	218.6	32,437.4	57,588.1	(43.7)%
Trade accounts payable	1,054.7	156,470.4	142,902.9	9.5%
Other taxes payable	566.1	83,986.6	36,517.7	130.0%
Put option liability	0.0	0.0	14,895.5	(100.0)%
Derivatives	1.6	240.7	105.8	127.5%
Other current liabilities	616.2	91,423.9	48,492.2	88.5%
	5,821.0	863,606.9	529,195.2	63.2%
Total liabilities	**18,655.4**	**2,767,712.0**	**1,876,699.1**	**47.5%**
TOTAL EQUITY AND LIABILITIES	**34,550.8**	**5,125,954.7**	**3,906,673.4**	**31.2%**

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2009, which was KZT 148.36 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) As required by IFRS, certain adjustments have been made to the 2008 financial information contained in the 2009 Financial Statements primarily to apply the change in accounting policy with respect to accounting for interests in jointly-controlled entities retrospectively and to conform the presentation of the 2008 financial information.

Consolidated Statement of Comprehensive Income Data

	For the year ended 31 December			% change between the years ended 31 December 2008 and 2009
	2009[1] (unaudited)	2009	2008[2]	
	(USD in millions)	*(KZT in millions)*		
Revenue	10,776.6	1,589,548.6	1,885,605.9	(15.7)%
Cost of sales	(7,098.3)	(1,047,000.9)	(1,199,360.3)	(12.7)%
Gross profit	3 678.3	542,547.8	686,245.6	(20.9)%
General and administrative expenses	(814.3)	(120,112.8)	(145,704.1)	(17.6)%
Transportation and selling expenses	(1,145.7)	(168,984.9)	(153,732.0)	9.9%
Impairment of goodwill	(8.9)	(1,306.5)	(23,553.1)	(94.5)%
Impairment of property, plant and equipment	(70.3)	(10,364.2)	(6,614.6)	56.7%
Gain/(loss) on disposal of property, plant and equipment, net	123.0	18,147.5	(725.0)	(2,603.2)%
Gain on disposal of subsidiaries	39.2	5,787.7	2 839.5	(103.8)%
Other operating income	84.2	12,416.6	8 243.0	50.6%
Other operating expenses	(99.0)	(14,606.4)	(6,394.4)	128.4%
Net foreign exchange loss	(55.5)	(8,180.3)	(13,103.9)	(37.6)%
Finance income	575.4	84,867.2	101,103.8	(16.1)%
Finance cost	(954.8)	(140,825.7)	(108,358.2)	30.0%
Unrealised (loss)/gain on crude oil derivative instrument	(22.6)	(3,336.5)	3,753.0	(188.9)%
Share of income in joint ventures and associates	1,164.3	171,738.1	239,771.1	(28.4)%
Profit before income tax	2,493.5	367,787.3	583,770.6	(37.0)%
Income tax expenses	(1,215.6)	(179,295.7)	(200,287.2)	(10.5)%
Profit for the year from continuing operations	1,277.9	188,491.6	383,483.4	(50.8)%
Discontinued operations				
Profit after income tax for the year from discontinued operations	14.4	2,127.6	7,637.8	(72.1)%
Profit for the year	1,292.3	190,619.3	391,121.2	(51.3)%
Equity holder of the Company	765.7	112,934.0	298,291.2	(62.1)%
Minority interest	526.7	77,685.3	92,830.0	(16.3)%
	1,292.3	190,619.3	391,121.2	(51.3)%
Other comprehensive income				
Foreign currency translation	1,528.9	225,506.1	3,098.3	7,178.4%
Realised loss on available-for sale financial investments reclassified to the profit for the period	–	–	435.9	(100.0)%
Other comprehensive income for the period	1,528.9	225,506.1	3,534.2	6,280.7%
Total comprehensive loss for the period net of tax	2,821.2	416,125.4	394,655.4	5.4%
Equity holder of the Company	2,193.8	323,585.7	301,732.6	7.2%
Minority interest	627.4	92,539.7	92,922.8	(0.4)%
	2,821.2	416,125.4	394,655.4	5.4%

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the average KZT/U.S.$ exchange rate for 2009, which was KZT 147.50 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) As required by IFRS, certain adjustments have been made to the 2008 financial information contained in the 2009 Financial Statements primarily to apply the change in accounting policy with respect to accounting for interests in jointly-controlled entities retrospectively and to conform the presentation of the 2008 financial information.

Key Financial Ratios

The following table sets forth key financial ratios used by the Company's management in assessing the Company's performance. The financial ratios set forth in this table reflect the operations of the Company:

	As at and for the year ended 31 December		
	2009 (unaudited)	2009	2008[1]
	(USD in millions)	(KZT in billions, except ratios)	
EBIT[4]	3,448.3[2]	508.6	692.2
EBITDA[5]	4,163.1[2]	614.0	790.6
Debt (including current portion)[6]	12,386.6[3]	1,837.7	1,150.0
Equity[7]	15,895.4[3]	2,358.2	2,030.0
Capitalisation[8]	28,282.0[3]	4,195.9	3,180.0
Net capitalisation[9]	24,479.4[3]	3,632.2	2,688.0
Net debt[10]	8,584.0[3]	1,274.0	658.0
Debt/EBITDA	2.98	2.99	1.45
Net debt/Net capitalisation	0.35	0.35	0.24
Debt/Equity	0.78	0.78	0.57
Current liquidity[11]	1.99	1.99	2.55
EBIT/Finance cost	3.61	3.61	6.39

Notes:

(1) As required by IFRS, certain adjustments have been made to the 2008 financial information contained in the 2009 Financial Statements primarily to apply the change in accounting policy with respect to accounting for interests in jointly-controlled entities retrospectively and to conform the presentation of the 2008 financial information.

(2) For convenience, these figures have been translated into U.S.$ at the average KZT/U.S.$ exchange rate for 2009 of KZT 147.50 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) For convenience, these figures have been translated into U.S.$ at the KZT/U.S.$ exchange rate on 31 December 2009, which was KZT 148.36 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(4) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost for such period.

(5) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion and amortisation for such period.

(6) Debt is current portion of the borrowings plus non-current portion of the borrowings as at 31 December of the relevant period.

(7) Equity is total equity as at 31 December of the relevant period.

(8) Capitalisation is debt plus equity as at 31 December of the relevant period.

(9) Net capitalisation is net debt plus equity as at 31 December of the relevant period.

(10) Net debt is debt minus cash and cash equivalents as at 31 December of the relevant period.

(11) Current liquidity is current assets as at 31 December of the relevant period divided by current liabilities as at 31 December of the relevant period.

The following table sets forth a reconciliation of EBIT and EBITDA to profit before corporate income tax from continuing operations:

	As at and for the year ended 31 December		
	2009[1] (unaudited)	2009	2008[2]
	(USD in millions)	(KZT in billions, except ratios)	
Profit before income tax	2,493.5	367.8	583.8
Finance cost	(954.8)	(140.8)	(108.4)
EBIT[3]	3,448.3	508.6	692.2
Depreciation, depletion and amortisation	714.8	105.4	98.4
EBITDA[4]	4,163.1	614.0	790.6

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the average KZT/U.S.$ exchange rate for 2009 of KZT 147.5 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) As required by IFRS, certain adjustments have been made to the 2008 financial information contained in the 2009 Financial Statements primarily to apply the change in accounting policy with respect to accounting for interests in jointly-controlled entities retrospectively and to conform the presentation of the 2008 financial information.

(3) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost for such period.

(4) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion and amortisation for such period.

Leverage Structure

The following table sets forth the leverage ratios for the Company and certain of its subsidiaries:

	For the year ended 31 December 2009				
	Assets	**Cash**[1]	**Debt**[2][3]	**EBITDA**[4]	**Leverage**[5]
			(KZT in billions)		
Company	5,126.0	564.2	1,837.7	614.0	3.0
Company[6]	1,762.8	273.9	1,080.3	224.2	4.8
KTG[6]	393.5	21.6	138.6	80.8	1.7
KTO[6]	325.3	16.4	20.7	47.9	0.4
KMG EP[6]	1,292.6	107.6	137.7	319.9	0.4
KMG Trade House[6][7]	1,180.2	68.5	794.2	(41.5)	(19.1)

Notes:

(1) Includes cash equivalents.

(2) Debt is current portion of borrowings plus non-current portion of borrowings as at 31 December of the relevant period.

(3) KZT 1,047 billion guaranteed by the Company.

(4) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion and amortisation for such period. EBIT, for any relevant period, is profit before income tax for such period plus finance cost for such period.

(5) Leverage is calculated as a ratio of debt to EBITDA.

(6) Based on separate financial statements before intra-group elimination and consolidation adjustments.

(7) Including Rompetrol.

The following table sets forth a reconciliation of EBITDA and leverage to profit before income tax for the year ended 31 December 2009:

	Company	**Company**[1]	**KTG**[1]	**KTO**[1]	**KMG EP**[1]	**KMG Trade House**[1][2]
			(KZT in billions, except leverage ratio)			
Profit before income tax	367.8	147.8	54.1	28.7	285.5	(128.5)
Finance cost	(140.8)	75.6	11.7	2.0	3.2	48.3
Depreciation, depletion and amortisation	105.4	0.8	15.0	17.2	31.2	38.6
EBITDA	614.0	224.2	80.8	47.9	319.9	(41.5)
Debt[3]	1,837.7	1,080.3	138.6	20.7	137.7	794.2
Leverage	3.0	4.8	1.7	0.4	0.4	(19.1)

Notes:

(1) Based on separate financial statements before intra-group elimination and consolidation adjustments.

(2) Including Rompetrol.

(3) KZT 1,047 billion guaranteed by the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL PERFORMANCE

The following management's discussion and analysis of the Company's results of operations and financial performance should be read in conjunction with the 2009 Financial Statements and the related notes thereto included elsewhere in this Base Prospectus. The 2009 Financial Statements have been prepared in accordance with IFRS. This management's discussion and analysis contains forward looking statements, which involve risks and uncertainties. See "Forward Looking Statements". The Company's actual results could differ materially from those anticipated in the forward looking statements contained herein for several reasons, including those set forth under "Risk Factors" and elsewhere in this Base Prospectus.

Overview

The Company is the national oil and gas company of Kazakhstan with vertically-integrated upstream, midstream and downstream operations located principally in Kazakhstan. The Company's management believes, based on NSA statistics and the Company's internal information, that, as at 31 December 2009, the Company was the largest crude oil producer in Kazakhstan in terms of volume and the operator of the largest gas pipeline network in Kazakhstan in terms of length and throughput capacity. In addition, as at 31 December 2009, the Company had a significant or controlling interest in each of the three principal refineries in Kazakhstan, as well as a major refinery in Romania.

The results of the Company's operations and their year to year comparability are affected by various external factors. Because the Company's principal business activities are located within Kazakhstan, such factors include the political climate and the economy in Kazakhstan, as well as global and regional economic conditions and political and military stability; the underdevelopment and evolution of the legislative, tax and regulatory frameworks, including the securities market in Kazakhstan, and the effectiveness of economic, financial and monetary measures undertaken by the Government; and financial risk factors, including credit rate risk and liquidity risk deriving from (among other things) the recent and continuing turmoil in the Kazakhstan banking sector. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan*".

During 2009 and 2008, the Company and its subsidiaries completed a number of significant acquisitions. These acquisitions have had a material effect on the Company, and should be taken into account when reviewing the changes in the Company's results of operations and financial performance from year to year.

Starting with the year ended 31 December 2009, the Company employs the equity method of accounting in relation to its jointly-controlled entities, rather than the proportionate consolidation method, which it has historically applied. In respect of jointly-controlled assets, the Company continues to recognise its share of jointly-controlled assets, classified in accordance with the nature of the assets, as well as the related share in liabilities and its proportional share of income and expenses as required by IAS 31. See "*Presentation of Financial Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates", "—Main Factors Affecting Results of Operations—Acquisitions*" and "*Selected Financial and Other Information*". Management believes that the equity method of accounting for interests in jointly-controlled entities provides more reliable and relevant information and is consistent with IFRS and the Company's accounting policies.

As required by IFRS, the Company has restated the financial information as at and for the year ended 31 December 2008 included in the 2009 Financial Statements and elsewhere in this Base Prospectus using the equity method of accounting for jointly-controlled entities (rather than the proportionate consolidation method).

Unless otherwise indicated, information presented in this Base Prospectus with respect to production and reserves and other similar information of joint ventures of the Company or its subsidiaries reflects the Company's or the relevant subsidiaries' proportionate interests in the joint ventures. Similarly, information presented in this Base Prospectus relating to production and reserves and other similar information of associates reflects the Company's and its subsidiaries' proportionate interest in the associates. In certain sections of this Base Prospectus, the Company has provided information on production and reserves and other similar information of the Company and its subsidiaries and jointly-controlled assets separately from the production and reserves of jointly-controlled entities accounted for under the equity method in order to permit some correlation to the financial accounting for the respective entities.

The Company generates revenue from sales of crude oil; sales of refined (oil) products; fees it charges under contracts for the transportation of crude oil and natural gas; sales of gas products; and other revenue principally comprised of heating and power sales, in-kind royalty sales, non-core asset sales and other operations. The Company's revenue is reported under the Company's four operating segments: exploration and production of oil and gas; transportation of oil and gas; refining, marketing and trading of crude oil (including in-kind royalty) and refined (oil) products; and other, which comprises the Company's remaining operations, including heating and power supply, airline, media and certain other

support service operations. In 2009, the largest operating segment in terms of revenue was refining, marketing and trading of crude oil and refined (oil) products and the largest operating segment in terms of net profit was exploration and production of oil and gas. See "*—Operating Segments*" below.

In 2009, the Company's total revenue decreased by 15.7 per cent. to KZT 1,589.5 billion from KZT 1,885.6 billion in 2008. The Company's net profit in 2009 decreased by 51.3 per cent. to KZT 190.6 billion from KZT 391.1 billion in 2008. As at 31 December 2009, the Company had total assets of KZT 5,126 billion, compared to total assets of KZT 3,906.7 billion as at 31 December 2008. The Company's total assets grew in 2009 both organically and by acquisition. The most significant acquisitions in 2009 were (i) in November 2009, a 50 per cent. interest in the upstream assets of MMG; (ii) in August 2009, a 100.00 per cent. interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 58.00 per cent. interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery; (iii) in June 2009, the remaining 25 per cent. interest of Rompetrol; (iv) in April 2009, an additional 49.9 per cent. interest in KPV, as a result of which the Company holds a 100 per cent. interest in KPV and the Company's effective beneficial interest in CPC has increased to 20.75 per cent.; and (v) a 100 per cent. interest in each of Batumi Industrial Holdings Limited and Batumi Capital Partners Limited, which own and operate the Batumi Port and Oil Terminal Facilities, in February 2008. In addition to these acquisitions, the Company's further investments in the North Caspian Project pursuant to cash calls in 2009 contributed to the growth in the Company's total assets in 2009 compared to 2008.

Main Factors Affecting Results of Operations and Liquidity

The main factors that have affected the Company's results of operations during 2009 compared to 2008 and that can be expected to affect the Company's results of operations in the future, are (i) the current economic environment; (ii) changes in crude oil and refined (oil) product prices; (iii) changes in production of crude oil, gas and refined (oil) products; (iv) the impact of changes in exchange rates on export sales and operating margins; (v) acquisitions; (vi) changes in the share of income of joint ventures and associates recognised by the Company and its subsidiaries; (vii) taxation, including excess profit taxes and other duties; and (viii) tariffs for oil and gas transportation services.

The Current Economic Environment

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global economic crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and tighter credit conditions within Kazakhstan and generally for Kazakhstan companies and, through mid-2009, weakened global demand for and decline in prices of crude oil and other commodities. The uncertainties in the global financial markets have also contributed to bank failures globally, including in Kazakhstan, and put downward pressure on emerging markets currencies, including the Tenge. Kazakhstan is continuing to pursue economic reforms and development of its legal, tax and regulatory frameworks and, while the Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Kazakhstan banks and companies, there continues to be uncertainty regarding the Company's access to capital and cost of capital. 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. Global economic circumstances and related developments in Kazakhstan have had a material adverse effect on the Company's financial position and results of operations in 2008 and (despite some recovery in the second half of 2009) overall in 2009 and may continue to do so in the future. See "*—Results of Operations*".

While the Company is unable to estimate reliably the effects on its consolidated financial position and its results of operations of any further deterioration in the financial markets or of any increased volatility in the currency, commodities and equity markets for any years subsequent to 31 December 2009, the Company's business activities may continue to be negatively impacted by the economic conditions resulting from the general economic downturn and the decline in prices of and demand for crude oil and other commodities. Such market conditions could have an impact on, among other things, the Company's production and volumes of crude oil, natural gas and refined (oil) products, the Company's cash balances at Kazakhstan banks, the cost of the Company's funding and the U.S. Dollar/Tenge exchange rate and, accordingly, have a material adverse affect on the Company's business, prospects, financial condition, cash flows and results of operations. The Company intends to continue to evaluate the potential impact of these conditions, which could result in future reductions in its consolidated cash flows and results of operations.

Changes in Crude Oil and Refined (Oil) Product Prices

The prices of crude oil and refined (oil) products internationally and in Kazakhstan have a significant impact on the Company's results of operations. World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand. See "*—Quantitative and Qualitative Disclosures about Market Risk—Prices for Crude Oil, Gas and Refined (Oil) Products Risk*". Crude oil prices were particularly volatile over the course of 2008 and 2009, reaching a peak in July 2008 and then sharply falling in the second half of 2008, and remaining low during the first half of 2009, before beginning to recover in the second half of 2009. According to the EIA, the

average monthly price for Brent crude oil as at December 2008 was U.S.$40/bbl, a decrease of about 70 per cent. from U.S.$133/bbl as at July 2008. While oil prices increased overall in 2009 to U.S.$74/bbl as at December 2009, an 85.0 per cent. increase from prices as at December 2008, as at the date of this Base Prospectus, the price of crude oil remains significantly below the record high prices, which historically had a considerable positive impact on the Company's business, prospects, financial condition, cash flows and results of operations. As at 31 March 2010, the price for Brent crude oil was U.S.$82.7/bbl.

The decline in oil prices from mid-2008 to mid-2009 was largely associated with a weakening in global economic conditions and a reduction in the demand for crude oil. In its April 2010 report, the EIA reiterated its projections that world oil consumption will grow by 1.5 million bbl per day in 2010 and by 1.6 million bbl per day in 2011. The EIA noted that this growth prediction is driven by the expected recovery in the global economy, with world gross domestic product expected to rise by more than 3 per cent. per year. Oil and gas commodity prices are one of the key factors affecting the Company's results of operations, and a decline in prices for crude oil has had and may continue to have a negative effect on the Company's results of operations. Generally, commodities prices fluctuate based on a number of factors beyond the Company's control and the Company's management cannot predict if or when the recent significant volatility in oil prices will be repeated; accordingly, the actual prices the Company realises may vary substantially from its current estimates. See "*Changes in Production of Crude Oil, Gas and Refined (Oil) Products*".

The dynamics of refined (oil) product prices in the international and Kazakhstan markets are determined by a number of factors, the most important being the price of crude oil internationally, supply and demand for refined (oil) products, competition, distances separating markets from the refineries where the crude oil is refined into useable end or intermediate products and seasonal deficits in the supply of refined (oil) products, particularly in urban areas, due to agricultural activities and the associated reallocation of refined (oil) products supplies from cities to agricultural areas. Additionally, a disparity between high crude oil costs and lower prices of refined (oil) products can have an adverse impact on the financial results of the Company's refining segment.

The mix of export and domestic sales of crude oil has affected, and is expected to continue to affect, the Company's results of operations. Historically, sales prices for exported crude oil have been significantly higher than domestic sales price, primarily as a result of recommendations and mandates of the Government, the Company's sole, indirect shareholder, to sell domestic oil at below market rates. From time-to-time, the Government may issue such recommendations or mandates to prevent domestic price increases, particularly when there is not enough supply due to high demand, causing domestic prices to increase. Under an agreement dated 8 September 2006 between the Company and KMG EP (the "**Relationship Agreement**"), KMG EP is also obligated to sell at least 2.2 million tonnes of crude oil to KMG Trade House, which KMG Trade House then refines at the Atyrau Refinery to produce refined (oil) products for sale on Kazakhstan's domestic market. The price of the crude oil under the Relationship Agreement is set at cost, including transportation charges, plus a 3 per cent. margin, which is generally below international market prices. See "*—Operating Segments*" for a discussion of the Relationship Agreement. The Company expects export sales prices to continue to remain at a higher level compared to domestic sales prices and thus seeks to maximise the percentage of its total crude oil sales that are export sales. Should the percentage of export sales increase, this may have a positive effect on the results of operations of the Company. while, correspondingly, if the percentage of domestic sales increases, the Company's result of operations could be adversely affected. See "*—Results of Operations—Revenues—Sales of Crude Oil and Refined (Oil) Products*".

Although, prior to its acquisition of Rompetrol in 2007, the Company's sales of refined (oil) products were primarily sold in the domestic market at prices regulated by the Government and generally below international market prices, sales of refined (oil) products have been traditionally affected by prices of refined (oil) products in Kazakhstan and, to a lesser extent, in neighbouring countries, in particular Russia. Particularly in light of the elimination of the customs export duty in shipments to Russia, the Company expects to export a significant portion of its refined (oil) products produced at the Pavlodar Refinery to Russia. With the Company's acquisition of Rompetrol, which owns the principal refining operations in Romania, the Company began selling refined (oil) products in European markets.

A new transfer pricing law came into force on 1 January 2009, which restricts the use of trading partners in certain offshore jurisdictions. The Company is in the process of bringing its export sales structures into line with the new law.

In May 2009, KMG EP entered into derivatives transactions in respect to a significant portion of its monthly oil production volumes, which were designed to protect KMG EP's cash flows in a low oil price environment. KMG EP would benefit from these arrangements in the event the price of Brent oil falls below U.S.$40/bbl, but would be required to make certain payments on the contracts in the event that the price of Brent crude oil exceeds prices ranging from U.S.$75/bbl to U.S.$77/bbl. Apart from these derivatives transactions, the Company does not use commodity price hedging arrangements.

Changes in Production of Crude Oil, Gas and Refined (Oil) Products

The Company's ability to generate revenue depends primarily on its production of crude oil, refined (oil) products and gas.

The Company produces crude oil, refined (oil) products and gas through its production subsidiaries, which it fully consolidates, as well as through its jointly-controlled entities and associates. However, because the Company accounts for its jointly-controlled entities and associates under the equity method, the Company does not directly derive revenue or incur costs of sales from the production of crude oil, refined (oil) products or gas by its jointly-controlled entities and associates. Accordingly, in the context of the discussion of the Company's revenue and cost of sales, production data is provided only for the Company and its subsidiaries (excluding the production of jointly-controlled entities and associates).

Production of Crude Oil

In terms of oil production, KMG EP accounted for 100 per cent. of the Company's consolidated production of crude oil in 2009 and 2008. In 2009, the Company's consolidated production of crude oil decreased by 5.4 per cent. to 9.0 million tonnes from 9.5 million tonnes in 2008, largely reflecting KMG EP's decision to curtail expenditures designed to enhance production and otherwise limit production due to the global financial crisis.

Production of Gas

In terms of gas production, KMG EP accounted for 100 per cent. of the Company's consolidated gas production in 2009 and 2008, respectively. In 2009, the Company's consolidated production of gas (including natural and associated gas) decreased by 30.8 per cent. to 0.9 bcm from 1.3 bcm in 2008, largely reflecting KMG EP's decision to curtail expenditures designed to enhance production and otherwise limit production due to the global financial crisis. In addition, in 2009, the level of associated gas utilisation increased as the volume of flared gas continued to decrease at KMG EP's fields as a result of utilisation of new gas recovery facilities.

Production of Refined (Oil) Products

In terms of refined (oil) products production, the Company's consolidated production includes production from the Atyrau Refinery, the Pavlodar Refinery, the Petromidia Refinery and the Vega Refinery. In 2009, the Company's consolidated production of refined (oil) products increased by 18.9 per cent. to 10.1 million tonnes from 8.2 million tonnes in 2008, largely reflecting the acquisition of the Pavlodar Refinery in August 2009.

Impact of Changes in Exchange Rates on Export Sales and Operating Margins

The Tenge/U.S. Dollar exchange rate and inflation trends in Kazakhstan affect the Company's results of operations principally because (i) a majority of the Company's consolidated revenue from sales of crude oil and refined (oil) products are denominated in U.S. Dollars, while a substantial portion of the Company's expenses are denominated in Tenge; and (ii) a significant majority of its borrowings and accounts payable are denominated in U.S. Dollars. Accordingly, fluctuations in the Tenge/U.S. Dollar exchange rate may significantly affect the Company's consolidated results of operations. On 4 February 2009, the NBK devalued the Tenge by 18 per cent. against the U.S. Dollar, due in part to pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas). Devaluation of the Tenge was also intended to enhance the competitiveness of Kazakhstan exports. As at 31 December 2009, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 148.36 per U.S.$1.00, reflecting depreciation of the Tenge against the U.S. Dollar by 22.8 per cent. from 31 December 2008. On 13 April 2010, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 146.67 per U.S.$1.00.

The depreciation of the Tenge positively affects the Company's consolidated sales revenue in light of the breakdown of its transactional currency exposures (in 2009, 80 per cent. of the Company's revenue were denominated in U.S. Dollars, while 40 per cent. of its cost of sales was denominated in Tenge). On the other hand, the Company has significant U.S. Dollar denominated liabilities and a depreciation of the Tenge relative to the U.S. Dollar results in foreign currency translation losses that are recognised in the Company's consolidated statement of comprehensive income. While certain of the Company's subsidiaries, such as KMG EP, which has significant U.S. Dollar revenue and has relatively minor amounts of U.S. Dollar denominated liabilities, may benefit from a devaluation of the Tenge against the U.S. Dollar, because a significant majority of the Company's consolidated total borrowings are denominated in U.S. Dollars, the devaluation of the Tenge has a net negative impact on the Company's financial condition and results of operations.

The Company does not currently use currency hedging arrangements.

The following table sets forth the year average and year end Tenge/U.S. Dollar exchange rates reported by the NBK (after rounding adjustment) for the years indicated:

Year ended	Year Average(1)	Year-end
	(KZT per U.S.$1.00)	
31 December 2008	120.29	120.79
31 December 2009	147.50	148.36

Note:
(1) The average of the rate reported by the NBK for each month during the relevant year.

The Tenge/U.S. Dollar exchange rate reported by the NBK on 13 April 2010 was KZT 147.67 per U.S.$1.00.

Acquisitions

The Company has made several significant acquisitions during the past two years, which have had and are expected to have, an effect on the Company's results of operations:

Consolidated Subsidiaries

In 2008 and 2009, the Company made several significant acquisitions of entities that it now treats as consolidated subsidiaries. These acquisitions have had, and are expected to continue to have, a material effect on the Company's revenues, profits and assets.

Pavlodar Refinery. In August 2009, the Company acquired MMG's controlling interest in the Pavlodar Refinery for the price of KZT 181.0 billion (U.S.$1.2 billion). The Company's acquisition of MMG was conditioned on the separate sale of the Pavlodar Refinery to the Company. The Pavlodar Refinery is the largest and most technically advanced refinery in Kazakhstan with a designed refining capacity of 7.5 million tonnes per year. The Company financed the acquisition of the Pavlodar Refinery through the proceeds of a repurchase transaction with the NBK pursuant to which the NBK lent the Company KZT 180.5 billion against a pledge of bonds issued on the KASE by Samruk-Kazyna in the principal amount of KZT 190 million to the Company in exchange for bonds issued on the KASE by the Company to Samruk-Kazyna in the same amount. See "*—Debt Obligations*".

The Company has recorded goodwill of KZT 162.1 billion in connection with its acquisition of the Pavoldar Refinery based on provisional fair values of the identifiable assets, liabilities and contingent liabilities as of the date of acquisition. There can be no assurance that the Company will not experience some impairment of goodwill when the final fair value exercise is completed. See *"Risk Factors—Risk Factors Relating to the Company's Business—The Company may experience impairment of goodwill in connection with acquisitions or annual impairment tests"*.

In connection with the Company's purchase of the Pavlodar Refinery, the Company is also considering the purchase of the Helios filling station retail network ("**Helios**"). Negotiations between the Company and the current shareholders of Helios are continuing. Pending completion of the potential acquisition, the Company has agreed to refine all of Helios' crude oil requirements at the Pavlodar Refinery under a tolling agreement at fixed prices for up to two years.

Rompetrol. On 28 November 2007, KMG Trade House acquired 75 per cent. of the issued and outstanding share capital of Rompetrol from Mr. Dinu Patriciu, a Romanian citizen who was then chairman and CEO of Rompetrol, and Mr. Philip Stevenson, a U.S. citizen, for a total of KZT 199 billion. In June 2009, the Company exercised the Rompetrol Option and acquired the remaining 25 per cent. of Rompetrol's issued and outstanding share capital at a purchase price of U.S.$100 million, and, as at the date of this Base Prospectus, the Company holds a 100 per cent. interest in Rompetrol. Rompetrol is a multinational oil company headquartered in Amsterdam, the Netherlands with operations in 13 countries. Rompetrol's principal operations are in the downstream segment through its Petromidia Refinery and its retail operations in Romania, France and the Black Sea region. In 2009, Rompetrol recorded revenue of U.S.$4.7 billion and a net loss of U.S.$161.8 million.

As at 31 December 2009, Rompetrol owned 76.39 per cent. of the shares of Rompetrol Rafinare. In February 2010, KMG Trade House made a mandatory tender offer for the acquisition of the shares of Rompetrol Rafinare, which it did not own. As a result of this tender offer, Rompetrol acquired an additional 21.61 per cent. of the shares of Rompetrol Rafinare such that, as at the date of this Base Prospectus, Rompetrol owns 98.00 per cent. of the shares of Rompetrol Rafinare. Rompetrol intends to effect a "squeeze out" transaction on the Bucharest Stock Exchange in 2010 in order to obtain the remaining publicly held shares and a 100 per cent. interest in Rompetrol Rafinare.

In 2003, Rompetrol Rafinare, a majority owned subsidiary of Rompetrol and the owner and operator of the Petromidia Refinery, issued the Rompetrol Convertible Note. The Rompetrol Convertible Note may be paid in cash or in shares of

Rompetrol Rafinare and matures on 30 September 2010. If the Rompetrol Convertible Note were converted on maturity into shares, Rompetrol would lose control of Rompetrol Rafinare and the Petromidia Refinery. Although, in 2004, the board of directors of Rompetrol adopted the position that the Rompetrol Convertible Note would be repaid exclusively in shares, the Company's management has since repeatedly expressed its intention to effect the settlement of the Rompetrol Convertible Note partially in shares and partially in cash so that Rompetrol maintains control over Rompetrol Rafinare and the Petromidia Refinery. The fair value of the debt component of the Rompetrol Convertible Note, which is reflected as long-term borrowings in the Company's 2009 Financial Statements, amounted to EUR 15.8 million as at 31 December 2009. To the extent that Rompetrol settles all or part of its obligation in respect of the Rompetrol Convertible Note in cash, the Company may be required to record a provision in its statement of comprehensive income to reflect the difference between the current fair value of the debt component of the Rompetrol Convertible Note and the cash settlement amount.

Non-consolidated Jointly-Controlled Entities and Associates

In 2008 and 2009, the Company acquired interests in several significant jointly-controlled entities and associates, which are accounted for under the equity method in the Company's consolidated financial statements. Under the equity method, the Company recognises its share of the net profit or loss of these jointly-controlled entities and associates as a separate line item in the Company's consolidated statement of comprehensive income. Accordingly, these acquisitions have had, and are expected to continue to have, a material effect only on the Company's profits.

MMG. On 15 April 2009, the Company, pursuant to instructions from the Government, agreed to acquire a 50 per cent. interest in the exploration assets of MMG, Kazakhstan's fifth-largest oil producer, with CNPC E&D, a Chinese government-owned oil and gas producer, acquiring the other 50 per cent. interest. On 25 November 2009, the acquisition was completed at a purchase price of U.S.$2.6 billion. The shares in MMG were acquired through MIBV, a joint venture equally owned by the Company and CNPC E&D. The transaction included the acquisition of oil and gas fields in Kalamkas and Zhetybai, as well as other upstream and exploration assets, including licences to explore and develop over 15 other oil and gas fields in Kazakhstan and the Caspian region. The purchase of MMG's upstream segment was financed pursuant to a U.S.$3.0 billion facility agreement with the Export-Import Bank of China, which MIBV entered into on 15 April 2009 (the "**MMG Facility**"). The MMG Facility provides non-recourse financing secured by a pledge over the shares of MMG and the shares of MIBV. The transaction was approved by, *inter alia*, the European Commission and local anti-monopoly authorities.

In 2009, MMG produced in aggregate 5.7 million tonnes of crude oil and, as at 31 December 2009, and according to Kazakhstan methodology, had aggregate A+B+C1 reserves of crude oil of 86.3 million tonnes attributable to the Company. In 2009, MMG had consolidated revenue of KZT 363.6 billion and net profit of KZT 72.7 billion and, as at 31 December 2009, total assets of KZT 276.4 billion and share capital of KZT 108.0 billion.

Acquisition of BP's Interest in KPV. In April 2009, the Company acquired from BP a 49.9 per cent. interest in KPV, for U.S.$250 million, as a result of which the Company currently holds a 100 per cent. interest in KPV, and the Company's effective beneficial interest in CPC increased from 19 per cent. to 20.75 per cent. Only CPC shareholders have rights to capacity in the CPC Pipeline, which consist of preferential capacity rights to specified amounts of capacity and excess capacity rights to use pipeline capacity not being used by other shareholders. The preferential capacity rights and excess capacity rights in respect of the CPC Pipeline are allocated by the agreement of the CPC shareholders and not necessarily by reference to the proportional ownership interests in the joint venture. The Company's preferential capacity rights entitle it to the transportation of 5.76 million tonnes of oil per year.

Changes in the Share of Income from Jointly-Controlled Entities and Associates

The Company holds significant interests, both directly and through its subsidiaries, in a number of jointly-controlled entities, including principally TCO, KazRozGas, PKI, Kazgermunai and Valsera Holdings B.V., which indirectly owns the Shymkent Refinery through its 99.43 per cent. interest in PetroKazakhstan Oil Products LLP. Under IAS 31, which applies specifically to interests in joint ventures, jointly-controlled entity participants have traditionally been given a choice between two methods of accounting for their interests in their jointly-controlled entities in their consolidated financial statements: "proportionate consolidation" or "equity method" accounting. Through 31 December 2008, interests of the Company and its subsidiaries in jointly-controlled entities were accounted for using the proportionate consolidation method, which involves recognising a proportionate share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items in an entity's financial statements on a line-by-line basis. Starting with the year ended 31 December 2009, the interests of the Company and its subsidiaries in jointly-controlled entities are accounted for using the equity method of accounting. Under the equity method, the Company's consolidated statement of comprehensive income simply reflects the share of the Company and its subsidiaries' of the net profit or loss of the jointly-controlled entity as a single line item. While such revised treatment materially reduces the Company's revenue, gross profit and expense items attributable to its jointly-controlled entities, it does not materially affect the Company's net profit. It also materially reduces the Company's assets and liabilities, but does not materially affect the Company's net asset position. Because this change to the equity method of accounting for jointly-controlled entities also serves to reduce the Company's overall

liabilities, including borrowings, as these appear in its consolidated financial statements, it is expected to provide more flexibility to the Company in terms of maintaining the financial ratios and other financial covenants under its various financing facilities.

Interests in jointly-controlled assets continue to be accounted for under the proportionate consolidation method as this is the only method allowed by IFRS for jointly-controlled assets. The Company's significant interest in jointly-controlled assets is represented by its interest in the North Caspian Project (Kashagan Field).

Associates are entities over which the Company directly or indirectly has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 per cent. of the voting rights. Investments in associates, as is the case with investments in jointly-controlled entities, are accounted for using the equity method of accounting. The Company's and its subsidiaries' interests in associates are limited to their share of the net profit or loss of such associates and are reflected as a single line item in the Company's consolidated statement of comprehensive income of the 2009 Financial Statements.

As required by IFRS, the Company has restated the financial information as at and for the year ended 31 December 2008 included in the 2009 Financial Statements and elsewhere in this Base Prospectus using the equity method of accounting for jointly-controlled entities and associates (rather than the proportionate consolidation method).

In 2008 and 2009, the Company derived a significant portion of its consolidated profits from TCO and its other jointly-controlled entities and associates, including income after tax attributable to the Company's 20 per cent. jointly-controlled entities interest in TCO of KZT 145.3 billion and KZT 111.0 billion, respectively, and total income after tax attributable to all of the Company's jointly-controlled entities interests and associates of KZT 239.8 billion and KZT 171.7 billion, respectively. Accordingly, the Company's profitability is materially affected by the results of operations of such jointly-controlled entities over which it does not exercise full control.

Taxation

Effective 1 January 2009, Kazakhstan enacted a new tax code (the "**2009 Tax Code**"), which, among other things, reduced the corporate income tax rate, revised the excess profit tax, introduced a new mineral extraction tax to replace the previous royalty regime, effectively replaced the oil export duty and introduced a new rent tax. Furthermore, the 2009 Tax Code has abolished tax stability for the vast majority of Subsoil Use Agreements in Kazakhstan (excluding existing production sharing agreements and contracts approved by the President). It is expected that, under the 2009 Tax Code, the taxation burden on companies in the oil and gas sector, including the Company, will increase, in particular as a result of the new mineral extraction tax, especially as oil prices increase.

Corporate Income Tax

Under the 2009 Tax Code, the statutory corporate income tax was reduced to 20 per cent. in 2009 from 30 per cent. in 2008. The 2009 Tax Code originally envisioned that the statutory corporate income tax rate would be further reduced to 17.5 per cent. in 2010 and 15 per cent. from 2011 onwards and, accordingly, the Company's calculation of deferred tax and income tax expense as at 31 December 2008 and for the year then ended reflected these expected statutory rate changes. In 2009, however, the Parliament adopted further amendments to the 2009 Tax Code, with effect from 1 January 2009, holding the statutory corporate income tax rate at 20 per cent. for 2009 through 2012, with the reductions to 17.5 per cent. becoming effective in 2013 and to 15 per cent. from 2014 onwards. Further to these amendments to the 2009 Tax Code, the Company has been required to recalculate its deferred tax and income tax expense as of 31 December 2009 and for the year then ended to reflect these rates.

Before the enactment of the 2009 Tax Code, which became effective 1 January 2009, the statutory corporate income tax rate in Kazakhstan, where a substantial part of the Company's operations is located, was 30 per cent. In addition, as described in greater detail below, the Company was required, pursuant to its production licences and contracts, to pay an excess profit tax if its internal rate of return, calculated on the basis of its tax accounting, exceeded 20 per cent. with respect to its crude oil production and sales. Variance between the statutory tax rate and the effective tax rate of the Company in 2008 was primarily due to the application of the excess profit tax and a number of expenses that Kazakhstan tax law does not classify as deductible in calculating corporate income tax. Non-deductible expenses are mainly related to non-operating activities, as defined in the respective Subsoil Use Agreements and tax laws.

Deferred Withholding Tax

According to applicable tax legislation, dividends received from Kazakhstan taxpayers should be exempt from withholding tax withheld at the source of payment. From 2007 through 2009, the Company received dividends from TCO net of withholding tax, although TCO is a Kazakhstan tax payer, since it is uncertain whether the withholding tax

exemption is applicable under the tax stability regime applicable to TCO. While the Company has been pursuing a claim to cancel the withholding of tax on the TCO dividends, as at 31 December 2009, the Company had not been successful and, accordingly, the Company determined to recognize the deferred withholding tax on undistributed dividends of TCO since it believes that the Company is likely to continue to receive dividends from TCO net of withholding tax in future years.

Excess Profit Tax

Until 1 January 2009, the excess profit tax was applied to the Company based on an internal rate of return for the financial year. Any amount in excess of 20 per cent. over the internal rate of return of fields under each Subsoil Use Agreements was subject to a graduated excess profit tax.

The following table sets forth the excess profit tax rates applicable to the majority of the Company's Subsoil Use Agreements prior to 1 January 2009:

% over internal rate of return for the financial year	**Excess profit tax rate**
Amounts between 20-22%	4%
Amounts between 22-24%	8%
Amounts between 24-26%	12%
Amounts between 26-28%	18%
Amounts between 28-30%	24%
Amounts above 30%	30%

Under the 2009 Tax Code, the excess profit tax has been revised. While the former excess profit tax was based on the internal rate of return of each field, the new excess profit tax is based on revenue and deductible expenses for each field as determined in accordance with Kazakhstan tax accounting, and ranges from 0 to 60 per cent. based on the revenue-to-expense ratio of each field. The Company’s management expects that the new excess profit tax will be less onerous with respect to fields with a low revenue-to-expense ratio, but higher with respect to fields with a high revenue-to-expense ratio.

Export Tax Duty/Rent Tax

In May 2008, in the light of record oil prices the Government introduced a new export duty for crude oil exports in the amount of U.S.$109.91 per tonne. It subsequently increased the export duty to U.S.$203.8 in the third quarter of 2008. This export tax duty significantly increased the Company’s overall tax burden in 2008. While this export duty was not applied to oil producers working within existing production sharing agreements or oil producers that have a stabilisation clause in their Subsoil Use Agreements, such as TCO and NCPC, of the Company’s fields, other than those fields being developed by TCO and NCPC, were subject to the new export duty in 2008. In 2008, the Company paid KZT 72 billion in export duties. However, the export duty was treated as a deductible expense before taxes so its impact on the financial condition of the Company was mitigated to some degree. The export duty was effectively repealed as at January 2009.

The 2009 Tax Code has introduced a new rent tax on export of crude oil and gas condensate, which has effectively replaced the previous export duty. Under the previous tax code, the rent tax applied to oil prices starting from U.S.$19/bbl at a rate of 1 per cent. and the maximum rate of 33 per cent. applied to oil prices of greater than U.S.$40/bbl. Under the 2009 Tax Code, the rent tax on exports applies to oil prices exceeding U.S.$40/bbl at a rate of 7 per cent. and the maximum rate of 32 per cent. applies to oil prices of greater than U.S.$180/bbl. The relative impact of this change to the rent tax regime depends largely on the price of oil.

Mineral Extraction Tax/Royalty Regime

The Company’s management believes that the new mineral extraction tax, which effectively replaces the royalty regime (except for TCO, which continues to pay royalty to the Government) will result in an increase in the overall tax burden for upstream companies. The previous royalty rate was, for the most part, levied at 2 to 6 per cent. of the weighted average price of oil produced by the relevant entity, less transport and certain additional expenses; the new mineral extraction tax, under the 2009 Tax Code, as amended, is generally based on the world oil price multiplied by amounts of oil and gas produced by the relevant entity, without deductions, and is levied at the following rates: 5 to 18 per cent. in 2009, 2010, 2011 and 2012, 6 to 19 per cent. in 2013 and 7 to 20 per cent. in 2014. For sales of crude oil and gas condensate to Kazakhstan refineries, the aforementioned rates of mineral extraction tax are multiplied by a coefficient of 0.5. The Government has the option to lower the mineral extraction tax on a case-by-case basis in respect of oil produced from fields with difficult production conditions. The Company is currently in negotiations with the Government to apply more favourable tax treatment to oil produced by mature fields.

Additionally, the 2009 Tax Code provides that income tax shall not be paid on capital gains arising out of a company's sale of a stake in entities unless 50 per cent. or more of the property of such entity relates to subsoil use in Kazakhstan. Similarly, non-residents are now exempted from withholding tax in relation to dividends received from a Kazakhstan entity unless (i) they have owned their stake in such entity for three years or less or (ii) 50 per cent. or more of the property of such entity relates to subsoil use in Kazakhstan.

Tariffs for Oil and Gas Transportation Services

The Company's oil and gas transportation revenue is generated from tariffs charged to its customers.

Oil transportation revenue is generated principally by KTO under long-term contracts for the transportation of crude oil through the pipeline systems operated by KTO. As KTO is considered to be a natural monopoly, the tariffs it charges are fixed by the Anti-Monopoly Agency, subject to increase only once per year. The tariff generally covers the costs of financing, operating and maintaining the pipeline, increased by a separate profit element. The domestic oil transit tariff was KZT 1,303 per tonne per 1,000 km in each of 2008 and 2009. The export oil transit tariff was KZT 3,015 per tonne per 1,000 km in each of 2009 and 2008; this tariff has been increased to KZT 3,331 per tonne per 1,000 km with effect from 1 January 2010. See *"Business—Crude Oil Transportation Tariffs and Minimum Volumes"*.

Gas transportation revenue is generated principally through ICA under long-term contracts for the transportation of natural gas through the pipeline system ICA operates. Under the Law on Natural Monopolies and the Concession Agreement, ICA's tariffs for domestic natural gas transportation are subject to regulation by the Anti-Monopoly Agency. Under the Concession Agreement, Kazakhstan has agreed that ICA is entitled to freely negotiate, determine and agree on international transportation tariffs with its international transit contractor counterparties without regulation by the Anti-Monopoly Agency. Most of the tariff rates for international gas transportation, accordingly, are determined by contract and, as such, may be renegotiated as provided in the applicable contract. The contract tariffs are generally a function of costs plus the average rate of return on fixed assets. In 2009 and 2008, the tariff for domestic transportation of natural gas in Kazakhstan was KZT 171 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for utility companies supplying gas to residential clients and companies engaged in the generation of thermal energy and KZT 420 per 1,000 cubic metres over 100km of pipeline for all other persons. The international gas transit tariff as at 31 December 2009 and 2008 was U.S.$1.70 and U.S.$1.40, respectively, per 1,000 cubic metres of natural gas transported over 100 km of pipeline for the transit of Russian, Turkmenistan, Uzbekistan and Kazakhstan natural gas. See *"Business—Gas Transportation Tariffs*".

Results of Operations

Revenue

In 2009, total revenue were KZT 1,589.5 billion compared to KZT 1,885.6 billion in 2008, a decrease of KZT 296.1 billion or 15.7 per cent. This decrease was primarily due to a 34.8 per cent. decrease in sales of crude oil and, to a lesser extent, a 5.6 per cent. decrease in sales of refined (oil) products.

The following table sets forth the Company's revenue for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2009	**2008**	**2008 and 2009**
	(KZT in billions)		
Sales of refined (oil) products	1,045.2	1,107.1	(5.6)%
Sales of crude oil	429.1	658.1	(34.8)%
Transportation fee	250.0	197.1	26.8%
Sales of gas products	64.0	61.7	3.7%
Other revenue	74.4	81.2	(8.3)%
Less: sales taxes and commercial discounts	(273.2)	(219.6)	24.4%
Total	**1,589.5**	**1,885.6**	(15.7)%

Sales of Crude Oil and Refined (Oil) products

Total revenue from the Company's sales of crude oil decreased to KZT 429.1 billion in 2009 compared to KZT 658.1 billion in 2008. This decrease was a result of the decrease in the average price per tonne of crude oil by 31 per cent. and the decrease in production volume by 9.5 per cent., in each case, over the period.

The following table sets forth certain information regarding the Company's sales revenue and sales volumes of crude oil for the years indicated:

	For the year ended 31 December	
	2009	**2008**
Crude oil sales revenue (KZT in billions)[(1)]	429.1	658.1
Crude oil sales volumes (thousand of tonnes)[(2)]	8,977	9,486
Average price per tonne of crude oil (KZT)[(3)]	47,780	69,376

Notes:

(1) After elimination of intra-group sales of crude oil to KMG Trade House.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes to KMG Trade House.

(3) Average price per tonne of crude oil is calculated by dividing total crude oil sales revenue (after elimination of intra-group sales of crude oil to KMG Trade House) by total crude oil sales volumes (after elimination of intra-group sales volumes to KMG Trade House).

The following table sets forth certain information regarding export sales of KMG EP under the Agency Agreement and domestic sales of KMG EP to KMG Trade House for further processing at the Atyrau Refinery for the years indicated:

	For the year ended 31 December	
	2009	**2008**
Crude oil export sales (thousand of tonnes)	6,946	7,001
Average price per tonne of crude oil export sales (KZT)	62,743	74,470
Crude oil sales to KMG Trade House (thousands of tonnes)	1,959	2,071
Average price per tonne of crude oil sales to KMG Trade House	18,818	17,827

As at the date of this Base Prospectus, the Company does not have access to full information in respect of crude oil export sales of other subsidiaries, jointly-controlled entities and associates of the Company, except for KMG EP. Total volumes of KMG EP's exports of crude oil through KMG Trade House under the Agency Agreement decreased to 6,946 million tonnes in 2009 compared to 7,001 million tonnes in 2008.

Total volume of KMG EP's domestic sales of crude oil through KMG Trade House under the Relationship Agreement was 2.0 million tonnes in 2009 and 2.1 million tonnes in 2008. This decrease was principally due to a general decline in production volumes for KMG EP's fields and an increase in crude oil used to support production in its fields. Notwithstanding the decrease, KMG EP had domestic sales above the minimum of 1.9 million tonnes per year to the Atyrau Refinery as required under the Relationship Agreement.

The following table sets forth certain information regarding the Company's refined (oil) products sales, where the Company is a principal and excludes tolling volumes and sales, for the years indicated:

	For the year ended 31 December	
	2009	**2008**
Refined (oil) products sales (KZT in billions)	1,045.2	1,107.1
Refined (oil) products volumes sold (thousand of tonnes)	7,723	7,017
Average price per tonne of refined (oil) products (KZT)	135,339	157,774

The total revenue from the Company's sale of refined (oil) products in 2009 decreased by 5.6 per cent. to KZT 1,045.2 billion compared to KZT 1,107.1 billion in 2008. This decrease was primarily due to the decrease in the average price per tonne of refined (oil) products by 14.2 per cent. over the period.

The following table sets forth certain information regarding Rompetrol's refined (oil) products sales:

	For the year ended 31 December	
	2009	**2008**
Refined (oil) products sales (KZT in billions)	861,861	955,758
Refined (oil) products volumes sold (thousand of tonnes)	4,342	4,142
Average price per tonne of refined (oil) products (KZT)	198,494	230,748

Transportation Fees

In 2009, transportation fees were KZT 250.0 billion compared to KZT 197.1 billion in 2008, an increase of KZT 52.9 billion or 26.8 per cent. This increase was primarily attributable to an increase in gas transportation fees. The Company's transportation revenue includes payments made in lieu of shipments under ship-or-pay contracts between the Company and certain of its customers, which did not transport all of their agreed volumes, although the Company does not incur any related operating expenses.

Gas Transportation Fees. The Company, through ICA, generates transportation revenue from tariffs it charges to its customers. See "*—Main Factors Affecting Results of Operations—Tariffs for Oil and Gas Transportation Services*" and "*Business—Gas Transportation Tariffs*".

The following table sets forth ICA's transportation revenue for the years indicated:

	For the year ended 31 December	
	2009	**2008**
	(KZT in billions)	
Transportation services:		
Central Asia Gas (transit)	106.9	81.9
Russian gas (transit)	13.7	9.8
Kazakhstan gas (to outside of the country)	9.9	7.0
Kazakhstan gas (within the country)	2.6	2.8
Kyrgyzstan gas (transit)	0.3	0.7
Total gas transportation revenue[(1)]	**133.4**	**102.2**

Note:
(1) Does not include intra Company eliminations.

Gas transportation fees increased by 30.5 per cent. in 2009 compared to 2008. This increase in gas transportation fees in 2009 compared to 2008 was primarily attributable to an increase in international tariffs from U.S.$1.40 to U.S.$1.70 per 1,000 cubic metres of natural gas transported over 100 km of pipeline in 2009 and the devaluation of the Tenge against the U.S. Dollar in 2009.

Oil Transportation Fees. The Company, through KTO, generates transportation revenue from tariffs it charges to its customers. See "*—Main factors Affecting Results of Operations—Tariffs for Oil and Gas Transportation Services*" and "*Business—Crude Oil Transportation Tariffs and Minimum Volumes*".

The following table sets forth oil KTO's transportation revenue for the years indicated:

	For the year ended 31 December	
	2009	**2008**
	(KZT in billions)	
KTO Pipelines:		
Western Branch:		
UAS pipeline	56.2	52.3
Other Western Branch pipelines transport to:	2.9	2.3
Atyrau Refinery	5.0	6.3
Aktau seaport	3.5	3.6
CPC Pipeline		
Eastern Branch pipelines transport to:		
Atasu-Alashankou pipeline	15.3	12.1
Shymkent Refinery	5.2	5.9
Pavlodar Refinery	1.2	1.2
Other fees[(1)]	8.4	8.3
Total crude oil transportation revenue[(2)]	**97.7**	**92.0**

Notes:
(1) Includes fees for providing loading and unloading services at railway stations and seaports.
(2) Before elimination of intra-group fees.

Crude oil transportation fees increased by 6.2 per cent. in 2009 compared to 2008. As KTO is considered to be a natural monopoly, the tariffs it charges for transportation of crude oil through its pipelines are fixed by the Anti-Monopoly Agency, subject to increase only once a year. Accordingly, because oil transportation tariffs remained stable between 2008 and 2009, the increase in crude oil transportation fees in 2009 compared to 2008 was primarily attributable to the increase in transportation volumes by 6.3 per cent. over the period.

Sales of Gas Products

The Company's gas products include natural gas, which is marketed by KTG, and liquefied natural gas, which is marketed by KMG Trade House. In 2009, sales of gas products were KZT 64.0 billion compared to KZT 61.7 billion in 2008, an increase of KZT 2.3 billion or 3.7 per cent.

Other Revenue

The Company generates other revenue from heat and power supply, sales of non-core products, such as dry gas, LPG and sulphur, leasing (subleasing) of the Company's capital and intangible assets, technical maintenance of production and repair projects, gains on derivatives contracts relating to the price of oil entered into by a subsidiary of KMG Trade House and sales of inventory of the Company, as well as, in 2008, in-kind royalty.

From 2006 until 2009, KMG Trade House acted as an agent of the Government, collecting royalty payments in-kind from TCO, JSC Turgai Petroleum, Kazgermunai, JSC PetroKazakhstan Kumkol Resources and other third parties and receiving a commission for selling the crude oil on behalf of the Government. The commission of the Company is defined as the difference between the selling price of crude oil received under this arrangement and the cost of such oil as defined in the respective production sharing agreement's subsoil use terms negotiated with the MEMR. Such commissions are recorded under "Other revenue" when sales of crude oil take place. During 2008, KMG Trade House's agreements with various producers expired, as a result of which its royalty collection decreased. On 1 January 2009, the Government cancelled the royalty regime for all producers (except TCO, which continues to pay royalty to the Government).

In 2009, other revenue was KZT 74.4 billion compared to KZT 81.2 billion in 2008, a decrease of KZT 6.8 billion or 8.3 per cent. This decrease was attributable primarily to the general decrease in sales of heat and power (reflecting lower demand, as well as, to a lesser extent, the sale by the Company in 2009 of Almaty Power Consolidated to Samruk-Energo), sales of non-core products, such as dry gas, LPG and sulphur, leasing (subleasing) of the Company's capital and intangible assets, technical maintenance of production and repair services.

Cost of Sales

The following table sets forth the Company's cost of sales for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December
	2009	**2008**	**2008 and 2009**
	(KZT in billions)		
Materials and supplies	697.9	900.3	(22.5)%
Payroll	97.0	80.3	20.8%
Depreciation, depletion and amortisation	81.4	76.7	6.1%
Mineral extraction tax	55.1	–	–
Repair and maintenance	34.1	35.0	(2.6)%
Electricity	15.4	13.5	14.1%
Other taxes	5.6	6.9	(18.8)%
Royalty	–	28.4	(100)%
Other	60.6	58.2	4.1%
Total	**1,047.1**	**1,199.3**	**(12.7)%**

In 2009, cost of sales was KZT 1,047.1 billion compared to KZT 1,199.3 billion in 2008, a decrease of KZT 152.2 billion or 12.7 per cent. This decrease was primarily attributable to the decreases in crude oil sales volumes by KMG EP and in gas transportation volumes by KTG (including as a result of certain KTG customers not transporting all of their agreed volumes under ship-or-pay provisions in their gas transportation contracts), as well as the impact of the Company's most recent cost reduction programme initiated as a response to the global financial crisis.

Materials and supplies expense consists primarily of materials, fuel and other utilities used to run the Company's operations and other expenses including the purchase of crude oil from third parties. The decrease in materials and supplies costs in 2009 compared to 2008 was primarily attributable to the general decrease in prices for raw materials (including the price of crude oil, as KMG Trade House purchases certain amounts of crude oil from third parties to supply its refineries), as well as the impact of the Company's most recent cost reduction programme. In 2009 compared to 2008, the Company's depreciation, depletion and amortisation expense increased primarily due to the acquisition and consolidation of the Pavlodar Refinery.

The increase in payroll in 2009 compared to 2008 was primarily a result of the acquisition of the Pavlodar Refinery, as well as the increase in the cost of salaries at Rompetrol, which are paid in Euros and were accordingly more expensive for the Company in Tenge terms following the devaluation of the Tenge in February 2009.

The elimination of the royalty cost in 2009 was due to the Government's cancellation of the royalty regime for all producers (except TCO, which continues to pay royalty to the Government) effective 1 January 2009. Under the 2009 Tax Code, however, the royalty regime was effectively replaced by the mineral extraction tax, which increases the Company's

tax burden, particularly as oil prices increase. See "*—Taxation*". The cost to the Company of the mineral extraction tax was KZT 55.1 billion in 2009, compared to zero in 2008, while the royalty cost to the Company was zero in 2009 compared to KZT 28.4 billion in 2008. The Company's management expected that the new mineral extraction tax, which effectively replaced the royalty regime, would result in an increase in the Company's overall tax burden due to the difference in rates and the method of calculation of the two levies. See *"—Main Factors Affecting Results of Operations and Liquidity—Taxation—Mineral Extraction Tax"*.

Gross Profit

As a result of the foregoing, the Company's gross profit decreased by KZT 143.7 billion, or 20.9 per cent., to KZT 542.5 billion in 2009 from KZT 686.2 billion in 2008.

General and Administrative Expenses

The following table sets forth the Company's general administrative expenses for the years indicated:

	For the year ended 31 December		**% change between the years ended 31 December**
	2009	**2008**	**2008 and 2009**
	(KZT in billions)		
Payroll expenses (administrative personnel)	43.4	47.0	(7.7)%
Consulting Services	19.5	9.7	101.0%
Depreciation and amortisation	13.5	13.3	1.5%
Taxes	11.0	6.3	74.6%
Charitable donations	6.6	5.0	32%
Allowance for doubtful debts	2.5	14.2	(82.4)%
Other[1]	23.6	50.3	(53.1)%
Total	**120.1**	**145.8**	**(17.6)%**

Note:

(1) The other general and administrative expenses are comprised of travel, communication, representative offices, rental, security, bank services expenses and fines.

In 2009, general and administrative expenses were KZT 120.1 billion compared to KZT 145.8 billion in 2008, a decrease of KZT 25.7 billion or 17.6 per cent. This decrease was primarily attributable to the impact of the Company's most recent cost reduction programme initiated as a response to the global financial crisis.

The decrease in payroll expenses in 2009 compared to 2008 was primarily attributable to the impact of the Company's recent cost reduction programme, as well as the decrease in the number of the staff. The increase in expenses for consulting services to KZT 19.5 billion in 2009, from KZT 9.7 billion in 2008, primarily reflected additional fees for professional advisors in connection with the Company's merger and acquisition and financing activities and the defence of claims in litigation and arbitration proceedings in 2009. The increases in depreciation and amortisation and in taxes in 2009 compared to 2008 were primarily attributable to the acquisition and consolidation of the Pavlodar Refinery. The decrease in allowance for doubtful debts in 2009 compared to 2008 was primarily attributable to the sale of Almaty Power Consolidated to Samruk-Energo and to the deconsolidation of KTG-Tbilisi. The decrease in other expenses, comprising expenses such as in 2009 expenses for travel, communications, representative offices, rent, security, bank services and fines, compared to 2008 was primarily attributable to the impact of the Company's recent cost reduction programme, as well as the reversal of certain accruals relating to taxes and stock materials.

Transportation and Selling Expenses

The following table sets forth the Company's transportation and selling expenses during the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2008 and 2009
	2009	**2008**	
	(KZT in billions)		
Transportation	66.5	47.7	39.4%
Rent tax	58.7	–	–
Payroll expenses	13.8	11.3	22.1%
Depreciation and amortisation	10.6	8.4	26.2%
Customs duty	–	68.8	(100.0%)
Other	19.5	17.6	10.8%
Total	**169.1**	**153.8**	**9.9%**

Transportation and selling expenses are comprised of expenses related to the transportation of the Company's crude oil through the CPC Pipeline and costs related to the supply of oil and energy to physically move oil and gas through the KTO and KTG pipeline system, as well as port charges, quality bank costs and sales commissions. Other expenses are comprised of public utilities charges, advertising and marketing expenses, travel expenses and payments to third parties for services associated with sales. In 2009, transportation and selling expenses were KZT 169.1 billion compared to KZT 153.8 billion in 2008, an increase of KZT 15.3 billion, or 9.9 per cent. This increase was primarily attributable to the devaluation of the Tenge against the U.S. Dollar in February 2009, as the majority of transportation and selling expenses are payable in U.S. Dollars.

Under the 2009 Tax Code, customs export duties on crude oil, which were introduced by the Kazakhstan Government in 2008, are not imposed on payers of the rent tax introduced by the 2009 Tax Code. As a result, the Company paid rent tax of KZT 58.7 billion and customs duty of zero in 2009, compared to rent tax of zero and customs duty of KZT 68.8 billion in 2008.

Impairment of Goodwill and Property, Plant and Equipment

The impairment of goodwill in 2009 was KZT 1.3 billion compared to KZT 23.6 billion in 2008. The 2009 and 2008 impairment of goodwill both principally reflected the write-down of goodwill related to the acquisition of the Batumi Port and Oil Terminal Facilities, while the 2008 impairment also reflected the Company's acquisition of Rompetrol.

In 2009, the Company recorded additional goodwill of KZT 162.1 billion in connection with its acquisition of the Pavoldar Refinery based on provisional fair values of the identifiable assets, liabilities and contingent liabilities as of the date of acquisition. There can be no assurance that the Company will not experience some impairment of goodwill when the final fair value exercise is completed. The Company may also experience impairment as a result of annual impairment tests or in connection with future acquisitions.

In 2009, the Company recorded an impairment of property, plant and equipment of KZT 10.4 billion compared to KZT 6.6 billion in 2008. The increase in this impairment charge was principally due to impairments recorded by KMG Trade House of certain assets involved in retail sales and other non-core property. See "*Risk Factors—Risks Relating to the Company's Business— The Company may be required to record a significant charge to earnings if it must reassess goodwill or other intangible assets as a result of changes in assumptions underlying the recorded value in use of certain assets*".

Finance Income

In 2009, finance income was KZT 84.9 billion compared to KZT 101.1 billion in 2008, a decrease of KZT 16.2 billion, or 16.0 per cent. This decrease was primarily attributable to the positive revaluation of the Company's liability with respect to the Rompetrol Option in 2008 (reflecting the lower potential cost to the Company for the exercise of the Rompetrol Option in light of the losses at Rompetrol in 2008), which was recorded as finance income in 2008, while the elimination of this liability in 2009 upon exercise of the Rompetrol Option did not generate any finance income in 2009.

Gain on Disposal of Subsidiaries

In 2009, the Company recorded a gain on disposal of subsidiaries, net of KZT 5.8 billion compared to a net gain of KZT 2.8 billion in 2008. This gain in 2009 was primarily attributable to the Company's loss of control of KTG-Tbilisi. In accordance with the decision of Kutaisy city court dated 16 March 2009, KTG lost control over its subsidiary, KTG Tbilisi, as a result of the transfer of KTG Tbilisi to the special governance of the Georgian National Energy and Water Regulating Committee. As a result, KTG has lost the right to determine the financial and operational activities of KTG Tbilisi and, thus, control of the subsidiary and the rights to the economic benefits associated with control. Accordingly, KTG Tbilisi ceased to be consolidated as of 16 March 2009, the date of the loss of control. Because KTG Tbilisi had negative equity at the time, this deconsolidation resulted in a gain, which was recorded in the Company's consolidated statement of comprehensive income in the 2009 Financial Statements.

Finance Cost

In 2009, the Company recorded finance costs of KZT 140.8 billion compared to KZT 108.4 billion in 2008, an increase of KZT 32.4 billion, or 29.9 per cent. This increase resulted primarily from higher levels of borrowings in 2009 compared to 2008. The Company had total borrowings of KZT 1,837.7 billion as at 31 December 2009 compared to KZT 1,150.0 billion as at 31 December 2008. See "*—Liquidity and Capital Resources—Debt Obligations*".

Share of Income in Jointly-Controlled Entities and Associates

The Company and its subsidiaries have interests in jointly-controlled entities, which are entities in respect of which joint control over the economic activities of the entities is established pursuant to a contractual arrangement, and interests in associates, which are entities over which the Company or the relevant subsidiary exercises significant influence. Investments in jointly-controlled entities and associates are accounted for using the equity method. See "*Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates*", "*—Main Factors Affecting Results of Operations—Changes in the Share of Income from Jointly-Controlled Entities and Associates"* and Note 3 to the 2009 Financial Statements.

A significant portion of the Company's operating profit is attributable to income from its jointly-controlled entities and associates.

In 2009, share of income in jointly-controlled entities and associates was KZT 171.7 billion compared to KZT 239.8 billion in 2008, a decrease of KZT 68 billion, or 28.4 per cent.

The following table sets forth the income (loss) of the Company's jointly-controlled entities and associates for the years indicated:

	For the year ended 31 December		**% change between the years ended 31 December**
	2009	**2008**	**2008 and 2009**
	(KZT in billions)		
Of the Company:			
TCO	111.0	145.3	(23.6)%
KazRosGas	44.5	21.0	111.9%
Kazakhoil-Aktobe	2.5	2.3	8.7%
Other[(1)]	3.0	4.0	(25)%
Of KMG EP:			
PKI	9.2	22.5	(59.1)%
Kazgermunai	1.6	44.6	(96.4)%
Total	**171.8**	**239.7**	**(28.3)%**

Note:

(1) Includes (among others) Valsera Holdings B.V., which indirectly owns the Shymkent Refinery through its 99.43 per cent. interest in PetroKazakhstan Oil Products LLP, MMG (for the one month in 2009 (December 2009) following the date of the Company's acquisition), MunayTas and Kazakhturkmunay.

TCO and KazRosGas are the Company's principal jointly-controlled entities, while Kazgermunai is the most significant jointly-controlled entities of KMG EP and PKI is a significant associate of KMG EP. Accordingly, the decrease in the share of income from jointly-controlled entities and associates in 2009 compared to 2008 was primarily due to decreases

in the share of income from TCO, PKI and Kazgermunai, partially offset by an increase in the share of income from KazRosGas.

The decreases in the Company's share of income from TCO, Kazgermunai and PKI by 23.6 per cent., 96.4 per cent. and 59.1 per cent., respectively, in 2009 compared to 2008, were primarily due to the lower average price of crude oil over the period. In addition, the decrease in the Company's share of income from Kazgermunai was attributable to an increase in Kazgermunai's effective tax rate as a result of the impact of the 2009 Tax Code and accrued fines for excessive gas flaring for past periods. The increase in the Company's share of income from KazRosGas in addition reflected a 20.0 per cent. increase in the export price of gas and a 5.0 per cent. increase in KazRosGas sales volume.

Income Tax Expenses

Income tax expenses comprise income tax and excess profit tax, which, in turn, includes, deferred tax and withholding tax on profits, all of which contributed to the increase in the Company's effective tax rate in 2009 compared to 2008. In particular, this increase in the effective tax rate largely reflects the Company's decision to recognize the deferred withholding tax on undistributed dividends of TCO, as well as, to a lesser extent, the overall impact of the 2009 Tax Code, which was aimed at increasing the tax burden on subsoil users, such as the Company. See *"—Main Factors Affecting Results of Operations and Liquidity—Taxation"*.

In 2009, the Company recorded income tax expenses of KZT 179.3 billion compared to KZT 200.3 billion in 2008, a decrease of KZT 21.0 billion, or 10.5 per cent. This decrease was primarily due to the Company's lower profit before taxation in 2009 compared to 2008.

The Company's effective tax rate for 2009 and 2008 was 48.7 per cent. and 34.3 per cent., respectively. In 2009, the Company's excess profit tax rate on profit before income tax of KZT 367.8 billion was 8.4 per cent. In 2008, the Company's excess profit tax rate on profit before income tax of KZT 583.8 billion was 9.8 per cent. See "*—Main Factors Affecting Results of Operations—Taxation*" and Note 31 of the 2009 Financial Statements.

Profit for the Year

As a result of the foregoing, the Company's profit for the year decreased by KZT 200.5 billion, or 51.3 per cent., to KZT 190.6 billion in 2009 from KZT 391.1 billion in 2008.

The Company's profit for 2009 and 2008 represented 12 per cent. and 20.7 per cent., respectively, of the Company's revenue for such years.

Operating Segments

Overview

For financial reporting purposes, the activities of the Company are divided into four operating segments. The Company's principal operating segments are: exploration and production of oil and gas; transportation of oil and gas; and refining, marketing and trading of crude oil and refined products. The remaining activities of the Company are aggregated and presented as the "other" operating segment due to their relative insignificance. The operating segments of the Company comprise the following activities:

- ***Exploration and Production of Oil and Gas***. The Company is engaged in oil and gas exploration and production activities at locations in Kazakhstan. The results of operations of these activities are recorded as part of the exploration and production of oil and gas operating segment.

- ***Transportation of Oil and Gas***. The Company operates Kazakhstan's principal gas and oil pipeline systems. The results of operations of these activities are recorded as part of the transportation of oil and gas segment.

- ***Refining, Marketing and Trading of Crude Oil and Refined Products***. The Company is active in the trading of both the crude oil it produces as well as refined products, including gasoline, jet fuel, diesel and fuel oil. The Company also owns and operates an expanding network of gasoline stations in Kazakhstan. In addition, from 2006 until 2009, the Company acted as an agent of the Government, collecting royalty payments in-kind from oil producers active in Kazakhstan and receiving fees for selling the crude oil. For a more detailed discussion of the royalty in-kind arrangements, see "*—Results of Operations—Revenue—Other Revenue*". The results of operations of these activities are recorded as part of the refining, marketing and trading of crude oil and refined products operating segment.

- ***Other.*** The "other" segment is comprised of service subsidiaries of the Company, which provide heating and power, air travel, security and other oil and gas related services.

The following table sets forth the revenue, gross profit and net profit of the operating segments of the Company for the years ending 31 December 2009 and 2008:

	Total revenue		**Gross profit for the year**		**Net profit for the year**	
	For the year ended 31 December					
Segment	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
			(in KZT billions)			
Exploration and production of oil and gas	490.1	640.0	314.6	472.3	191.8	232.9
Transportation of oil and gas	342.9	293.2	148.5	105.8	63.5	47.1
Refining and trading of crude oil and refined (oil) products	1,161.0	1,477.9	105.5	134.8	(90.1)	(18.8)
Other	25.9	26.7	9.4	16.0	80.2	155.8
Elimination	(430.3)	(552.2)	(35.5)	(42.6)	(54.9)	(25.9)
Total	**1,589.6**	**1,885.6**	**542.5**	**686.2**	**190.5**	**391.1**

Exploration and Production of Oil and Gas Segment

The Company's exploration and production of oil and gas segment is the second largest of the Company's segments in terms of revenue before elimination, although it is the Company's most profitable segment. Of the segment's total revenue, 20.4 per cent. were derived from external customers and 79.6 per cent. from internal customers in 2009. KMG EP, which represented 99.1 per cent. of the Company's total oil production volumes in 2009, sells a portion of its oil production to external customers. These sales include sales to Vitol SA under the advance crude oil purchase agreement discussed below under "*—Refining and Trading of Crude Oil and Refined (Oil) Products Segment*". The sales under this agreement totalled 1.8 million tonnes in 2009. In addition to external sales, KMG EP also sells a significant part of its crude oil production internally to KMG Trade House for onsale to external customers at market prices. In addition, KMG EP sells a part of its production internally to KMG Trade House at a significant discount as discussed below under "*—Refining and Trading of Crude Oil and Refined (Oil) Products Segment*" below.

Under the advance crude oil purchase agreement with BNP Paribas (Suisse) S.A., the ultimate purchaser being Vitol SA, KMG EP received a long-term advance of U.S.$650.0 million (with interest at LIBOR plus 1.75 per cent. prior to a 24 July 2006 amendment reducing the interest to LIBOR plus 1.1 per cent.). The Company committed to repay the advance by selling 150,000 tonnes of crude oil per month at market prices during the five years ended September 2009. These market prices were calculated by reference to the mean quotations for Urals (RCMB) blend quoted on the Platt's index, less transportation cost, insurance, inspection, banking costs, pilotage costs at Turkish straits and Vitol's commission. Each month the value of the shipment was determined, and if the value of a shipment exceeded the amount equal to the amortisation of the principal amount of the advance over 60 instalments, KMG EP received the difference from Vitol SA. If the value of a shipment was less than this amount, KMG EP was required to pay the difference to BNP Paribas (Suisse) S.A. As a result of increased oil prices, KMG EP recorded revenue from its shipments since 2004 as the higher oil prices increased the value of the Company's shipments under the agreement with the result that the related amounts received by KMG EP exceeded the amount equal to the amortisation of the principal amount of the advance over 60 instalments. The loan has been fully repaid in accordance with its terms.

KMG EP's revenue includes revenue from sales of crude oil to KMG Trade House for refining, which revenue is eliminated when consolidated. Under the Relationship Agreement, KMG EP is obligated to sell at least 1.9 million tonnes of crude oil to KMG Trade House and KMG Trade House then refines the crude oil at the Atyrau Refinery. The price of the crude oil under the Relationship Agreement is set at cost, including transportation charges, plus a 3 per cent. margin. Based on this formula, the average domestic price of crude oil sold under the Relationship Agreement was KZT 18,818 and KZT 17,827 per tonne in 2009 and 2008, respectively. The volumes of the domestic sales under the Relationship Agreement were 2.0 million tonnes in 2009 and 2.1 million tonnes in 2008. The decrease in volumes of domestic sales is attributable to the decrease in production at KMG EP. The Company's exploration and production revenue before elimination was KZT 490.1 billion and KZT 640 billion for the years ended 31 December 2009 and 2008, respectively. KMG EP sells its crude oil for export (other than crude oil sold under the annual intra Company purchase agreement discussed below) to KMG Trade House at Platt's index quotations adjusted for freight, insurance and quality differentials. The average price per tonne calculated using this formula was KZT 62,743 and KZT 74,470 in 2009 and 2008, respectively. The volume of such sales was 6.9 million tonnes and 7.0 million tonnes in 2009 and 2008, respectively.

Revenue before elimination attributable to this segment decreased by 23.4 per cent. to KZT 490.1 billion in 2009 compared to KZT 640 billion in 2008, while gross profit decreased by 33.4 per cent. to KZT 314.6 billion in 2009 compared to KZT 472.3 billion in 2008. The decreases in revenue before elimination and in gross profit in 2009 compared

to 2008 were primarily attributable to lower international oil prices, as well as planned decreases in volumes and sales of oil in response to the global financial crisis.

Net profit attributable to the exploration and production of oil and gas segment decreased by 17.6 per cent. to KZT 191.8 billion in 2009 compared to KZT 232.9 billion in 2008.

Transportation of Oil and Gas Segment

The transportation of oil and gas segment is the third of the Company's segments in terms of revenue, and it is the Company's third most profitable segment. The Company, through KTO, generates oil transportation revenue from tariffs it charges to its customers under long-term contracts for the transportation of crude oil through the pipeline systems KTO operates. The Company's gas transportation revenue is generated from tariffs KTG charges to its customers under long-term contracts for the transportation of natural gas through the pipeline system it operates. The Company's transportation revenue also includes payments made in lieu of shipments under ship-or-pay contracts between the Company and certain of its customers, which did not transport all of their agreed volumes. Such payments generate revenue for KTG without offsetting operating costs to the extent of the volumes paid for but not transported. Of the total revenue of the segment, 93.4 per cent. were derived from external customers and 6.6 per cent. from internal customers in 2009.

The revenue before elimination attributable to this segment increased by 17 per cent. to KZT 342.9 billion in 2009 compared to KZT 293.2 billion in 2008, while gross profit increased by 40.4 per cent. to KZT 148.5 billion in 2009 compared to KZT 105.8 billion in 2008. These increases were primarily attributable to the increase in international tariffs charged by KTG from U.S.$1.40 in 2008 to U.S.$1.70 in 2009 per 1,000 cubic metres of natural gas transported over 100 km of pipeline in 2009, the devaluation of the Tenge against the U.S. Dollar in February 2009 and the increase in the volume of transportation by KTO.

Refining and Trading of Crude Oil and Refined (Oil) Products Segment

The refining, marketing and trading of crude oil and refined (oil) products is the largest of the Company's segments in terms of revenue before elimination, although it is the Company's least profitable segment. Of the segment's total revenue, 99.8 per cent. were derived from external customers (*i.e.*, non-affiliates) and 0.2 per cent. from internal customers (*i.e.*, the Company and its subsidiaries) in 2009. Although a portion of the segment's revenue is derived from sales of refined (oil) products to domestic customers, a majority of the segment's revenue (60.0 per cent. in 2009 and 54.1 per cent. in 2008) is derived from sales of refined (oil) products by Rompetrol in the European markets at international prices. A significant portion of the oil that was refined for domestic sales in 2009 was purchased by KMG Trade House from KMG EP at a discount as discussed below. A relatively small portion of the revenue of the segment in 2009 was derived from the provision of refining services to third parties, namely AktobeMunayGas and Kazakhoil Aktobe LLP. Since a significant portion of the revenue of the segment is based on a minimal mark-up on the final refined product prices over the prices paid for crude oil purchased from KMG EP, the gross profit margins of this segment are lower than those of the exploration and production of oil and gas segment. In addition, the net losses at Rompetrol in 2008 and 2009 adversely affected the performance of this segment. The gross profit margin of the refining, marketing and trading of crude oil and refined (oil) products segment was 9.1 per cent. in 2009 (compared to 9.1 per cent. in 2008), while the gross profit margin of the exploration and production of oil and gas segment was 64.2 per cent. in 2009 (compared to 73.8 per cent. in 2008).

Revenue before elimination attributable to this segment decreased by 21.4 per cent. to KZT 1,161.0 billion in 2009 compared to KZT 1,477.9 billion in 2008, while gross profit decreased by 21.7 per cent. to KZT 105.5 billion in 2009 compared to KZT 134.8 billion in 2008. These revenue and gross profit decreases in 2009 compared to 2008 were primarily attributable to the decrease in the average price per tonne of refined (oil) products.

Net profit attributable to the refining, marketing and trading of crude oil and refined (oil) products before elimination decreased by 379.3 per cent. to a net loss of KZT 90.1 billion in 2009 compared to a net loss of KZT 18.8 billion in 2008. This decrease was primarily a result of the lower average prices of crude oil and refined (oil) products in 2009 compared to 2008 coupled with the resulting lower production volumes, as well as a 32.7 per cent. increase in transportation and selling expenses for KMG Trade House. KMG Trade House also recorded a net foreign exchange loss of KZT 58.1 billion in 2009 compared to a net foreign exchange loss of KZT 10.8 billion in 2008, which contributed to the lower profitability of the refining and trading of crude oil and refined (oil) products segment of the Company.

Other Segment

The "other" segment is comprised of service subsidiaries of the Company, which provide heating and power, air travel, security and other oil and gas related services. Of the segment's total revenue, 41.7 per cent. were derived from external customers and 58.3 per cent. from internal customers in 2009.

Revenue after elimination attributable to this segment decreased by 2.9 per cent. to KZT 25.9 billion in 2009 compared to KZT 26.7 billion in 2008, while gross profit decreased by 41.3 per cent. to KZT 9.4 billion in 2009 compared to KZT 16 billion in 2008. These decreases in both revenue and profit of the "other" segment were attributable primarily to the general decrease in sales of heat and power (reflecting lower demand, as well as, to a lesser extent, the sale by the Company in 2009 of Almaty Power Consolidated to Samruk-Energo), sales of non-core products, such as dry gas, LPG and sulphur, leasing (subleasing) of the Company's capital and intangible assets, technical maintenance of production and repair services.

Liquidity and Capital Resources

Cash Flows

The following table sets forth the principal items of the statement of cash flows for the years indicated are as follows:

	For the year ended 31 December		% change between the years ended 31 December 2008 and 2009
	2009	2008	
	(KZT in billions)		
Net cash flows from operating activities	168.0	284.0	(40.9)%
Net cash flows used in investing activities	477.1	218.1	118.8%
Net cash flows from financing activities	308.4	64.7	376.7%

Net Cash Flows From Operating Activities

In 2009, net cash flows from operating activities was KZT 168 billion compared to KZT 284.0 billion in 2008, a decrease of KZT 116 billion, or 40.9 per cent. This decrease was primarily attributable to the decrease in the price of crude oil from 2008 to the middle of 2009, which resulted in decreased cash flows from operating activities.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities principally reflects acquisitions and dispositions of subsidiaries, joint ventures and associates, purchases and sales of property, plant and equipment and intangible property, distributions received from jointly-controlled entities and associates and placements of time deposits. In 2009, net cash flows used in investing activities was KZT 477.1 billion compared to KZT 218.1 billion in 2008, an increase of KZT 259 billion, or 118.8 per cent. The increase in net cash flows used in investing activities in 2009 compared to 2008 reflected, in part, increased levels of cash outflows for purchases of property, plant and equipment relating to the acquisitions of the Pavlodar Refinery, the additional 25 per cent. interest in Rompetrol. In addition, the Company's further investments in the North Caspian Project pursuant to cash calls in 2009 contributed to the increased level of cash used in investing activities in 2009 compared to 2008.

Net Cash Flows From Financing Activities

In 2009, net cash flows from financing activities was KZT 308.4 billion compared to KZT 64.7 billion in 2008, an increase of KZT 243.7 billion, or 376.7 per cent. This increase was primarily attributable to the decrease in repayments of borrowings in 2009.

Deposits with Kazakhstan Banks

As at 31 December 2009, the Company maintained deposits of U.S.$7.7 billion with Kazakhstan banks, of which U.S.$2.5 billion was held with Kazkommertsbank, U.S.$2.6 billion was held with Halyk Bank and U.S.$ 1.2 billion was held with BTA Bank. These banks have experienced varying degrees of financial difficulties and BTA Bank is the subject of restructurings, which are on-going. Although the Company's deposits are not legally frozen and the Company has not attempted to withdraw the funds, the Company's management believes that the Company's ability to access these deposits is limited in practice and that, at least in the short-term, it is unlikely to be able to withdraw the money.

Capital Expenditures

The Company's total capital expenditures by segment for the years indicated are set forth in the table below, which also reflects acquisitions through business combinations. The principal acquisitions of the Company during the past two years are described under "*—Main Factors Affecting Result of Operations –Acquisitions*".

	For the year ended 31 December		% change between the years ended 31 December
	2009	2008	2008 and 2009
	(KZT in billions)		
Exploration and production of oil and gas	250.3	408.0	(38.7)%
Transportation of oil and gas	65.9	106.7	(38.2)%
Refining and trading of crude oil and refined (oil) products	58.8	48.1	22.4%
Other	25.9	5.9	340.5%
Total capital expenditures	**400.9**	**568.6**	**(29.5)%**

In 2009, the Company's most significant capital expenditures included the North Caspian Project (KZT 190.1 billion), upgrades to the KTO pipeline systems (KZT 22.2 billion) and reconstruction at the Petromidia Refinery (KZT 9.8 billion).

In 2008, the Company's most significant capital expenditures included the North Caspian Project (KZT 122.7 billion), upgrades to the KTO pipeline systems (KZT 31.3 billion), upgrades to the KTG pipeline system (KZT 30.2 billion) and reconstruction at the Petromidia Refinery (KZT 3.6 billion).

The exploration and production of oil and gas segment represented 62.4 per cent. and 71.8 per cent. of the capital expenditures of the Company for the years ended 31 December 2009 and 2008, respectively. Capital expenditures in 2009 and 2008 related mainly to offshore exploration projects and the development of the North Caspian Project. In 2009 and 2008, the largest project of the exploration and production of oil and gas segment in terms of capital expenditures (excluding acquisitions) was the exploration and development of prospective fields within the North Caspian Project area. See "*Business—Exploration and Production—Exploration Projects—NCPC*". In October 2008, the Company completed its acquisition of an additional 8.48 per cent. interest in NCPC pursuant to which U.S.$1.78 billion of the acquisition cost will be payable by the Company in three equal instalments after the commencement of production at the Kashagan Field (currently anticipated in the fourth quarter of 2012).

The transportation of oil and gas segment represented 16.4 per cent. and 18.8 per cent. of the capital expenditures of the Company for the years ended 31 December 2009 and 2008, respectively. In 2009, the largest projects of the transportation of oil and gas segment in terms of capital expenditures (excluding acquisitions) related to upgrades to the KTO pipeline systems. In 2008, the largest projects of the transportation of oil and gas segment in terms of capital expenditures (excluding acquisitions) were related to the upgrades to the KTO and KTG pipeline systems.

The refining, marketing and trading of crude oil and refined (oil) products segment represented 14.7 per cent. and 8.5 per cent. of the capital expenditures of the Company for the years ended 31 December 2009 and 2008. Capital expenditures for this segment increased in 2009 compared to 2008 principally as a result of increased capital expenditures to upgrade the Atyrau Refinery and the Petromidia Refinery. In 2008, the largest projects of the refining, marketing and trading of crude oil and refined products segment in terms of capital expenditures (excluding acquisitions) were the modernisation and expansion of the Atyrau Refinery and the Petromidia Refinery.

The other segment represented 6.5 per cent. and 1.0 per cent. of the capital expenditures of the Company for the years ended 31 December 2009 and 2008, respectively.

In 2009, the most significant capital expenditures of jointly-controlled entities, which are accounted for under the equity method of accounting for joint ventures and, accordingly, not consolidated in the table above, included construction of the Asia Gas Pipeline (KZT 231.1 billion) and of the Kenkiyak-Kumkol pipeline construction (KZT 15.5 billion). In 2008, the most significant capital expenditures of jointly-controlled entities, which are accounted for under the equity method of accounting for joint ventures and, accordingly, not consolidated in the table above, included construction of the Asia Gas Pipeline (KZT 145.8 billion) and of the Kenkiyak-Kumkol pipeline (KZT 40.8 billion).

Although the Company reduced the overall level of its capital expenditures in 2009 in response to the global financial crisis and the related recession in Kazakhstan, in 2010, the Company expects to return to historical levels of capital expenditures. Budgeted capital expenditures for 2010 include (i) KZT 388.9 billion for the exploration and production segment, (ii) KZT 81.8 billion for the transportation segment and (iii) KZT 77.9 billion for the refining, marketing and trading of crude oil segment.

Commitments

Commitments in Joint Ventures

Certain joint ventures of the Company (TCO, Kazakhturkmunay LLP, NCPC and Kazakhoil Aktobe) and KMG EP (Kazgermunai) have commitments under their licence agreements with Kazakhstan. Under these agreements, the foreign partners are obligated to make certain investments as dictated by agreed time schedules.

As a participant in TCO and an indirect participant in each of Zhambai LLP, Caspian Meruerty Operating Company B.V. and Kurmangazy Petroleum LLP through JSC Offshore Oil Company KazMunayTeniz ("**KazMunayTeniz**"), the Company is called upon from time-to-time to make cash contributions. The Company is also obligated to make capital contributions when and to the extent required by NCPC, which is a jointly-controlled asset of the Company, in order to fund its operations.

Commitments under Oilfield Licences and Contracts

Investment and Other obligations of ICA under the Agreement with the Government

Investments for the improvements of gas transportation assets. KTG operates the mainline gas distribution network in Kazakhstan pursuant to an agreement (the "**Concession Agreement**") between ICA and the Government. Under the terms of the Concession Agreement, ICA, which is a subsidiary of KTG, has an obligation to invest U.S.$30 million each year for the improvement and repair of the gas transportation assets transferred and for investments in new gas transportation assets (the "**Investment Commitment**"). According to the Concession Agreement, ICA will be reimbursed for the net book value of the above investments at the time the Concession Agreement expires, which is in 2012, subject to ICA's options to extend for two additional 5 year periods. As at 31 December 2009, ICA had KZT 5.3 billion in contractual commitments related to this investment obligation.

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

ICA has committed to make similar investments during the first five year extension of the Concession period of not less than U.S.$30 million per year and not less than U.S.$150 million in the aggregate by the end of the fifth year of such extension period. The level of investment required during any further extension period will be negotiated separately between the parties.

The Concession Agreement mandates certain new investments, which include (i) the construction of a natural gas transportation link to the city of Astana (the "**New Assets**") and (ii) the rehabilitation or replacement of certain compressors along the Makat Northern Caucasus Pipeline, the replacement of certain segments of the Southern Pipeline Network and the replacement of certain compressors at the Poltoratskoye underground gas storage (the "**Enhancements**"). ICA's obligation to make new investments, including to construct the New Assets and effect the Enhancements, is contingent upon: (i) a demonstration of the feasibility and necessity of such new investments and (ii) in relation to the domestic transportation system, the conclusion of an agreement with an authorised state agency granting ICA certain tax and other privileges and the conclusion of transportation contracts with customers providing for a level of throughput volumes satisfactory to ICA. Upon the expiration of the concession period (as it may be extended), ICA is obligated to transfer the Enhancements for the benefit of Kazakhstan at their then current market value less depreciation. ICA may freely dispose of the New Assets, provided that Kazakhstan is offered a right of first refusal on arms length terms and conditions.

Royalty. Since 17 July 1997, ICA has been obliged to pay royalty to the Government amounting to 2 per cent. of the throughput of gas in the Western Pipeline Network. However, under the Concession Agreement, this payment is only due and payable for the Western Pipeline Network after the issue of a Government Resolution or order of the Ministry of Finance advising the customers of the Western Pipeline Network of their obligation to pay royalty to ICA. As at 31 December 2009, no such decree had been issued. Due to the uncertainty surrounding the implementation of the royalty payment, ICA has to date not been charging royalty to its customers.

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

The Company's management is working to clarify the matter with the Government and believes that no past or future royalty will be payable by ICA or its customers.

Kyrgyz By-Pass. ICA is obliged to design and construct the Kyrgyz By-Pass at a cost, which was estimated in the Concession Agreement to be U.S.$90 million to U.S.$100 million. This asset will be transferred to Kazakhstan at the later of the end of the term of the Concession Agreement or after twenty years from the completion for U.S.$1. Construction of this bypass has not yet begun.

Prior to 31 December 2005, ICA paid to the Government 10 per cent. of its net profits under the Concession Agreement. On 31 March 2006, Kazakhstan, as represented by the Ministry of Finance, and ICA agreed to certain amendments (the "**Amendments**") to the Concession Agreement. According to the Amendments, during the years from 1 January 2008 to 31 December 2012 and the 5-year optional extension period, the parties shall agree the amount of the annual payment at the beginning of each year, with a default payment of KZT 2.1 billion per annum if the parties do not agree. In each of 2008 and 2009, ICA paid KZT 2.1 billion to the Government under the Concession Agreement. The parties have agreed that the default amount will again be payable in 2010.

Commitments of KTG under the Hydrocarbon Agreement

In December 2000, KTG signed an agreement (the "**Hydrocarbon Agreement**") with the Investment Agency of Kazakhstan on exploration and production of hydrocarbons in North-Ucharal and UcharalKempirtobe territories and blocks including Amangeldy, Anabai, Airakty and Kumyrly gas fields, Zhambyl oblast, South Kazakhstan. The term of the Hydrocarbon Agreement is 31 years. In November 2003, KTG started production and sale of gas from Amangeldy gas field.

Under the Hydrocarbon Agreement, KTG is committed to making certain payments, either annually or based on reaching certain milestones in the exploration, development and production periods.

These payments include a commercial discovery bonus, royalty and certain taxes. The commercial discovery bonus is defined as 0.05 per cent. of commercial amounts of discovered hydrocarbons. Royalty is based on total production calculated at rates from 0.5 per cent. up to 1.5 per cent.

Under the Hydrocarbon Agreement, from 2000 to 2005, KTG was required to invest U.S.$94.3 million for the exploration of hydrocarbons. In accordance with a letter from the MEMR dated 12 December 2006, the exploration period was extended to December 2010 and the minimum work programme was increased by U.S.$35.9 million for this period.

Under the terms of the Hydrocarbon Agreement, KTG assumed a long-term obligation to repay to the Government U.S.$32.7 million related to historical costs of geological and geophysical data and drilling works incurred by the Government. Payment of U.S.$18.3 million in respect of these historical costs is required to be made on a quarterly basis over 10 years from the date of commencement of production, provided that reserves are proved and commercial production has commenced. The payment schedule of the remaining portion of these historical costs of U.S.$14.3 million will be agreed with the Government upon confirmation of a commercial discovery on these gas fields. Production of gas commenced at Amangeldy gas field and, accordingly, KTG recognised liabilities related to payment of historical costs on Amangeldy gas field.

As at 31 December 2009, KTG had contractual obligations to acquire gas for the amount of KZT 19.2 billion as compared to KZT 3.6 billion for 2008. In addition as at 31 December 2009, KTG has committed to purchase services for the amount of KZT 391 million as compared to KZT 9.5 million for 2008.

Contractual commitments of KMG Kashagan B.V. for capital expenditures

As at 31 December 2009, KMG Kashagan B.V. had contractual obligations for the acquisition, construction and development of its interest in NCPC for a total amount of U.S.$1.8 billion. In 2009, a cash call was made against the participants in NCPC, the Company's share of which (through KMG Kasagan B.V.) was U.S.$1.3 billion. The Company financed a portion of the amount payable through the issuance of bonds on the KASE for a total amount of KZT 120 billion, which were fully subscribed by the Development Bank of Kazakhstan, which is a related party.

Contractual Commitments of KTO for Acquisition of Property, Plant and Equipment, Inventory and Services

As at 31 December 2009, KTO had contractual obligations to acquire property, plant and equipment and construction services for the amount of KZT 10.4 billion. In addition, as at 31 December 2009, KTO has committed to purchase inventory (materials and spare parts) and services for the amount of KZT 4.5 billion.

Oilfield licences and contracts for KMG EP's exploration and production

Some of the Company's oilfield licences and contracts specify a minimum level of capital and operational expenditures through the end of the licence or contract period. Each oilfield license or contract also requires the Company to agree with local governments annual business plans, which include capital and social infrastructure projects. The following table sets forth certain information on the annual commitments for the years indicated under oil field licences and contracts of KMG EP as at 31 December 2009:

Year	Capital expenditures	Operational expenditures
	(KZT in billions)	
2010	79.2	5.7
2011	0.8	4.0
2012	–	4.0
2013	–	4.0
2014 to 2021	–	22.8
Total	**80.0**	**40.5**

See Note 36 of the 2009 Financial Statements for additional obligations to which the Company is committed.

Debt Obligations

Over the past few years, the Company and its subsidiaries, joint ventures and associates have raised significant amounts through short-term and long-term borrowings to supplement the net cash generated by the Company's operating activities in order to fund the capital expenditures required to develop the Company's upstream, midstream and downstream operations and to acquire new businesses, assets and Subsoil Use Agreements.

The following table sets forth the total borrowings of the Company and its subsidiaries (excluding obligations of non-consolidated jointly-controlled entities and associates except to the extent guaranteed by the Company or its subsidiaries) and certain rate and currency denomination information related thereto as at the dates indicated:

	As at 31 December	
	2009	**2008**
	(KZT in billions, except percentages)	
Total borrowings	1,837.7	1,150.0
Fixed interest rate borrowings	1,224.0	522.8
Weighted average of fixed interest rates	9.69%	8.40%
Variable interest rate borrowings	613.7	627.2
Weighted average of variable interest rates	3.27%	4.56%
U.S. Dollar denominated borrowings	1,401.5	1,065.3
Tenge denominated borrowings	386.4	14.7
Euro denominated borrowings	26.6	44.4
Other currency denominated borrowings	23.1	25.6
Current portion	452.7	188.4
Non-current portion	1,384.9	961.5

The Company's total borrowings increased by 59.8 per cent. to KZT 1,837.7 billion as at 31 December 2009 from KZT 1,150.0 billion as at 31 December 2008. The Company's long-term borrowings (excluding the current portion of long-term debt) increased to KZT 1,384.9 billion as at 31 December 2009 from KZT 961.5 billion as at 31 December 2008. Both these increases were principally due to the issuances of the Series 3 Notes, guaranteed by the Company under this Programme, and of two tranches of domestic bonds on the KASE, as more fully described below.

Principal Debt Obligations of the Company and its Subsidiaries

The following describes the principal debt obligations of the Company and its subsidiaries as at the date of this Base Prospectus:

- In July 2009, the Issuer issued its Series 3 Notes, guaranteed by the Company, under this Programme consisting of U.S.$1,500,000,000 11.75 per cent. Notes due 2015, which were issued in two tranches and consolidated to form a single series. In July 2008, the Issuer had issued two previous series of Notes, guaranteed by the Company, which remain outstanding under this Programme pursuant to the Base Prospectus dated 18 June 2008. The Series 1 Notes consist of U.S.$1.4 billion 8.375 per cent. Notes due 2013 and the Series 2 Notes consist of U.S.$1.6 billion 9.125 per cent. Notes due 2018.

- In October 2008, an agreement was signed implementing a new contractual and governance framework for NCPC and the transfer of an additional 8.48 per cent. interest in NCPC to the Company from the other participants in NCPC, each of whom in turn decreased its interest in NCPC on a *pro rata* basis, for consideration of U.S.$1.78 billion, which is payable in three equal annual instalments after the commencement of production operations at Kashagan. Under the agreement, the Company will not be responsible for contributing to further costs relating to the project at the Kashagan Field if there is a material redesign of the project or if production does not begin by October 2013. As at 31 December 2009, the outstanding amount of this loan, including capitalised interest, was KZT 312.1 billion. The loan is reflected on the Company's balance sheet included in the 2009 Financial Statements as "Payable for the acquisition of additional interest in the project."

- On 4 September 2008, KazMunaiGas PKOP Investment B.V. entered into the U.S.$2.5 billion KMG Trade House Facility in order to partially refinance a U.S.$3.1 billion loan entered into in connection with the Rompetrol acquisition that was repaid on 12 September 2008. Amounts borrowed under the KMG Trade House Facility are guaranteed by the Company and, until 7 July 2009, accrued interest at a rate of LIBOR plus 1.55 per cent. per annum. As a result of the fact that S&P downgraded the Company's long-term credit rating to BB+ (outlook stable) on 7 July 2009, pursuant to the terms of the KMG Trade House Facility, from 7 July 2009, amounts borrowed under the Trade House Facility accrue interest at a rate of LIBOR plus 2.05 per cent. per annum. See "*Overview of the Company—Credit Ratings*." As at 31 December 2009, the outstanding principal amount under the KMG Trade House Facility was U.S.$2.5 billion.

- In October 2009, in order to fund a portion of its share of the 2009 cash call for the North Caspian Project (Kashagan Field), the Company issued bonds on the KASE, which were fully subscribed by the Development Bank of Kazakhstan, in a total amount of KZT 120 billion. The bonds bear interest at a rate of 6 month LIBOR plus 8.5 per cent. per annum, payable semi-annually after a three-year grace period, and mature in 2019. As at 31 December 2009, the outstanding principal amount under this arrangement was KZT 120 billion.

- In July 2009, in order to finance its acquisition of the Pavlodar Refinery, the Company issued bonds on the KASE, which were fully subscribed by Samruk–Kazyna, in a total amount of KZT 190 billion. These bonds bear interest at a rate of 5 per cent. per annum, payable semi-annually, and mature in 2044. At the same time, Samruk-Kazyna issued bonds on the KASE, which were fully subscribed by the Company, in an off-setting total amount of KZT 190 billion. The Samruk-Kazyna bonds bear interest at a rate of 4 per cent. per annum, payable semi-annually, and mature 2044. Both bonds were discounted a rate of 12.5 per cent., which approximated the market interest rate applicable to the Company and Samruk-Kazyna, respectively, as of the date of the transaction. The bonds issued by Samruk-Kazyna were pledged to NBK under a repurchase transaction, pursuant to which the Company received KZT 180.5 billion from NBK under a loan agreement for a term of four months bearing interest at 7.0 per cent. per annum, which is rolled over each month, subject to on-going negotiations between the Company and the NBK with respect to the conversion of this loan into longer-term financing. Both the bonds issued by the Company and subscribed by Samruk-Kazyna and the bonds issued by Samruk-Kazyna and subscribed by the Company are carried on the Company's books at discounted values. As a result of these transactions, the Company's gross borrowing obligations increased by the sum of the full principal amount of the NBK repurchase transaction plus the discounted value of the bonds issued by the Company and subscribed by Samruk-Kazyna; however, the net borrowing effect is reduced due to the partial offset of the discounted value of the bonds issued by Samruk-Kazyna and subscribed by the Company.

- On 25 February 2010, the Issuer entered into the Deutsche Bank 2010 Credit Facility in the principal amount of U.S.$ 300 million, which is guaranteed by the Company. This facility bears interest at a rate of LIBOR plus 3.5 per cent. per annum and matures on 25 February 2011.

- On 24 July 2006, KMG EP's U.S.$650.0 million crude oil sale and purchase agreement, which was initially entered into with Utexam Limited on 16 August 2004, was assigned to BNP Paribas (Suisse) S.A. Amounts borrowed under this agreement accrued interest at a rate of LIBOR plus 1.75 per cent. per annum prior to the 24 July 2006 assignment, when the agreement was also amended to reduce the interest rate to LIBOR plus 1.1 per cent. per annum. The amount borrowed under this agreement was fully repaid in 2009.

- In December 2009, Credit Suisse refinanced its loan granted to KTG-Tbilisi, and guaranteed jointly by KTG and ICA, which had originally been extended on 27 February 2007 for an amount equivalent to U.S.$50 million. During 2009, KTG-Tbilisi had breached certain covenants relating to the original loan. The refinanced loan bears interest at a rate of LIBOR plus 7.3 per cent. per annum and matures in February 2014. In connection with the refinancing, the Company signed a sub-participation agreement pursuant to which the rights and obligations of KTG-Tbilisi under the refinanced loan have been transferred to KTG.

Principal Debt Obligations of Non-Consolidated Jointly-Controlled Entities and Associates

In addition, although these are not consolidated with the borrowings of the Company, certain jointly-controlled entities and associates of the Company and its subsidiaries have significant debt obligations, which are described below:

- On 15 April 2009, the MIBV entered into the U.S.$3.0 billion MMG Facility, which provides non-recourse financing secured by a pledge over MMG's shares and the shares of MIBV. The MMG Facility bears interest at a rate of one-month LIBOR plus 3.5 per cent. and matures on 31 May 2019.

- In October 2008, AGP entered into a U.S.$7.5 billion syndicated loan facility with a Chinese bank for the purposes of financing the construction of the Asia Gas Pipeline. The loan bears interest at a rate of LIBOR plus 2.15 per cent. per annum and matures on 22 October 2023.

- On 12 August 2008, KCP entered into a U.S.$1.18 billion credit facility with a term of ten years, subject to extension for up to five additional years. This credit facility was entered into for the purpose of financing construction of the Kenkiyak-Kumkol pipeline. KCP had the right to draw down the loan in four tranches, three of which were drawn down during 2008. Amounts borrowed under the facility accrue interest at a rate of six-month LIBOR plus 2 per cent. per annum and are guaranteed by CNPC. As at 31 December 2009, the outstanding principal amount under the facility was U.S.$950 million. KCP intends to draw down the remaining U.S.$50 million of the facility in 2010 to fund the upgrade of the infrastructure of the Kenkiyak-Kumkol pipeline.

Certain Provisions and Terms of Debt Obligations

In addition, as at 31 December 2009, the subsidiaries, jointly-controlled entities and associates of the Company also had the following material notes issued and outstanding under indentures with standard market terms: (i) U.S.$1,374.5 million floating rate notes issued by KazMunaiGaz PKI Finance B.V. due 2016 on 5 July 2006; (ii) U.S.$1,100 million 6.124 per cent. notes due 2014 issued by Tengizchevroil Finance Co. S.AR.L. on 16 November 2004 and guaranteed by TCO. (iii) U.S.$2,200 million 6.124 per cent. notes due 2014 issued by Tengizchevroil Finance Co. S.AR.L. on 16 November 2004 and guaranteed by TCO; (iv) U.S.$600 million 6.375 per cent. notes due 2017 issued by Intergas Finance B.V. on 14 May 2007 and guaranteed by ICA, the outstanding principal amount of which was reduced to U.S.$540 million in February 2009 when Intergas Finance B.V. purchased and cancelled U.S.$60 million in principal amount of these notes; (v) U.S.$250 million 6.875 per cent. notes due 2011 issued by Intergas Finance B.V. on 11 November 2004 and guaranteed by ICA and KTG, the outstanding principal amount of which was reduced to U.S.$178,948,000 in December 2008 when Intergas Finance B.V. purchased and cancelled U.S.$71,052,000 in principal amount of these notes; (vi) U.S.$300 million notes due 2019 issued by KCP Finance B.V. on 22 December 2004 and guaranteed on a limited recourse basis by KCP and CNPC with an interest rate of 7 per cent. until 12 February 2013 and 8.8 per cent. for the remaining period up to the full repayment; and (vii) U.S.$300 million notes due 2020 issued by KCP Finance B.V. on 23 September 2005 and guaranteed on a limited basis by KCP and CNPC with an interest rate of 7 per cent. for the first four years and 8.8 per cent. for the remaining period up to the full repayment.

The debt arrangements of the subsidiaries, jointly-controlled entities and associates of the Company contain standard market terms, including certain financial and other restrictive covenants. By way of example, under the Trade House Facility, the Company must comply with a number of financial covenants, including maintaining (i) a ratio of consolidated indebtedness to EBITDA of not more than 3.5:1, (ii) a ratio of consolidated indebtedness of "material subsidiaries" (as defined in the Trade House Facility), excluding financial indebtedness guaranteed by the Company, to EBITDA of such material subsidiaries of not more than 2.5:1 and (iii) a ratio of consolidated net debt to net capitalisation of not more than 50 per cent. Two other facilities to which the Company is a party have similar financial covenants.

The following table sets forth the estimated scheduled maturities of the Company's long-term debt outstanding as at 31 December 2009:

Year Due	**Amount Due**
	(KZT in billions)
2010	452.7
2011	323.3
2012	59.3
2013	275.4
2014 and after	727.1

The Company's short-term borrowings (including the current portion of long-term debt) increased to KZT 452.7 billion as of 31 December 2009 compared to KZT 188.4 billion as at 31 December 2008. The increase in 2009 compared to 2008 was due primarily to the repayment of the scheduled first instalment of USD 833 million under the U.S.$2.5 billion KMG Trade House Facility and the NBK repurchase transaction described above.

The weighted average interest rate on the Company's fixed interest rate borrowings increased to 9.69 per cent. as at 31 December 2009 from 8.40 per cent. as at 31 December 2008, while the weighted average interest rate on the Company's variable interest rate borrowings decreased to 3.27 per cent. as of 31 December 2009 from 4.56 per cent. as at 31 December 2008.

The Company plans to finance its budgeted capital expenditures for 2010 by relying mainly on long-term borrowings for its financing needs, while entering into non-recourse financing arrangements with joint venture partners where possible, decreasing the percentage of its secured debt and decreasing the charges associated with its debt. These activities are aligned with the Company's on-going efforts to improve its operating performance and, by reducing short-term debt obligations, are also designed to mitigate the impact of the current global economic conditions on the Company's operations.

Critical Accounting Policies and Estimates

The 2009 Financial Statements have been prepared in conformity with IFRS. The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. For a full description of the Company's significant accounting policies, see Note 3 of the 2009 Financial Statements. Management's selection of appropriate accounting policies and the making of such estimates and assumptions involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used, and actual amounts may differ from these estimates. Set forth below are summaries of the most critical accounting estimates and judgments required of the Company's management. See Note 4 of the 2009 Financial Statements.

Oil and Gas Reserves

Oil and gas reserves are a material factor in the Company's computation of depreciation, depletion and amortisation ("**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. The Company's management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. The Company's proved reserves almost exclusively comprise proved developed reserves. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions.

Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved 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 licence 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 licence 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.

Assets 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 licence 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 licence 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 licence term, no liability has been recognised. There is some uncertainty and significant judgment involved in making such a determination. The Company's 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 balance sheet date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant assumptions and judgments by the Company's 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. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the balance sheet obligation across the group companies at 31 December 2009 were in the ranges from 2.0 per cent. to 5.0 per cent. and from 6.3 per cent. to 12.0 per cent., respectively (2008: from 2.0 per cent. to 5.5 per cent. and from 6.0 per cent. to 12.0 per cent.).

Environmental Remediation

The Company's management also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalised or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that 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 signed by the KMG EP with the MEP 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 this Base Prospectus, the scope and timing of the remediation plan has not been formally agreed with the Government. Accordingly, the liability has not been discounted. Because the original terms of the liability have not yet been established and management reasonably expects to execute the remediation plan, agreed with the relevant authorities, over a period of up to ten years, the Company has classified this obligation as non-current except for the portion of costs 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 36 of the 2009 Financial Statements. Movements in the provision for environmental remediation obligations are disclosed in Note 20 of the 2009 Financial Statements.

Deferred Tax Assets

Deferred tax assets are recognised for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and the business nature of such expenses will be proved. Significant judgment by the Company's management is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of the Company's recognised deferred tax assets at 31 December 2009 was KZT 12.7 billion, compared to KZT 4.1 billion in 2008. See Note 31 of the 2009 Financial Statements.

Taxation

Taxable income is computed in accordance with the 2009 Tax Code. The Company accrues and pays corporate income tax at a rate of 20 per cent. 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 corporate income tax rates in 2010 and 2011 down to 17.5 per cent. and 15 per cent., respectively. According to the amendments introduced, corporate income tax rates

will be reduced to 17.5 per cent. in 2013 and to 15 per cent. in 2014 onwards. The above legislation also deferred the initially adopted increase of the mineral extraction tax rates by 1 per cent. in 2010 and another 1 per cent. 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. Accordingly, under the 2009 Tax Code, as amended, the new mineral extraction tax, which is based on the world oil price multiplied by amounts of oil and gas produced by the relevant entity, without deductions, is levied at the following rates: 5 to 18 per cent. in 2009, 2010, 2011 and 2012, 6 to 19 per cent. in 2013 and 7 to 20 per cent. in 2014. For sales of crude oil and gas condensate to Kazakhstan refineries, the aforementioned rates of mineral extraction tax are multiplied by a coefficient of 0.5.

The Company's effective tax rate as a percentage of net income before tax was 48.7 per cent. in 2009. Taxable income was computed in accordance with the 2009 Tax Code. Excess profit tax is treated as an income tax and forms part of income tax expense. In accordance with the 2009 Tax Code, the Company accrued and paid excess profit tax, which is based on revenue and deductible expenses for each field as determined in accordance with the 2009 Tax Code and ranges from 0 to 60 per cent. based on the revenue-to-expense ratio of each field.

Deferred tax is calculated with respect to both corporate income tax and excess profit tax. Deferred corporate income tax and excess profit tax are calculated on temporary differences at the expected rates that were enacted by the 2009 Tax Code on 1 January 2009. Both deferred corporate income tax and excess profit tax bases are calculated under the terms of the tax legislation enacted in the 2009 Tax Code as disclosed in Note 31 of the 2009 Financial Statements.

In assessing tax risks, the Company's management considers to be probable obligations the known areas at tax positions which the Company would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Company's Subsoil Use Agreements, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. See Note 36 of the 2009 Financial Statements.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Company is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. In 2009, the Company acquired interests in MMG, the Pavlodar Refinery, KPV and Caspian Pipeline ventures, and as of 31 December 2009, the Company has not completed the estimation of fair values of the identifiable assets and liabilities of the acquired business, and hence, recorded this acquisition at its provisional amounts. Completion of the fair value determination in 2010 may result in significant adjustments to the reported amounts of identifiable assets, liabilities and contingent liabilities. See "*Risk Factors—Risks Relating to the Company's Business— The Company may be required to record a significant charge to earnings if it must reassess goodwill or other intangible assets as a result of changes in assumptions underlying the recorded value in use of certain assets*".

Quantitative and Qualitative Disclosures about Market Risk

The Company operates in a highly competitive industry, and faces intense competition for new Subsoil Use Agreements, qualified staff and markets for its crude oil exports and its refined (oil) products.

The Company is subject to risks relating to reserves and production, evaluation of oil and gas reserves, Kazakhstan environmental legislation, prices for crude oil, gas and refined (oil) products, foreign currency, liquidity, credit, interest rates, taxation and other risks. The Company does not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and commodity agreements, to manage these market risks.

Reserves and Production

The Company's ability to acquire oil and gas reserves is one of the key factors to its success. New exploration acreage must be acquired through acquisitions or obtaining additional Subsoil Use Agreements. The Company is actively pursuing acquisitions while adhering to its investment criteria. The Company believes it is well positioned to continue to succeed as it has a continual involvement in the oil and gas industry, including its pre-emptive right to all Subsoil Use Agreements in Kazakhstan and with the Government, and the financial capacity to execute transactions.

The Company's ability to develop its reserves is another key to its success. The Company has introduced and continues to utilise Western technology in developing reserves. The Company has the financial capacity to acquire and implement this technology but it competes for properly qualified and trained staff necessary to fully utilise this technology. The Company

has addressed this through offering competitive compensation packages to its employees and recruiting on a worldwide basis.

Evaluation of Oil and Gas Reserves

The process of estimating the Company's oil and gas reserves is complex and requires significant assumptions and decisions in the evaluation of engineering, geological, geophysical and financial information. On an annual basis, the Company obtains evaluations of reserves from the Company's professional engineering staff prepared in accordance with Kazakhstan methodology and independent evaluations for some of its subsidiaries and joint ventures in accordance with PRMS, including the GCA Report for KMG EP. These reserve evaluations may change substantially from year to year as a result of numerous factors, including, but not limited to, the development of economic conditions under which the Company operates its business. As a result, despite all reasonable efforts involved in the process of evaluation, the estimation of the Company's reserves may materially change from period to period.

Kazakhstan Environmental Legislation

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Other than those contingencies discussed here and obligations disclosed in Note 20 of the 2009 Financial Statements, 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 comprehensive income or cash flows based on the current state of the law.

In June 2007 and March 2008, the Atyrau Department of Environmental Protection initiated separate proceedings against TCO in connection with an alleged environmental violation due to the improper storing of sulphur in the Tengiz Field. As a result of these proceedings, penalties were assessed against TCO in the amount of U.S.$307 million in respect of the 2007 proceedings and the amount of U.S.$307 million in respect of the 2008 proceedings. In November 2007, TCO paid the U.S.$307 million 2007 assessment under protest and pursued the appeal process available to it. TCO did not pay the 2008 assessment, but entered into negotiations with the Government to have the penalty withdrawn. In May 2009, the Government and TCO entered into a memorandum of understanding pursuant to which: (i) the proceedings relating to both the 2007 and 2008 assessments will be cancelled (upon issuance of a formal resolution by the Government, which is expected before the end of April 2010); (ii) TCO will be reimbursed the full amount of the U.S.$307 million administrative penalty paid by it in respect of the 2007 proceedings, through an off-set against TCO's royalty obligations, and the U.S.$307 million administrative penalty in respect of the 2008 proceedings will be cancelled; and (iii) TCO will build appropriate sulphur storage facilities and undertake certain other social programmes. See "*Risk Factors—Risk Factors Relating to the Company's Business—Oil at several of the Company's fields contains a high sulphur content and produces a high level of sulphur by product that must be managed in an environmentally sensitive manner*".

In November 2008, TCO received a notification from Atyrau Tax Department alleging that TCO underreported sulphur volumes for the years 2004 to 2006. This notification requested the filing of amended returns for those years using the cumulative volume basis. TCO appealed the notification in December 2008. Discussions with the Government have been taking place to resolve this issue. Additionally, in 2008, TCO was assessed and paid amounts totalling U.S.$60 million in relation to gas flaring events. TCO's management believes the resolution of these matters will not have a material impact on TCO's financial position or operating results.

See "*Environmental, Health and Safety Matters*" for additional discussion concerning environmental regulation in Kazakhstan.

Prices for Crude Oil, Gas and Refined (Oil) Products Risk

The Company's operating results and financial condition depend substantially upon prevailing prices of crude oil, gas and refined (oil) products. Historically, prices for crude oil have fluctuated widely for many reasons, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and refined (oil) products;
- changes in geopolitics and geopolitical uncertainty;
- weather conditions and natural disasters;
- access to pipelines, railways and other means of transporting crude oil, gas and refined (oil) products;

- prices and availability of alternative fuels;
- the ability of the members of OPEC, and other crude oil producing nations, to set and maintain specified levels of production and prices;
- political, economic and military developments in Kazakhstan, neighbouring countries and other oil producing regions, particularly the Middle East;
- Kazakhstan and foreign governmental regulations and actions, including export restrictions and taxes;
- market uncertainty and speculative activities; and
- global and regional economic conditions.

A substantial amount of the Company's crude oil and refined (oil) products are sold on the spot market or under short-term contracts at market sensitive prices. Market prices for export sales of crude oil and refined (oil) products are subject to volatile trading patterns in the commodity futures market. According to the EIA, the average monthly price for Brent crude oil as at December 2008 was U.S.$40/bbl, a decrease of about 70 per cent. from U.S.$133/bbl as at July 2008. Prices generally increased in 2009 to U.S.$74/bbl as at December 2009, a 75 per cent. increase from prices as at December 2008. See "*—Main Factors Affecting Results of Operations—Changes in Crude Oil and Refined (Oil) Product Prices*". Average selling prices can differ from quoted market prices due to the effects of uneven volume distributions during the period, quality differentials, different delivery terms compared to quoted benchmarks, different conditions in local markets and other factors. Domestic prices generally follow the trend of world market prices but are volatile due to the nature of the Kazakhstan market, however, sales prices for exported crude oil have been significantly higher than the domestic sales prices. Apart from KMG EP, which has recently entered into derivatives contracts to hedge its exposure to a decrease in oil prices related to a portion of its oil production, the Company does not use any derivative instruments to hedge its production in order to decrease its price risk exposure. See "*—Changes in Crude Oil and Refined (Oil) Product Prices*".

See *"Risk Factors—Risk Factors Relating to the Company's Business—The Company's revenue and net profits fluctuate significantly with changes in crude oil prices, which prices are historically volatile and are affected by a variety of factors beyond the Company's control"*.

Foreign Currency Risk

The Company's principal exchange rate risk involves changes in the value of the U.S. Dollar relative to the Tenge and to a much lesser extent, relative to other currencies. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly, although, until its devaluation by the NBK in February 2009, the Tenge had generally appreciated in value against the U.S. Dollar over the past decade. On 4 February 2009, however, the NBK devalued the Tenge by 18 per cent. against the U.S. Dollar, due in part to pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas). Devaluation of the Tenge was also intended to enhance the competitiveness of Kazakhstan exports. As at 31 December 2009, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 148.36 per U.S.$1.00, reflecting depreciation of the Tenge against the U.S. Dollar by 22.8 per cent. from 31 December 2008. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—In February 2009, the NBK devalued the Tenge by 18 per cent. Any further devaluation of the Tenge could have an adverse impact on the Company and Kazakhstan's public finances and economy*". On 30 December 2009, the Chairman of the NBK, Grigori Marchenko, announced the extension of the KZT/U.S. Dollar corridor until 20 March 2011. The NBK may cancel or amend the corridor at any time in its sole discretion. On 13 April 2010, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 146.67 per U.S.$1.00.

Most of the Company's cash inflows, as well as its accounts receivable balances, are denominated in U.S. Dollars, while a significant amount of the Company's costs of sales are denominated in Tenge.

On the revenue side, all of the Company's export revenue, including the exports of crude oil and refined (oil) products, are denominated in U.S. Dollars or are correlated with U.S. Dollar denominated prices for crude oil and refined (oil) products.

As at 31 December 2009, U.S.$9,446.9 million (KZT 1,401.5 billion) of the Company's indebtedness was denominated in U.S. Dollar (representing 76.3 per cent. of the Company's total indebtedness of U.S.$12,386.6 million (KZT 1,837.7 billion) of the Company's total indebtedness as at that date). Decreases in the value of the U.S. Dollar relative to the Tenge will reduce the value of the Company's U.S. Dollar denominated liabilities when measured in Tenge, whereas increases in the value of the U.S. Dollar relative to the Tenge will increase the value of the Company's U.S. Dollar denominated liabilities when measured in Tenge. Because the Company's reporting currency is Tenge, the Company

suffers foreign currency translation losses when the U.S. Dollar increases in value against the Tenge. See "—*Impact of Changes in Exchange Rates on Export Sales and Operating Margins*".

The Company does not use foreign exchange or forward contracts to manage its exposure to changes in foreign exchange rates. The Company's management regularly monitors the Company's currency risk and keeps track of changes in foreign currency exchange rates and its effect on operations of the Company.

Liquidity Risk

Liquidity risk arises when the maturities of assets and liabilities do not match causing the Company to encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. As at 31 December 2009, the Company had positive working capital, principally due to excess in current assets over current liabilities and a twofold increase in receivables, short-term financial assets and inventory. The Company's management monitors liquidity requirements on a regular basis and believes that the Company has sufficient funds available to meet its commitments as they arise.

Credit Risk

The Company's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of accounts receivable. While the Company may be subject to losses up to the contract value of the instruments in the event of non-performance by its counterparts, it does not expect such losses to occur. No collateral is required by the Company to support financial instruments subject to credit risk. Although collection of these receivables could be influenced by economic factors affecting these entities, the Company believes there is no significant risk of loss to it beyond allowances already recorded.

With the exception of Gazprom, which accounted for 90 per cent. and 90 per cent. of the gas transportation fees of ICA in 2009 and 2008, respectively, concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers included in the Company's customer base and the uses of letters of credit for most sales. Deposit insurance of deposits of legal entities is not offered by financial institutions operating in Kazakhstan. The Company's management periodically reviews the creditworthiness of the financial institutions with which it deposits cash.

In addition, the Company is also exposed to credit and liquidity risk from its investing activities, principally as regards its placing of deposits with Kazakhstan banks. See "*Risk Factors—Risk Factors Relating to the Company's Business—Serious financial difficulties experienced by a number of major Kazakhstan banks could result in the loss of significant cash deposits of the Company held with such banks*" and "*—Liquidity and Capital Resources—Deposits with Kazakhstan Banks*".

Interest Rate Risk

The Company is exposed to interest rate risk on its indebtedness that bears interest at floating rates, and to a lesser extent, on its indebtedness that bears interest at fixed rates. As at 31 December 2009, the Company had loans and borrowings outstanding in an aggregate principal amount of KZT 1,837.7 billion of which KZT 1,224.0 billion bears interest at fixed rates and KZT 613.7 billion bears interest at floating rates, largely determined by reference to LIBOR for U.S. Dollar deposits. See "—*Debt Obligations*".

The Company incurs debt for general corporate purposes including financing capital expenditures, financing acquisitions and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the Company's debt obligations. A hypothetical, instantaneous and unfavourable change of 10 basis points in the interest rate applicable to each category of floating rate financial liability held as at 31 December 2009 would have resulted in additional net interest expense of U.S.$1,200 thousand per year. A homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category (*e.g.*, U.S. Dollars, Tenge). However, the Company's sensitivity to decreases in interest rates and corresponding increases in the fair value of the Company's debt portfolio would negatively affect results and cash flows only to the extent that the Company elected to repurchase or otherwise retire all or a portion of the Company's fixed rate debt portfolio at prices above carrying value.

Taxation

The Company's effective tax rate as a percentage of net income before tax was 48.7 per cent. and 34.3 per cent. in 2009 and 2008, respectively. The increase between 2008 and 2009 was primarily due to the Company's recognition in 2009 of deferred withholding tax on undistributed dividends of TCO in the amount of KZT 34.2 billion, as well as higher excess

profits tax in 2009 compared to 2008. See *"—Main Factors Affecting Results of Operations and Liquidity—Taxation—Deferred Withholding Tax"*.

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 per cent. of the taxes additionally assessed and interest is assessed at the refinancing rate established by the NBK multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2009. As at 31 December 2009, the Company's management believes that its interpretation of the relevant legislation are appropriate and that it is probable that the Company's tax positions will be sustained, except as provided for or otherwise disclosed in Notes 4, 22 and 36 of the 2009 Financial Statements.

Off Balance Sheet Arrangements

As at 31 December 2009, the Company had no material off balance sheet items. The Company reports all recognised contingent liabilities and commitments as provisions, or otherwise discloses them in its consolidated financial statements. Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Company's management does not believe that off balance sheet instruments are material to its consolidated operations or financial position.

BUSINESS

General

The Company's legal name is Joint Stock Company "National Company KazMunayGas" and its commercial name is JSC NC KazMunaiGas. The Company was organised as a closed joint stock company under the laws of Kazakhstan on 27 February 2002. Pursuant to decree No. 811 of the President of Kazakhstan dated 20 February 2002, and a number of subsequent decisions of authorised state bodies and certain transfer agreements, the Company is the successor of CJSC "National Oil and Gas Company Kazakhoil" ("**Kazakhoil**") and CJSC "National Company Oil and Gas Transport" (both companies were liquidated upon transfer of all their assets, including shares in joint ventures, to the Company). The Company was re-registered as a joint stock company pursuant to the Law on Joint Stock Companies of the Republic of Kazakhstan under re-registration certificate No. 11425 1901 AO issued on 16 March 2004.

The business address of the Company is 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan and its telephone number is +7 (7172) 976 000.

Overview

The Company is the national oil and gas company of Kazakhstan with vertically-integrated upstream, midstream and downstream operations located principally in Kazakhstan. The Company's management believes, based on NSA statistics and the Company's internal information, that, as at 31 December 2009, on a consolidated basis (including the proportionate interest of jointly-controlled entities and associates), the Company was the largest crude oil producer in Kazakhstan in terms of production volume. According to NSA statistics and the Company's internal information, the Company also operates the largest crude oil and gas pipeline networks in Kazakhstan in terms of length and throughput capacity. In addition, the Company holds a significant or controlling interest in each of the three principal refineries in Kazakhstan, as well as a major refinery in Romania.

The Company calculates its reserves using Kazakhstan methodology, which differs significantly from the internationally accepted classifications and methodologies established by PRMS and SEC Standards. See "*Presentation of Financial Reserves and Certain Other Information—Certain Reserves Information*", in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. According to Kazakhstan methodology, as at 31 December 2009, the Company's A+B+C1 reserves of crude oil were 748.1 million tonnes (359.0 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) and the Company's A+B+C1 reserves of gas were 102.2 bcm (58.8 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates). See "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*".

In 2009, the Company's production was 18.2 million tonnes (9.0 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil and 4.2 bcm (0.9 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas compared to 17.1 million tonnes (9.5 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil and 3.7 bcm (1.3 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas in 2008. The Company's production of crude oil represented 23.9 per cent. and 24.2 per cent. of the total crude oil production in Kazakhstan in 2009 and 2008, respectively, based on the Company's internal information and information obtained from the NSA.

As at 31 December 2009, the total length of the crude oil pipeline networks that the Company owns or operates was 7,279 km and the total length of the gas pipeline networks that the Company owns or operates was 12,577 km.

In 2009 and 2008, the Company produced a total of 12.0 million tonnes and 10.2 million tonnes, respectively (10.1 million tonnes and 8.2 million tonnes, respectively, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates), of refined (oil) products.

As at 31 December 2009, the Company's A+B+C1 reserves life for crude oil was 41.1 years (40.0 years, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) and the Company's A+B+C1 reserves life for natural gas were 24.2 years (63.6 years, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates). Reserves life is calculated by dividing the relevant reserves figure by the corresponding production figure. In 2009, the Company's A+B+C1 reserves replacement ratio for crude oil (calculated by comparing net new proved crude oil reserves additions in tonnes to yearly crude oil production in tonnes) was 439 per cent. (minus 22 per cent., excluding the proportionate share of the Company and its subsidiaries in

jointly-controlled entities and associates) compared to 647 per cent. (641 per cent., excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates in 2008). This decrease in the Company's A+B+C1 reserves replacement ratio from 2008 to 2009 was primarily attributable to the larger effect of the Company's acquisition of an additional 8.48 per cent. interest in NCPC in 2008 compared to the effect of the Company's acquisition of a 50 per cent. interest in MMG in 2009.

The Company's total revenue decreased by 15.7 per cent. to KZT 1,589.5 billion in 2009 from KZT 1,885.6 billion in 2008. The Company's net profit also decreased by 51.3 per cent. to KZT 190.6 billion in 2009 from KZT 391.1 billion in 2008. As at 31 December 2009, the Company had total assets of KZT 5,126.0 billion compared to total assets of KZT 3,906.7 billion as at 31 December 2008.

The following table sets forth the Company's principal subsidiaries, joint ventures and associates, their principal line of operations and certain information related thereto as at the date of this Base Prospectus:

Name and Line of Operation	% Interest	Description of Operations
Upstream Assets		
JSC KazMunaiGas Exploration Production (KMG EP)	61.36[1]	KMG EP is the Company's principal onshore exploration and production subsidiary and is its largest subsidiary based on reserves and production volumes. KMG EP extracts oil and gas from 46 oil and gas fields located in Western Kazakhstan, including the Uzen Field, which, as at 31 December 2009, accounted for 21.0 per cent. of the Company's reserves of crude oil. In 2009, KMG EP produced 9 million tonnes of crude oil and 924.4 mcm of gas and, as at 31 December 2009, according to Kazakhstan methodology, had A+B+C1 reserves of crude oil of 231.1 million tonnes and A+B+C1 reserves of gas of 58,771 mcm. • JV Kazgermunai LLP – 50.00%: Kazgermunai is a jointly-controlled entity between KMG EP and PKI (through a subsidiary), each with a 50 per cent. interest, which operates the Akshabulak Field in Southern Kazakhstan. In 2009, Kazgermunai produced 1.6 million tonnes of crude oil and 260.4 mcm of gas attributable to KMG EP and, as at 31 December 2009, according to Kazakhstan methodology, had A+B+C1 reserves of crude oil of 15.7 million tonnes attributable to KMG EP. • PetroKazakhstan Inc. – 33.00%: In December 2009, KMG EP completed its acquisition from the Company of 100 per cent. of the common shares of KMG PKI Finance, which, in turn, holds a 33 per cent. interest in PKI. PKI is KMG EP's principal oil exploration and production associate; it is majority owned by China National Petroleum Corporation. PKI operates five production fields in Southern Kazakhstan. In 2009, PKI produced 2.1 million tonnes of crude oil and 291.9 mcm of gas attributable to KMG EP and, as at 31 December 2009, according to Kazakhstan methodology, had A+B+C1 reserves of crude oil of 21.2 million tonnes attributable to KMG EP. PKI, in turn, holds a 50 per cent. interest in each of the Kazgermunai and JSC Turgai Petroleum. The production and reserves of Kazgermunai and JSC Turgai Petroleum that are attributable to PKI are consolidated in the production and reserves information for PKI presented in this Base Prospectus. • CITIC Canada Energy Limited – 50.00%: CCEL is a jointly-controlled entity between KMG EP and CITIC, each with a 50 per cent. interest, which operates the Karazhanbas Field in Western Kazakhstan. In 2009, CCEL produced 0.9 million tonnes of crude oil and 7.7 mcm of gas and, as at 31 December 2009, according to Kazakhstan methodology, had A+B+C1 reserves of crude oil of 28.8 million tonnes, in each case, which were attributable to KMG EP based on KMG EP's ownership percentage in CCEL.
Tengizchevroil LLP (TCO)	20.00	TCO is a jointly-controlled entity that operates primarily the Tengiz Field in Western Kazakhstan, which is among the largest fields in development in the world based on A+B+C1 reserves and which, as at 31 December 2009, accounted for 28.9 per cent. of the Company's A+B+C1 reserves of crude oil. In 2009, TCO produced 4.5 million tonnes of crude oil and 2,338.1 mcm of gas attributable to the Company and, as at 31 December 2009, according to Kazakhstan methodology, had A+B+C1 reserves of crude oil of 233.8 million tonnes attributable to the Company. The gas at TCO's primary field, Tengiz Field, is all associated gas which cannot be classified as category A, B or C1 under Kazakhstan methodology and, therefore, is not included in the reserve estimates presented in this Base Prospectus.

Name and Line of Operation	% Interest	Description of Operations
North Caspian Project Consortium (NCPC)	16.81	NCPC is a consortium that operates, indirectly, the Kashagan Field in the Caspian Sea. In October 2008, the Company's interest in NCPC rose from 8.33 per cent. to 16.81 per cent. after all of the international parties to NCPC and the Kazakhstan authorities signed an agreement implementing a new contractual and governance framework for NCPC, and the transfer of an additional 8.48 per cent. interest in NCPC from the other participants in NCPC to the Company was completed. It is expected that the Kashagan Field will commence production by the fourth quarter of 2012. See "Business—Exploration *and Production—Exploration Projects—NCPC—Kashagan Field"*. As at 31 December 2009, according to Kazakhstan methodology, NCPC had A+B+C1 reserves of crude oil of 127.9 million tonnes attributable to the Company, which accounted for 17.1 per cent. of the Company's A+B+C1 reserves of oil based on the Company's 16.81 per cent. interest in NCPC. In January 2009, operatorship of NCPC was transferred from Eni S.p.A. to NCOC, a newly-formed jointly-controlled entity entered into by the participants.
JSC Mangistaumunaigas (MMG)	50.00	MMG is an upstream oil and gas company owned by MIBV, a jointly-controlled entity between KMG and CPNC E&D, with each partner having a 50 per cent. interest. KMG acquired its interest in MMG on 25 November 2009. MMG is one of Kazakhstan's largest oil producers and operates the Kalamkas Field, one of the largest fields in Kazakhstan, pursuant to a Subsoil Use Agreement that expires in 2027. As at 31 December 2009, the Kalamkas Field had estimated A+B+C1 reserves of crude oil of 44.2 million tonnes and A+B+C1 reserves of gas of 10,859.0 mcm attributable to the Company, representing 5.9 per cent. and 10.6 per cent. of the Company's A+B+C1 reserves of crude oil and gas, respectively. MMG also operates the Zhetybai Field, which as at 31 December 2009, had estimated A+B+C1 reserves of crude oil of 32.4 million tonnes and A+B+C1 reserves of gas 13,692 mcm attributable to the Company, representing 4.4 per cent. and 13.4 per cent. of the Company's A+B+C1 reserves of crude oil and gas, respectively.
Midstream Assets(2)		
JSC KazTransOil (KTO)	100.00	KTO is a transportation company, which owns and operates the largest crude oil pipeline network in Kazakhstan. The KTO pipeline network principally includes the UAS pipeline in Western Kazakhstan, which delivers crude oil to Russia's Transneft pipeline network for delivery to ports on the Black Sea or to Europe directly. As at 31 December 2009, the KTO pipeline network consisted of 5,071 km of pipe with diameters between 0.5 m and 1.8 m. In 2009, the KTO pipeline network transported 50.8 million tonnes of crude oil. • Kazakhstan China Pipeline JV LLP – 50.00%: KCP is a jointly-controlled entity between KTO and CNODC, each with a 50 per cent. interest. KCP constructed the Atasu-Alashankou pipeline and the Kenkiyak-Kumkol pipeline, comprising two of three pipeline systems forming the KC Pipeline built to create a transport corridor for the export of Kazakhstan oil to China. As at 31 December 2009, the Atasu-Alashankou pipeline had a total length of 962 km of pipe with diameters between 0.5 m and 1.8 m. In 2009, the Atasu-Alashankou pipeline transported 7.7 million tonnes of crude oil, which amount is not included in the KTO pipeline network volume reported above. The Kenkiyak-Kumkol pipeline was completed in October 2009 with a total of 794 km of pipe with diameters between 0.5 m and 1.8 m. • JSC MunayTas North West Pipeline Company JV – 51.00%: MunayTas is a jointly-controlled entity between KTO, with a 51 per cent. interest, and CNPC E&D, with a 49 per cent. interest. MunayTas constructed the Kenkiyak-Atyrau pipeline running from the city of Kenkiyak located in the Aktobe oblast of Western Kazakhstan to the city of Atyrau and comprising one of three pipeline systems forming the KC Pipeline (together with Atasu-Alashankou pipeline and the Kenkiyak-Kumkol pipeline). The Kenkiyak-Atyrau pipeline connects to the UAS Pipeline and the CPC Pipeline extending from the oil fields in Western Kazakhstan through Russia to CPC's export marine terminal on the Black Sea near the Russian port of Novorossiysk. As at 31 December 2009, the Kenkiyak-Atyrau pipeline network had a total of 448.8 km of pipe with diameters between 0.5 m and 1.8 m. In 2009, the Kenkiyak-Atyrau pipeline transported 5.9 million tonnes of crude oil, which amount is not included in the KTO pipeline network volume reported above.
JSC KazTransGas (KTG)	100.00	KTG is a transportation company, which, through Intergas International B.V., owns a 100 per cent. interest in ICA, which in turn operates the largest natural gas pipeline network in Kazakhstan. The ICA pipeline network includes the Central Asia Centre pipeline, the shortest pipeline route from the gas producing regions of Central Asia (principally Turkmenistan and Uzbekistan) through Russia to Europe. As at 31 December 2009, the ICA pipeline network had a total of 12,557 km of pipe comprised of 131 km of pipe with diameters less than 0.5m and 12,446 km of pipe with diameters between 0.5m and 1.4m. In 2009, the ICA pipeline network transported 91.1 bcm of gas.

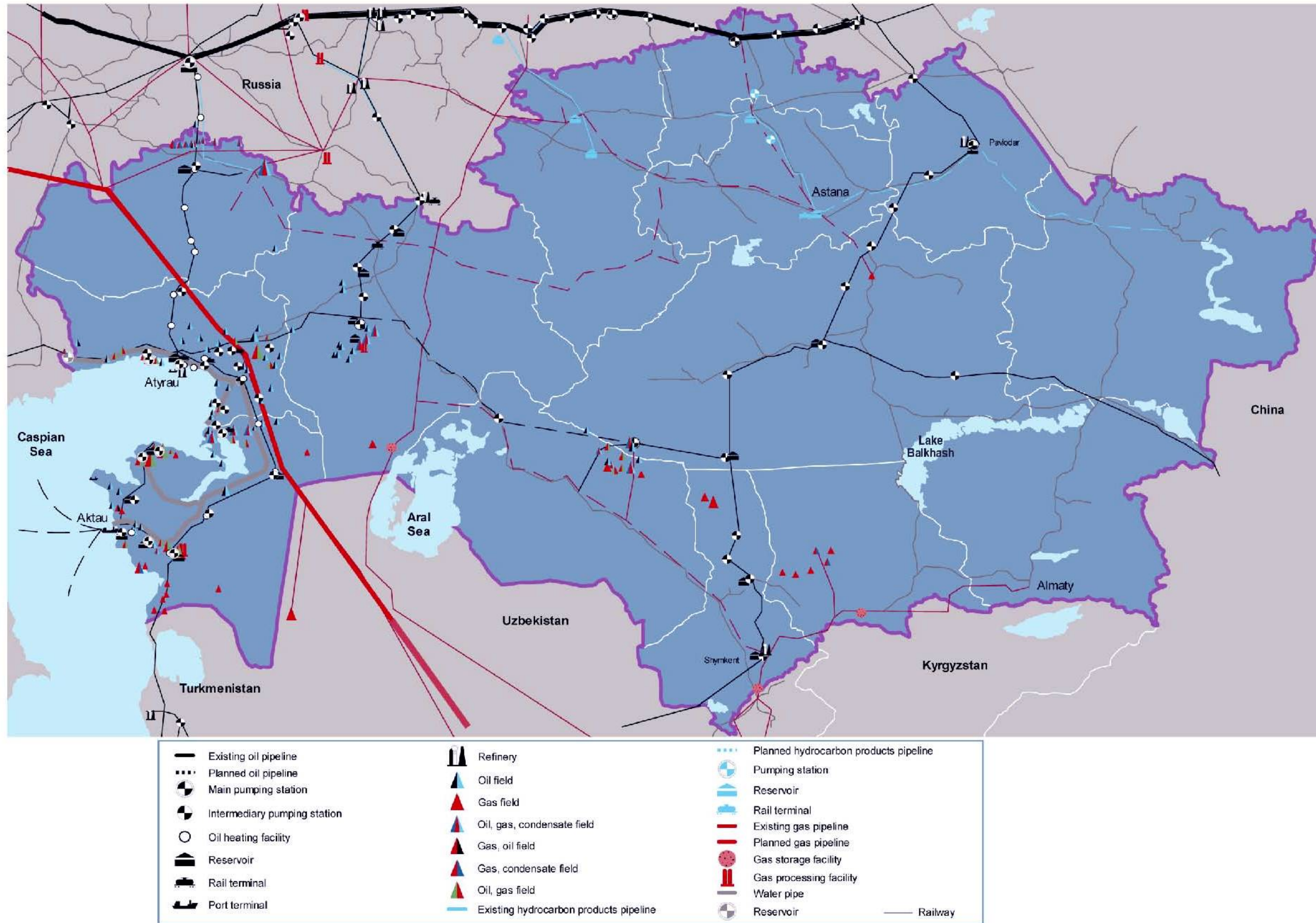
Name and Line of Operation	% Interest	Description of Operations
		• Asia Gas Pipeline LLP - 50.00%: AGP is a jointly-controlled entity between KTG and CNPC, each with a 50 per cent. interest, formed to construct and operate the Asia Gas Pipeline across Kazakhstan, which transmits gas from the other Central Asian Republics to major population centres in Southern Kazakhstan and to China**.** On 12 December 2009, the first phase of this project, comprising a pipeline with a throughput capacity of 10 bcm per year, was completed.
Downstream Assets		
JSC Trade House KazMunaiGaz (KMG Trade House)	100.00	KMG Trade House is the Company's principal refining, marketing and trading company. KMG Trade House's principal operations include refining crude oil, operating filling station networks and trading the Company's crude oil and oil products. The Company, through KMG Trade House, has a significant or controlling interest in all three of Kazakhstan's principal oil refineries, the Atyrau Refinery, the Shymkent Refinery and the Pavlodar Refinery. In addition, KMG Trade House owns 100 per cent. of Rompetrol, which, in turn, has a controlling interest in the Petromidia Refinery in Romania. In 2009, KMG Trade House produced 12.0 million tonnes of refined (oil) products. KMG Trade House's principal refinery assets are as follows: • Pavlodar From August 2009, KMG Trade House, through TH KazMunaiGas N.V., holds a 100 per cent. interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 58 per cent. interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 42 per cent. of Pavlodar Refinery JSC being held by the State). Refinery Company RT leases 100 per cent. of the assets comprising Pavlodar Refinery to Pavlodar Refinery JSC, which then operates the Pavlodar Refinery. As at 31 December, the Pavlodar Refinery had a design capacity of 20,548 tonnes of oil per day. In 2009, the Pavlodar Refinery refined 4.1 million tonnes of crude oil and produced 3.8 million tonnes of refined (oil) products • Atyrau KMG Trade House owns a 99.17 per cent. interest in the Atyrau Refinery located in Atyrau, Western Kazakhstan. As at 31 December 2009, the Atyrau Refinery had a design capacity of 13,698 tonnes of oil per day and its actual refining production was 10,748 tonnes of oil per day. In 2009, the Atyrau Refinery refined 4.0 million tonnes of crude oil and produced 3.7 million tonnes of refined (oil) products. • Shymkent KMG Trade House, through Valsera Holdings B.V., indirectly owns a 49.72 per cent. interest in PetroKazakhstan Oil Products LLP, which in turn owns the Shymkent Refinery located in Shymkent, Southern Kazakhstan. As at 31 December 2009, the Shymkent Refinery had a design capacity of 15,068 tonnes of oil per day and its actual refining production was 11,021 tonnes of oil per day. In 2009, the Shymkent Refinery refined 4.0 million tonnes of crude oil and produced 1.9 million tonnes of refined (oil) products attributable to the Company. • Petromidia KMG Trade House, through Rompetrol, holds a 98 per cent. (76.39 per cent. as at 31 December 2009) interest in Rompetrol Rafinare S.A., which, in turn, owns the Petromidia Refinery located in Navoderi, Romania. See "*Business—Refining, Marketing and Trading—Refining Facilities—Petromidia Refinery*". As at 31 December 2009, the Petromidia Refinery had a design capacity of 13,698 tonnes of oil per day and its actual refining production was 10,748 tonnes of oil per day. In 2009, the Petromidia Refinery refined 4.0 million tonnes of crude oil and produced 3.9 million tonnes of refined (oil) products.

Notes:

(1) As at 31 December 2009, as a percentage of ordinary voting shares of KMG EP.

(2) For details on throughput capacity of the Company's pipelines, see "*Business—Transportation*".

The following map sets forth the principal Kazakhstan onshore exploration and production, transportation and refining and trading assets as at 31 December 2009:



Corporate Structure

The organisational structure of the principal members of the Company's group as at the date of this Base Prospectus is as follows:

JSC National Company KazMunay Gas
(the Guarantor)

100% LLP KMG-Kumkol
50% KazRosGas
100% KMG Kashagan B.V.
16.81% NCPC
100%[(1)] Kazakhstan Pipeline Ventures
1.75%[(1)] CPC
19%[(1)] CPC
100% KTO
100% KTG
100% Intergas International B.V.
100% ICA
50% AGP
100% KMG Trade House
99.17% Atyrau Oil Processing Factory LLP
100% TH KazMunaiGas N.V.
100%[(3)] Refinery Company RT
58%[(3)] Pavlodar Refinery
50% Kazakhstan Petrochemical Industries
51% LLP "N Operating Company"

95.1% 4.9% Coöperative KazMunaiGaz PKI U.A.
100% KMG Khvalynskoe Finance B.V.
50% Mangistau Investments B.V.
100% MMG
100% KazMunaiGas Finance Sub B.V. (the Issuer)

50% KCP
100% Batumi Industrial Holdings Limited
100% Batumi Sea Port
51% MunayTas
50% 50% Batumi Capital Partners Ltd
38.2% 61.8% Batumi Oil Terminal

61.36%[(4)] KMG EP
100% KazMunayGas PKI Finance
33% PKI
100% PKKR
50% Kazgermunai
50% CCEL
100% Karazhanbasmunai
20% TCO
100% KazMunay Teniz
50% Atash LLP
100% Kurmangazy Petroleum LLP
40% Caspian Meruerty Operating Company B.V.
51% Karakhturk-munay
50% Kazakhoil-Aktobe

100% Kazmunaigas PKOP Investment BV
100% Rompetrol
98%[(2)] Rompetrol Rafinare S.A.
100% Kazmunaigas PKOP Finance BV
17% 33% Valsera Holdings B.V.
99.43% PetroKazakhstan Oil Products (Shymkent Refinery)

Notes:

(1) In April 2009, the Company acquired from BP an additional 49.9 per cent. interest in KPV, which increased the Company's effective beneficial interest in CPC to 20.75 per cent. (comprised of a 19 per cent. ownership interest of the Government (which is managed by the Company) and a further 1.75 per cent. ownership interest of the Company through KPV). See "*Transportation—Transportation of Crude Oil—CPC Pipeline*".

(2) If Rompetrol issues shares of Rompetrol Rafinare in payment of the Rompetrol Convertible Note, control of Rompetrol Rafinare, and, therefore, the Petromedia Refinery, would be lost. See "*Risk Factors—Risk Factors Relating to the Consolidated Group's Business—The Company could lose control of the Petromedia Refinery*".

(3) The Company owns a 100.00 per cent. interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 58.00 per cent. interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 42.00 per cent. interest in Pavlodar Refinery JSC being held by the State). Refinery Company RT leases 100 per cent. of the assets comprising Pavlodar Refinery to Pavlodar Refinery JSC, which then operates the Pavlodar Refinery.

(4) As at 31 December 2009, as a percentage of ordinary voting shares of KMG EP.

Key Strengths

The Company believes that it benefits from the following key strengths:

Strong support from the Government, which has an indirect 100 per cent. interest in the Company.

As a 100 per cent. Government-owned entity, the Company benefits from the Government's strong support. Among other things, the Government historically has assisted the Company by providing financing and strategic support and has played an important role in assisting the Company in the expansion of its operations, reserves, production levels and transportation and refining networks.

Largest producer of crude oil in Kazakhstan on a consolidated basis and the owner of significant interests in many of the largest oil and gas projects in Kazakhstan.

The Company is the largest producer of oil in Kazakhstan (based on data from the NSA and the Company's own statistics) and produced 18.2 million tonnes of crude oil in 2009. In recent years, the Company and its subsidiaries have increased the scale of their operations through acquisitions of interests in MMG, the Pavlodar Refinery, Rompetrol and KPV (CPC), as well as in other smaller exploration and production companies. Additionally, KMG EP has acquired interests in PKI , Kazgermunai and CCEL, which also are significant producers of crude oil (although the Company does not consolidate the reserves and production of such companies). The Company also has increased production over time with respect to KMG EP's mature oil and gas fields through the use of stimulation and secondary enhancement techniques. See "*The Oil and Gas Industry in Kazakhstan*". Additionally, the Company continues to increase its crude oil production through its joint venture TCO, which expanded its operations in the Tengiz Field in 2008 and 2009. See "*—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—TCO*".

Beneficiary of the Government's pre-emptive right to acquire interests in Subsoil Use Agreements when offered for sale or when the entities that benefit from such agreements are offered for sale.

Under Kazakhstan law, the Government has a pre-emptive right of acquisition with respect to any transfer of subsoil use rights and any transfer of interests in a legal entity directly or indirectly controlling another legal entity with subsoil use rights, if the core business of the controlling entity is related to subsoil use in Kazakhstan. Although the Subsoil Law does not require the Government to do so, the Government, in practice, has been designating the Company to be the beneficiary of such pre-emptive right. The Company used this pre-emptive right to acquire interests in MMG, PKI, Kazgermunai and CCEL. The Company's management believes that these pre-emptive rights will enable the Company to further expand its interests in the Kazakhstan oil and gas production and exploration industry over time.

Operator of Kazakhstan's extensive oil and gas pipeline networks.

The Company's subsidiaries, KTO and KTG, directly or indirectly, are the operators of the primary hydrocarbon transport networks in Kazakhstan and thus the principal pipelines for the transport of oil and gas produced in Kazakhstan within and to the borders of Kazakhstan and through Kazakhstan from other countries. Pursuant to the Government's announced plans to continue to expand the transportation capacity of the oil pipeline and gas pipeline networks in Kazakhstan, with the completion of the Kenkiyak-Kumkol pipeline in October 2009, all three portions of the KC Pipeline to China have become operational. In addition, the Company has entered into joint cooperation and operating agreements to construct and operate (i) the Asia Gas Pipeline, which will is planned to run from Turkmenistan through Uzbekistan to Khorgos in China, passing through Kazakhstan; and (ii) the West-to-South Pipeline, which is planned to run from Beyneu in Western Kazakhstan to Shymkent in Southern Kazakhstan. On 12 December 2009, the first phase of the Asia Gas Pipeline, comprising a pipeline with a throughput capacity of 10 bcm per year, was completed, the second phase with a designed throughput capacity of 40 bcm per year is expected to be completed before the end of 2011. The first stage of the West-to-South Pipeline is expected to have a throughput capacity of up to 10.0 bcm per year and is expected to be completed by 2013.

Current owner of significant interests all three principal refineries in Kazakhstan, as well as a major refinery in Romania.

As at the date of this Base Prospectus, there are three major refineries in Kazakhstan, in Atryau, Shymkent and Pavlodar. The Company controls the Atyrau Refinery in Western Kazakhstan and, in 2007 acquired a 49.72 per cent. interest in PetroKazakhstan Oil Products LLP, which owns the Shymkent Refinery in Southern Kazakhstan. Furthermore, in August 2009, the Company completed the purchase of MMG's controlling interest in the Pavlodar Refinery, which gives the Company a significant or controlling interest in all three of Kazakhstan's principal oil refineries. The Company's purchase of the Pavlodar Refinery was a condition to the purchase of MMG's upstream assets, which was completed in November 2009. In addition, in 2007, the Company acquired a 75 per cent. interest in Rompetrol, which was subsequently

increased to 100 per cent. in June 2009 pursuant to the Company's exercise of the Rompetrol Option for the purchase of the remaining 25 per cent. interest in Rompetrol, which indirectly owns the Petromidia Refinery in Romania. Ownership of the Petromidia Refinery has enhanced the Company's ability to process its crude oil and sell refined (oil) products in the European market.

Strategy

The Company's goal is to maintain its position as the leading vertically-integrated oil and gas company in Kazakhstan with vertically-integrated upstream, midstream and downstream operations, by focusing on the following priorities:

Increasing the Company's overall production and replacing maturing reserves through acquisitions and exploration.

As at the date of this Base Prospectus, the Company is the largest producer of oil in Kazakhstan based on NSA statistics and the Company's internal information. The Company plans to retain this position, in particular, by utilising the Company's position as the national oil and gas company, which has been designated by the Government to exercise the Government's pre-emptive rights under Article 71 of the Subsoil Law. Additionally, the Company will continue to seek to expand through strategic acquisitions of existing onshore and offshore exploration and production companies in Kazakhstan or elsewhere. Most recently, in November 2009, the Company acquired MMG, Kazakhstan's fifth-largest oil producer, which operates oil and gas fields in Kalamkas and Zhetybai as well as other upstream and exploration assets, including licences to explore and develop over 15 other oil and gas fields in Kazakhstan and the Caspian region. The Company will also seek to enter into joint ventures with major international oil and gas companies, as it did with TCO and NCPC, to enable the development of more complex oil and gas fields. Further, KMG EP will, through the use of stimulation and secondary enhancement techniques, work to stabilise the production of its mature oil and gas fields.

Enhancing its transportation systems by developing new transportation routes and increasing the capacity of existing networks.

The Company plans to maintain its strategic position as a key regional transportation company by, among other things, (i) operating the KC Pipeline, which stretches from Atyrau in Western Kazakhstan to China, which was completed in October 2009 with the completion of the Kenkiyak-Kumkol pipeline; (ii) further developing its trans-Caspian marine transportation system through the extension of the Baku-Tblisi-Ceyhan pipeline (the "**BTC Pipeline**") to the Batumi Marine Export Terminal on the Black Sea, which is expected to be completed by 2012; (iii) developing the Transcaspian Project, which is designed to enable the export via pipelines and tankers of Kazakhstan crude oil produced primarily at the Kashagan Field and the Tengiz Field through the Caspian Sea to international markets, and is currently the subject of a project feasibility study; (iv) further developing the Asia Gas Pipeline, which transmits gas from the other Central Asian republics to major population centres in Southern Kazakhstan and to China, and is expected to be completed in phases between 2011 and 2012; (v) through its subsidiary ICA, increasing the throughput capacity of the CAC Pipeline by the construction of the By-Caspian pipeline, which is currently in the feasibility study stage and would take up to three years to complete once construction commences; (vi) expanding the CPC Pipeline, which is expected to be completed by 2013; and (vii) developing the West-to-South Pipeline, which will transmit gas from Beyneu in Western Kazakhstan to Shymkent in Southern Kazakhstan and is currently in the feasibility study stage and would take up to two years to complete once construction commences.

Enhancing its role in the oil and gas "value chain" through the marketing of refined (oil) products to the end consumer of such products and modernising its refineries.

The Company is expanding its marketing and retail network domestically and abroad to enhance its profitability by getting closer to the end consumers of its products. The Company's acquisition of Rompetrol is in line with this strategy and allows the Company to access European markets for oil products refined at Rompetrol's Petromidia Refinery. As part of this strategic initiative, the Company has begun to supply the majority of Rompetrol's feedstock using the Company's own crude oil production. In addition, in August 2009, the Company acquired MMG's controlling interest in the Pavlodar Refinery, which is the largest and most technically-advanced refinery in Kazakhstan, with a designed refining capacity of 7.5 million tonnes per year, giving the Company a significant or controlling interest in all three of Kazakhstan's principal oil refineries. The Company also plans to further develop the Company's retail outlets in Kazakhstan to maximise its sales of refined (oil) products to the end consumer.

The Company plans to further modernise the Atyrau Refinery, so that it can produce refined (oil) products meeting the Euro 3 and Euro 4 fuel standards required by Technical Regulations adopted by the Government on 29 December 2007, as well as the Shymkent Refinery and the Petromidia Refinery. The enhanced refined (oil) products that may be produced as a result of the modernisation upgrades will comply with new ecological standards and are expected to improve the Company's sales of refined (oil) products.

Enhancing the efficiency of its operations through the reorganisation of its corporate structure.

In 2009, the Board of Directors of the Company approved a strategy to reorganise the Company's corporate structure in order to enhance its operational efficiency. In line with this strategic initiative, the Company is continuing to undergo a reorganisation by divesting assets that are not core to its business and consolidating its core businesses into units based on five business segments, including: (i) oil and gas exploration and production; (ii) gas transportation and export; (iii) oil transportation; (iv) refining; marketing and retail; and (v) oil- and gas-related services.

To create greater efficiencies in its core businesses, the Company will also centralise its support functions, including IT, internal audit functions and human resources in a further single unit, which will provide all administrative services to each business unit. Each business unit will develop its own strategic and business plan and will be managed by one managing director. The managing director of each business unit will report to the President (Chairman of the Management Board) and sit on the Management Board of the Company. The first stage of the corporate reorganisation was completed and approved by the Board of Directors of the Company on 23 June 2009. The second stage of the corporate reorganisation is expected to take from one to two years and its progress will depend on the rate of integration of the Company's subsidiaries into the relevant business unit.

In addition, the Company is pursuing a strategy of consolidating the principal exploration and production assets that the Company controls under KMG EP. To that end, it has already sold its interest in PKI to KMG EP and intends to sell further assets to KMG EP by the end of 2010.

Reserves

According to Kazakhstan methodology, as at 31 December 2009, the Company's A+B+C1 reserves of crude oil were 748.1 million tonnes (359.0 million tonnes excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates). See, however, "*Risk Factors—Risks Relating to the Company's Business—The reported quantities or classifications of the Company's crude oil and gas reserves may be lower than estimated because of inherent uncertainties in the calculation of reserves and because of the use of Kazakhstan methodology* and "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*", "*Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates*".

The following table sets forth the Company's A+B+C1 reserves that are attributable to the Company as at 31 December 2009:

	For the year ended 31 December 2009				
Company and Field	**% ownership interest**	**Oil**	**% of total**	**Gas**	**% of total**
		(tonnes in millions)		*(mcm)*	
Consolidated Subsidiaries and Jointly-Controlled Assets:					
Total for KMG EP	61.36%[(1)]	231.1	30.9%	58,771	57.5%
Uzen Field		157.3	21.0%	16,584	16.2%
EMG Fields		73.8	9.9%	30,280	29.6%
Other Fields		0.0	0.0%	11,907	11.7%
Total for NCPC	16.81%	127.9	17.1%	—	0.0%
Kashagan Field		127.9	17.1%	—	0.0%
Total for Subsidiaries and Jointly-Controlled Assets:		**359.0**	**48.0%**	**58,771**	**57.5%**
Non-consolidated Jointly-Controlled Entities and Associates:					
of the Company:					
Total for TCO[(2)]	20.00%	233.8	31.3%	—	0.0%
Tengiz Field		216.4	28.9%	—	0.0%
Other fields		17.4	2.3%	—	0.0%
Total for Kazakhoil Aktobe	50.00%	27.8	3.7%	9,789	9.6%
Alibekmola Field		17.0	2.3%	4,475	4.4%
Other fields		10.8	1.4%	5,314	5.2%
Total for MMG	50.00%	86.3	11.5%	26,680	26.1%
Kalamkas Field		44.2	5.9%	10,859	10.6%
Zhetybai Field		32.4	4.3%	13,692	13.4%
Other fields		9.7	1.3%	2,129	2.1%
Other joint ventures		4.3	0.6%	2,711	2.7%
of KMG EP:	61.36%[(1)]				
Total for Kazgermunai	50.00%	15.7	2.1%	4,253	4.2%
Akshabulak Field		11.7	1.6%	1,700	1.7%
Other Fields		4.0	0.5%	2,553	2.5%
Total for PKI	33.00%	21.2	2.8%	-	0.0%
PKKR		12.4	1.7%	-	0.0%
Other Fields		8.8	1.2%	-	0.0%
Total for Jointly-Controlled Entities and Associates		**389.1**	**52.0%**	**43,433**	**42.5%**
Total		**748.1**	**100.0%**	**102,204**	**100.0%**

Notes:
(1) As at 31 December 2009, as a percentage of ordinary voting shares of KMG EP.
(2) The gas at the Tengiz Field and other fields operated by TCO is all associated gas, which cannot be classified as category A, B or C1 under Kazakhstan methodology, and therefore, is not included in the reserves estimates presented in this Base Prospectus.

Exploration and Production

Overview

The Company's management believes, based on NSA statistics and the Company's internal information that, as at 31 December 2009, on a consolidated basis (including the proportionate consolidation of joint ventures and associates), the Company was the largest crude oil producer in Kazakhstan in terms of production volume. In 2009, the Company's production was 18.2 million tonnes (9.0 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil, as compared to 17.1 million tonnes (9.5 million tonnes, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) in 2008. The Company's production of crude oil (including the production of joint ventures and associates) represented 23.9 per cent. and 24.2 per cent. of the total crude oil production in Kazakhstan in 2009 and 2008, respectively, based on the Company's internal information and information obtained from the NSA. KMG EP (including KMG EP's proportionate interest in Kazgermunai) and TCO represented 58.1 per cent. and 24.7 per cent., respectively, of the Company's production of crude oil in 2009.

In 2009, the Company's production was 4.2 bcm (0.9 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas compared to 3.7 bcm (1.3 bcm, excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas in 2008. The Company's major gas producing members are KMG EP (including KMG EP's proportionate interest in Kazgermunai since 24 April 2007) and TCO, which produced 28.1 per cent. and 55.4 per cent., respectively, of the Company's production of gas, or 0.9 bcm and 2.3 bcm, respectively, in 2009.

The Company classifies its upstream operations into two categories: "production and development assets" and "exploration projects". Production and development assets consist of subsidiaries and joint ventures with fields that are either currently producing or are at the development stage as approved by the MEMR. Exploration projects consist of subsidiaries and joint ventures that are not currently approved by the MEMR as producing fields and are still at the exploration stage. Generally, on completion of an initial exploration programme and if the MEMR approves the project, a project will enter the development phase and join the production and development assets category. See "*The Oil and Gas Industry in Kazakhstan—Regulatory Bodies—Ministry of Oil and Gas*".

Production and Development Assets

The following table sets forth the production attributable to the Company from its consolidated subsidiaries and non-consolidated jointly-controlled entities and associates for the years indicated (See "*Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates*"):

		For the year ended 31 December			
		2009		2008	
Company and Field	**% Ownership Interest**	**Oil**	**Gas**	**Oil**	**Gas**
		(tonnes in thousands)	*(mcm)*	*(tonnes in thousands)*	*(mcm)*
Consolidated Subsidiaries:					
Total for KMG EP	61.36%[1]	8,977.0	924.4	9,486	1,278.2
Uzen Field		6,251.0	256.7	6,646	273.6
EMG Fields		2,711.0	157.4	2,824	160.6
Other Fields		15.0	510.3	16	845
Total for Subsidiaries		**8,977.0**	**924.4**	**9,486.0**	**1,279.2**
Non-consolidated Jointly-Controlled Entities and Associates:					
of the Company:					
Total for TCO	20.00%	4,505.0	2,338.1	3,454.7	1,797.8
Tengiz Field		3,866.0	1,994.4	2,974.9	1,539.0
Other Fields		639.0	343.7	479.8	258.8
Total for Kazakhoil Aktobe	50.00%	468.0	136.1	37.6	107.2
Alibekmola Field		295.0	92.9	268.9	82.9
Other Fields		173.0	43.2	110.7	24.3
Total for MMG[2]		478.4	249.6	—	—
Kalamkas Field		355.0	105.0	—	—
Other Fields		123.4	144.6	—	—
Other Jointly-Controlled Entities		113.0	19.1	111.2	12.8
of KMG EP:	61.36%[1]				
Total for Kazgermunai	50.00%	1,601.0	260.4	1,570.0	261.9
Akshabulka Field		1,477.0	238.7	1,501.6	240.0
Other Fields		124.0	21.7	68.4	21.9
Total for PKI	33.00%	2,077.1	291.9	2,109.5	250.0
PKKR		1,024.0	157.0	1,054.3	121.2
Other Fields		1,053.1	134.8	1,055.2	128.8
Total for Jointly-Controlled Entities and Associates		**9,242.5**	**3,295.1**	**7,625,0**	**2,429.7**
Total		**18,219.5**	**4,219.5**	**17,111.0**	**3,708.9**

Notes:

(1) As at 31 December 2009, as a percentage of ordinary voting shares of KMG EP.

(2) Production of MMG attributable to the Company is counted only for the one month in 2009 (December 2009) following the date of the Company's acquisition.

The following table sets forth certain information relating to the production activities and development activities of the Company and its subsidiaries, joint ventures and associates at their respective significant fields for the year ended 31 December 2009. See "*Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates*":

				For the year ended 31 December 2009			
				Number of total wells			
						Drilled in 2009	
Company and Field	**% of Ownership Interest**	**Date Commenced**	**Expiration of Agreement**	**Producing**	**Injection**	**Producing**	**Other**
Consolidated Subsidiaries and jointly-controlled assets:							
KMG EP:	61.36%[1]						
Uzen Field		1965	2020	3,226	1,191	67	10
EMG Fields		between 1911-1999	between 2020-2030	2,169	467	18	
Other Fields		between 1973-1982	between 2020-2030	65	0	0	0
NCPC:				—	—	—	—
Kashagan Field		2001	2041				
Total for Subsidiaries		—	—	**5,460**	**1,658**	**85**	**10**
Non-consolidated Jointly-Controlled Entities and Associates:							
of the Company:							
TCO:	20.00%						
Tengiz Field		1991	2033	51	7	—	—
Kazakhoil Aktobe:	50.00%						
Alibekmola Field		2001	2023	45	24	3	
MMG:							
Kalamkas Field		1979	2031	1,973	603	8	—
Zhetybai Field		1967	2031	682	390	7	1
Other fields		between 1990-2003	between 2020-2030	37	2	—	—
of KMG EP:	61.36%[1]						
Kazgermunai:							
Akshabulka Field	50.00%	1997	2024	61	15	9	1
PKI:	33.00%						
PKKR		between 1984-2000	between 2019-2024	207	77	33	—
Total for Jointly-Controlled Entities and Associates		—	—	**5,711**	**2,111**	**75**	**3**
Total		—	—	**11,171**	**3,769**	**160**	**13**

Note:

(1) As at 31 December 2009, as a percentage of ordinary voting shares of KMG EP.

Significant Production Fields of KMG EP

KMG EP is the Company's largest subsidiary in terms of A+B+C1 reserves of crude oil and gas, representing 30.9 per cent. of the Company's A+B+C1 reserves of crude oil and 57.5 per cent. of the Company's A+B+C1 reserves of gas (in each case, excluding Kazgermunai). KMG EP is also the Company's largest subsidiary in terms of production volume, representing 49.3 per cent. of the Company's production of crude oil in 2009 and 21.9 per cent. of the Company's production of gas in 2009 (in each case, excluding Kazgermunai).

Many of KMG EP's significant fields are mature; therefore, production levels are achieved by various field stimulation and rehabilitation projects, including drilling and completing new wells, completing well workovers and introducing various secondary enhancement and well stimulation and recovery techniques. See "*—Oil Field Development and Rehabilitation*".

The remaining issued share capital of KMG EP, represented by both common shares listed on the KASE and GDRs listed on the London Stock Exchange, is publicly held. On 30 September 2009, China Investment Corporation announced that it has acquired an 11 per cent. stake in KMG EP through the purchase of GDRs on the open market for U.S.$939 million.

Although this stake is significant, KMG EP has not granted China Investment Corporation any special shareholder rights as a result of this transaction. The financial position and results of operations of KMG EP are consolidated with those of the Company in the 2009 Financial Statements, and the 2009 Financial Statements reflect the amounts attributable to the public minority interest. Unless otherwise indicated, in this Base Prospectus, data presented for KMG EP relating to production and reserves and other similar data reflects KMG EP's entire ownership interest.

Uzen Field

The Uzen Field is the largest oil field of KMG EP both in terms of crude oil reserves and production volume. As at 31 December 2009, the Uzen Field had estimated A+B+C1 reserves of crude oil of 157.3 million tonnes and A+B+C1 reserves of gas of 16.2 mcm, representing 21.0 per cent. and 16.2 per cent. of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Uzen Field, located in the Mangistau oblast, was discovered in 1961 and started producing in 1965. Oil production at the Uzen Field is from 13 horizons in the Jurassic formation, located at depths shallower than 1,800 m. The Ural and Brent grades of crude oil produced at the Uzen Field usually have maximum API gravity of 34 degrees, sulphur content ranging from 0.16 per cent. to 0.24 per cent., significant paraffinic content and an average watercut of 81.5 per cent.

The Uzen Field's wellstock consisted of 3,226 production wells and 1,191 injection wells as at 31 December 2009, including 77 new wells drilled in 2009. The Uzen Field produced 6.3 million and 6.6 million tonnes of crude oil in 2009 and 2008, respectively, representing 34.3 per cent. and 38.8 per cent., respectively, of the Company's production of crude oil for those years. In 2009, production wells at the Uzen Field produced an average of 17,126 tonnes of crude oil per well per day.

In 2009, the Uzen Field produced 256.7 mcm of gas, 117.8 mcm of which was used for the internal needs of the Uzen Field. Gas utilised for internal needs is used to heat the oil contained in KMG EP's pipelines, which otherwise solidifies at temperatures below -35 C° due to its paraffinic nature. The remaining gas is sent to KMG EP's gas processing plant in Uzen for processing and subsequent sale.

In 2010, the Company expects that production of crude oil at the Uzen Field will be lower due to the loss of 27,600 tonnes of crude oil during a 19-day strike in March 2010. See "*—Employees*".

EMG Fields

The EMG fields comprise a total of 39 oil fields located around the northern and eastern shores of the Caspian Sea in the Atyrau oblast. Of the producing EMG fields, the following eight fields are the largest in terms of reserves as well as production volume: (i) Kenbai (East Moldabek/North Kotyrtas) Field; (ii) Nurzhanov Field; (iii) Kamyshitovoye Southwest Field; (iv) Botakhan Field; (v) Makat East Field; (vi) Zaburunye Field; (vii) Zhanatalap Field; and (viii) Kamyshitovoye Southeast Field. As at 31 December 2009, the EMG fields had estimated A+B+C1 reserves of crude oil of 73.8 million tonnes and A+B+C1 reserves of gas of 30,280 mcm, representing 9.9 per cent. and 29.6 per cent. of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The following table sets forth certain information relating to the most significant EMG fields:

Field	Date production commenced	Producing geologic formation
Kenbai (East Moldabek/North Kotyrtas) Field	1996	Production is from 15 horizons in the Cretaceous, Jurassic and Triassic formations, located at depths shallower than 1,900 m
Nurzhanov Field	1967	Production is from nine horizons in the Cretaceous, Jurassic and Triassic formations, located at depths shallower than 3,320 m
Kamyshitovoye Southwest Field	1972	Production is from seven horizons in the Cretaceous, Jurassic and Permotriassic formations, located at depths shallower than 850 m
Botakhan Field	1981	Production is from two horizons in the Jurassic formation, located at depths shallower than 1,400 m
Makat East Field	1993	Production is from six horizons in the Cretaceous, Jurassic and Permotriassic formations, located at depths shallower than 1,350 m
Zaburunye Field	1989	Production is from three horizons in the Cretaceous formation, located at depths shallower than 920 m
Zhanatalap Field	1974	Production is from seven horizons in the Jurassic and Permotriassic formations, located at depths shallower than 1,200 m
Kamyshitovoye Southeast Field	1987	Production is from four horizons in the Cretaceous and Jurassic formations, located at depths shallower than 650 m

The EMG fields' wellstock consisted of 2,169 production wells and 467 injection wells as at 31 December 2009, including 18 new wells drilled in 2009. The EMG fields produced 2.7 million tonnes of crude oil in each of 2009 and 2008, respectively, representing 14.9 per cent. and 16.5 per cent., respectively, of the Company's production of crude oil for those years. In 2009, production wells at the EMG fields produced an average of 7,427 tonnes of crude oil per well per day.

The EMG fields also produced 157.4 mcm of gas in 2009. Gas produced at the EMG fields is used exclusively to satisfy KMG EP's internal needs. Gas utilised for internal needs is used to heat the oil contained in KMG EP's pipelines which otherwise solidifies at temperatures below-35°C due to its paraffinic nature.

Significant Production Fields of KMG EP's Joint Ventures and Associates

Kazgermunai

Kazgermunai is a joint venture, in the form of a jointly-controlled entity, between KMG EP and PKI (through its wholly-owned subsidiary PKKR), with each having a 50 per cent. interest. The Company acquired a 50 per cent. interest in Kazgermunai in July 2006 and sold its entire interest in Kazgermunai to KMG EP on 24 April 2007. Through its 33 per cent. interest in PKI, KMG EP also realises economic benefits from PKI's 50 per cent. interest in Kazgermunai, which are passed on to the Company through its interest in KMG EP. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations—Acquisitions*".

Kazgermunai operates the Akshabulak Field, the largest of its fields, pursuant to a Subsoil Use Agreement that expires in 2024. As at 31 December 2009, the Akshabulak Field had estimated A+B+C1 reserves of crude oil of 11.7 million tonnes and A+B+C1 reserves of gas of 1,700 mcm attributable to the Company through KMG EP, representing 1.6 per cent. and 1.7 per cent. of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Akshabulak Field, located in the Kyzylorda oblast, was discovered in 1984 and started producing in July 1989. Oil production at the Akshabulak Field is from three horizons in the Jurassic and Cretaceous formations, located at depths shallower than 1,800 m. The Ural grade of crude oil produced at the Akshabulak Field usually has maximum density of 900 g per cubic metre, sulphur content ranging from 0.1 per cent. to 0.3 per cent. and an average watercut of 2.0 per cent.

The Akshabulak Field's wellstock consisted of 61 production wells and 15 injection wells as at 31 December 2009, including 10 new wells that were drilled in 2009. In 2009, the Akshabulak Field produced 1,477 thousand tonnes of crude

oil attributable to the Company through KMG EP, representing 8.1 per cent. of the Company's production of crude oil for 2009. In 2009, production wells at the Akshabulak Field produced an average of 4,047 tonnes of crude oil per day attributable to the Company through KMG EP.

In 2009, the Akshabulak Field produced 238.7 mcm of gas attributable to the Company through KMG EP, representing 5.7 per cent. of the Company's production of gas.

CCEL

CCEL is a joint venture, in the form of a jointly-controlled entity, between KMG EP and CITIC, with each having a 50 per cent. interest. KMG EP acquired its 50 per cent. interest in CCEL on 12 December 2007.

CCEL has a 94.63 per cent. interest in the entity developing the Karazhanbas Field in Western Kazakhstan. As at 31 December 2009, the Karazhanbas Field had estimated A+B+C1 reserves of crude oil of 28.8 million tonnes.

The Karazhanbas Field, located in the Mangistau oblast, was discovered in 1974 and started producing in 1980. Oil production at the Karazhanbas Field is from five horizons in the Jurassic and Cretaceous formations, located at depths shallower than 400 m. The Ural grade of crude oil produced at the Karazhanbas Field usually has maximum density of 900 g per cubic metre, sulphur content ranging from 0.1 per cent. to 0.2 per cent. and an average watercut of 80 per cent.

The Karazhanbas Field's wellstock consisted of 1,649 production wells and 552 injection wells as at 31 December 2009, including 88 new wells that were drilled in 2009. The Karazhanbas Field produced 1.9 million and 1.8 million tonnes of crude oil in 2009 and 2008, respectively. In 2009, production wells at the Karazhanbas Field produced an average of 5,115 tonnes of crude oil per day.

In 2009, the Karazhanbas Field produced 15.5 mcm of associated gas.

PKI

On 5 July 2006, the Company acquired a 33 per cent. interest in PKI from CNPC for KZT 169.4 billion. In December 2009, the Company sold its interest in PKI to KMG EP. Accordingly, PKI is an associate of KMG EP, and, as such, the Company does not have a direct interest in PKI's reserves or production.

The exploration and development activity of PKI is performed by PKKR, which has obtained two exploration and five exploration and production contracts from the MEMR in exchange for seven fields in the 80,000 km^2 South Turgai Basin in Southern Kazakhstan.

The following table sets forth certain information regarding PKI's five production fields:

Field	**Date production commenced**	**Producing geologic formation**
Kumkol South and blocks adjacent thereto	1984	Located in the Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth ranging from 900 to 1,370 m
Aryskum Field	1985	Located in the Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth 1,200 m
South-east Kumkol Field	1997	Located in the Kyzylorda and Dzheskazgan oblasts in the lower Cretaceous and Jurassic formations with the depth shallower than 1,585 m
Maibulak Field	1988	Located in the Karaganda and Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth shallower than 1,160 m
Kyzylkiya Field	2000	Located in the Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth shallower than 1,550 m

As at 31 December 2009, PKI's fields in aggregate, including those fields the reserves of which are attributed to PKI through its 50 per cent. ownership in Kazgermunai had estimated A+B+C1 reserves of crude oil of 64.2 million tonnes, and A+B+C1 reserves of gas of 4.3 mcm of which 51.1 per cent. or 32.8 million tonnes of crude oil and 0 per cent. or 0 mcm of gas were attributable to PKI.

The Ural grade of crude oil produced at the PKI's fields usually has maximum density of 800 g per cubic metre, sulphur content of 0.1 per cent. and an average watercut of 65 per cent.

The PKI fields' wellstock consisted of 403 production wells and 108 injection wells as at 31 December 2009, including 67 new wells that were drilled in 2009. The PKI fields produced 6.2 million and 6.3 million tonnes of crude oil in 2009 and 2008, respectively. In 2009, production wells at the PKI fields produced an average of 17,074 tonnes of crude oil per well per day. In 2009, the PKI fields produced 876 mcm of gas.

Significant Production Fields of Other Jointly-Controlled Entities and Associates

TCO

TCO owns the single largest production field in Kazakhstan and is the Company's most significant joint venture in terms of production of oil. TCO is a joint venture between the Company, with a 20 per cent. interest, and Chevron (either directly or through wholly-owned affiliates) with a 50 per cent. interest, ExxonMobil Kazakhstan Ventures Inc., with a 25 per cent. interest, and LukArco, with a 5 per cent. interest. See "*Share Capital, Sole Shareholder and Related Party Transactions—Relationships Between the Company and TCO*" for a discussion of the agreements relating to the operation and internal governance of TCO.

TCO operates the Tengiz Field in Western Kazakhstan, which is among the largest fields under development in the world based on estimated A+B+C1 reserves, TCO also operates the nearby Korolev Field. The Government has granted TCO exclusive rights to develop a 4,000 km^2 area adjacent to the Caspian Sea under a Subsoil Use Agreement that can be extended by the Company to 2033.

Tengiz Field. As at 31 December 2009, the Tengiz Field had estimated A+B+C1 reserves of crude oil of 216.4 million tonnes attributable to the Company, representing 28.9 per cent. of the Company's A+B+C1 reserves of crude oil.

The Tengiz Field, located in the Atyrau oblast on the south side of the 500,000 km^2 Pre-Caspian Basin on the north-eastern edge of the Caspian Sea, was discovered in 1979 and started producing in 1991. The Tengiz reservoir is over 110 km^2 in area at its top and 400 km^2 at its base with a maximum thickness from the top of the reservoir to the bottom of the reservoir of about 1.5 km. The top of the reservoir is 3,850 m below sea level. The lowest known oil is 5,429 m below sea level. The Tengiz reservoir is part of a large ring like complex 50 km in diameter, which includes the Korolev, Karaton, Tazhigali and Pustyn carbonate structures. The Tengiz reservoir was formed during the Devonian and Carboniferous eras by recurrent deposition of skeletal fragments and lime mud.

Since the oil from Tengiz Field has a high sulphur content, as at 31 December 2009, TCO estimates that 6.9 million tonnes of sulphur by-product were stored in the form of large sulphur blocks. In 2009, TCO sold 2.2 million tonnes of sulphur and produced 1.1 million tonnes. See "*—Litigation*".

The Tengiz Field's wellstock consisted of 66 production wells and seven injection wells as at 31 December 2009. No new wells were drilled in 2009. The Tengiz Field produced 3.9 million and 3.0 million tonnes of crude oil attributable to the Company in 2009 and 2008, respectively, representing 21.2 per cent. and 17.4 per cent., respectively, of the Company's production of crude oil for the respective years. In 2009, production wells at the Tengiz Field produced an average of 10,592 tonnes of crude oil per day attributable to the Company.

In 2009, the Tengiz Field produced 1,994 mcm of associated gas attributable to the Company, representing 47.3 per cent. of the Company's total production of gas.

Tengiz Expansion Projects. In 2008, TCO completed two integrated projects: the installation of the second generation plant ("**SGP**") and the sour gas injection project (the "**SGI**," and together with the SGP, the "**Tengiz Expansion**"). The Tengiz Expansion significantly increased TCO's oilfield production and plant processing capacity. TCO's production capacity increased to 17.3 million tonnes per year in 2008 and 22.5 million tonnes per year in 2009, and TCO expects crude oil production capacity to increase further to 23.7 million tonnes per year in 2010.

The SGP involved the construction of a large processing train for treating crude oil and the associated sour gas due to the crude oil's high sulphur content and also includes facilities for processing additional volumes of sour gas of 7.4 mcm per year.

The SGI involves re-injecting the sour gas separated from the crude oil production at the SGP processing train back into the Tengiz reservoir. Gas re-injection is used to maintain pressure within the reservoir, which should increase oil recovery over the life of the reservoir. The SGI has two key effects. First, it reduces the required sour gas processing capacity at the SGP, thereby increasing liquid production capacity and lowering the quantities of sulphur and gas that would otherwise be generated. 30 per cent. of the sour gas products (dry gas, LPGs and sulphur) produced in association with the SGP's increased crude oil production is re-injected into the reservoir. Second, the SGI is expected over time to increase

production efficiency and recoverable volumes as the injected gas increases higher reservoir pressure and displaces oil towards producing wells.

The SGI was implemented in two stages. The first stage commenced in November 2006 with the injection of treated gas into the Tengiz reservoir and continued until June 2007 when the injection was stopped to prepare compression pumps for injection of sour gas. The second stage commenced in October 2007 and was completed in 2008 with the injection of sour gas resulting in increased production of crude oil of 9 to 13 thousand tonnes per day.

The total cost of the Tengiz Expansion was U.S.$7.2 billion (with U.S.$4.2 billion allocated to facilities costs and U.S.$3 billion for drilling), all of which has been paid by TCO as at 31 December 2009. Based on estimates of A+B+C1 reserves as at 31 December 2009, the Tengiz Expansion is expected to allow higher levels of production over the next 15 years.

TCO has completed the first phase of the FGP. The FGP, like the SGP, involves the construction of a large processing train for treating crude oil and the associated sour gas due to the crude oil's high sulphur content. The total cost of the FGP is expected to be up to U.S.$15 billion, which TCO expects to pay out of its cash flows and, to the extent necessary, through external financing. TCO expects that the next phases of the FGP will begin in 2010, after receiving all the necessary approvals by the appropriate regulatory authorities and partners, and be completed in 2016. When the second and third phases are also completed, the FGP is expected to further increase TCO's oilfield production and plant processing capacity, allowing TCO to increase crude oil production capacity by 12 million tonnes per year.

Kazakhoil Aktobe LLP

Kazakhoil Aktobe LLP ("**Kazakhoil Aktobe**") is a joint venture between the Company and Caspian Investments Resources Ltd., with each having a 50 per cent. interest. Caspian Investments Resources Ltd. is a 50/50 jointly-controlled entities between LUKOIL Overseas and Mittal Investments.

Kazakhoil Aktobe operates the Alibekmola Field, the largest of its fields, pursuant to a Subsoil Use Agreement that expires in 2023. As at 31 December 2009, the Alibekmola Field had estimated A+B+C1 reserves of crude oil of 17 million tonnes and A+B+C1 reserves of gas of 4,475 mcm attributable to the Company, representing 2.3 per cent. and 4.4 per cent. of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Alibekmola Field, located in the Aktobe oblast, was discovered in 1987 and started producing in 2001. Oil production at the Alibekmola Field is from two horizons in the Carbonie formation, located at depths shallower than 3,500 m. The Ural grade of crude oil produced at the Alibekmola Field usually has maximum density of 722 g per cubic metre, sulphur content ranging from 1.2 per cent. to 1.4 per cent. and an average watercut of 6.7 per cent.

The Alibekmola Field's wellstock consisted of 45 production wells and 24 injection wells as at 31 December 2009, including three new wells that were drilled in 2009. The Alibekmola Field produced 0.3 million tonnes of crude oil attributable to the Company in each of 2009 and 2008, representing 1.6 per cent. and 1.6 per cent. of the Company's production of crude oil for those years. In 2009, production wells at the Alibekmola Field produced an average of 808 tonnes of crude oil per day attributable to the Company.

In 2009, the Alibekmola Field produced 92.9 mcm of gas attributable to the Company, representing 2.2 per cent. of the Company's production of gas.

MMG

MMG is an upstream oil and gas company owned by Mangistau Investments B.V., a jointly-controlled entities between KMG and CNPC E&D, with each partner having a 50 per cent. interest. KMG acquired its interest in MMG on 25 November 2009.

MMG is one of the largest oil producers in Kazakhstan and operates the Kalamkas Field, one of the largest fields in Kazakhstan, pursuant to a Subsoil Use Agreement that expires in 2027. As at 31 December 2009, the Kalamkas Field had estimated A+B+C1 reserves of crude oil of 44.2 million tonnes and A+B+C1 reserves of gas of 10,859 mcm attributable to the Company, representing 5.9 per cent. and 10.6 per cent. of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Kalamkas Field, which is located in the northern part of the Buzachi Peninsula in the Tupkaragansky region of the Mangistau oblast, within the limits of the Caspian Depression adjacent to the Caspian Sea, was discovered in 1976 and started producing in 1979. Oil production at the Kalamkas field is from 11 horizons in the Lower Cretaceous and Jurassic formations, located at depths shallower than 900 m. The Ural grade of crude oil produced at the Kalamkas Field usually

has a maximum density of 904 g per cubic metre, sulphur content ranging from 1.21 per cent. to 1.45 per cent. and an average watercut of 85 per cent.

The Kalamkas Field's wellstock consisted of 1,973 production wells and 603 injection wells as at 31 December 2009, including eight new wells that were drilled in 2009. The Kalamkas Field produced 4.2 million tonnes of crude oil in 2009. In 2009, production wells at the Kalamkas Field produced an average of 11,511 tonnes of crude oil per day.

In 2009, the Kalamkas Field produced 272 mcm of associated gas.

The Zhetybai Field is MMG's second most significant field. The Zhetybai Field, which is located in the Karakiyansky region of the Mangistau Oblast, adjacent to the Caspian Sea, was discovered in 1961 and started producing oil in 1967. Oil production at the Zhetybai Field is from 11 horizons in the Middle Jurassic formations, located at depths shallower than 2,450 m. The Ural grade of crude oil produced at the Zhetybai Field usually has a maximum density of 870 g per cubic metre, sulphur content of 0.1 per cent. and an average watercut of 58 per cent.

The Zhetybai Field's wellstock consisted of 682 production wells and 390 injection wells as at 31 December 2009, including eight new wells that were drilled in 2009. The Zhetybai Field produced 1.5 million tonnes of crude oil in 2009. In 2009, production wells at the Zhetybai Field produced an average of 4,137 tonnes of crude oil per day.

In addition to the Kalamkas Field and the Zhetybai Field, MMG also has licences to explore and develop 15 other oil and gas fields in Kazakhstan and the Caspian region.

Exploration Projects

The Company must actively pursue exploration opportunities in order to maintain its current reserves base and to support its long-term production growth strategy. The Company believes it will generate sufficient exploration prospects by exercising its rights as beneficiary of the Government's pre-emptive right to acquire interests in Subsoil Use Agreements and entities that are party to Subsoil Use Agreements offered for sale. See "*Regulation in Kazakhstan—State Pre-Emption and Regulation of Subsoil Use Rights*".

Due to the mature nature of many of its fields, KMG EP has identified exploration as a key aspect of its long-term strategy to keep production stable. Exploratory drilling is limited at the Dossor and Uzen fields and nearly all new geological and geophysical works are carried out at other fields where KMG EP has Subsoil Use Agreements in place. Since the late 1990s, KMG EP and its predecessors (JSC UzenMunaiGas and JSC EmbaMunaiGas, which were merged with KMG EP in March 2004) have been exploring for additional oil reserves around the pre-Caspian Basin in areas that are now being developed by KMG EP. KMG EP and its legal predecessors have been exploring the Mangistau Basin since 2002. For 2010, KMG EP's budget for exploration is U.S.$23.4 million.

The principal exploration assets of the Company and its subsidiaries and its and their joint ventures in Kazakhstan are located in the west of Kazakhstan, including the shelf of the North Caspian Sea, which includes the Kashagan Field, and the Central Caspian Sea.

The following table sets forth the significant exploration activities of the Company and its subsidiaries and its and their joint ventures as at 31 December 2009:

	For the year ended 31 December 2009					
					% interest in license or contract	
Exploration area	Owning entity[1]	Aggregate project area (in km²)	Expiration[2]	Number of exploratory wells	Sole operations	Joint operations
Offshore						
North Caspian Project	NCPC	5,600	2041	6	–	16.81%
of which Kashagan Field	NCPC	1,420	2041	2	–	16.81%
Kurmangazy Block	KazMunayTeniz	3,512	2050	2	–	50.00%
Atash Block	KazMunayTeniz	9,744	2010	1	–	50.00%
Tyub-Karagan Block	KazMunayTeniz	1,372	2043	1	–	50.00%
Zhemchuzhiny Block	KazMunayTeniz	895	2040	2	–	25.00%
Zhambay Block	KazMunayTeniz	2,187	2026	–	–	50.00%
N Block	KMG	8,209	2058	–	–	51.00%
Mertviy Kultuk	KMG	7,273	2039	2	–	50.00%
Zhambyl	KMG	1,935	2014	–		73.00%
On-shore						
R-9 Block	KMG EP	5,894	2011	4	61.36%[3]	–
Liman Field	KMG EP	6,030	2009	–	61.36%[3]	–

Notes:

(1) Includes direct and indirect ownership.

(2) There is one licence/contract for each exploration area.

(3) As at 31 December 2009, as a percentage of ordinary voting shares of KMG EP.

NCPC

In December 1993, the Kazakhstan sector of the Caspian Sea was opened for international oil exploration. Seven international oil companies (AGIP S.p.A., British Gas Exploration and Production Limited, Mobil Oil Kazakhstan Inc., Shell Exploration B.V., Total EP Kazakhstan and BP Exploration Operating Company Limited and Statoil (in alliance)) and the state-owned company KazakhstanCaspyShelf were selected by the Government to form NCPC, the purpose of which is to develop the major offshore oil and gas fields, including the Kashagan Field, in the north part of the Kazakhstan sector of the Caspian Sea.

The contractors' interest in NCPC is subject to a production sharing agreement dated 18 November 1997 with a term of 40 years from commercial discovery among Agip Caspian BV, BG Exploration and Production Limited, BP Kazakhstan Limited, Den Norsk Stats Oljesejokap a.s., Mobil Oil Kazakhstan Inc, Shell Kazakhstan Development BV, Total Exploration and Production Kazakhstan, USC Kazakhstan CaspiShelf, the Republic of Kazakhstan and JSC NOC KazakOil and a joint operating agreement dated 29 March 2005 (together, the "**NC PSA**") among a consortium consisting of AGIP Caspian Sea B.V, ExxonMobil Kazakhstan, INPEX North Caspian Sea Ltd, Phillips Petroleum Kazakhstan Ltd, Shell Kazakhstan Development B.V. and Total EP Kazakhstan (the "**North Caspian Project**"). The Company became a participant of the North Caspian Project in May 2005 by way of acquiring a 8.33 per cent. share from the existing participants.

In January 2006, the Company transferred its 8.33 per cent. interest in NCPC to its wholly-owned subsidiary KMG Kashagan B.V. In October 2008, an agreement was signed implementing a new contractual and governance framework for NCPC and the transfer of an additional 8.48 per cent. interest in NCPC to the Company from the other participants in NCPC, each of whom in turn decreased its interest in NCPC on a *pro rata* basis, for consideration of U.S.$1.78 billion, which is payable in three equal annual instalments after the commencement of production operations at Kashagan. Under the agreement, the Company will not be responsible for contributing to further costs relating to the project at the Kashagan Field if there is a material redesign of the project or if production does not begin by October 2013. In January 2009, operatorship of NCPC was transferred from Eni S.p.A. to NCOC, a joint venture entered into by the participants. NCOC will take over responsibilities as the sole operator of NCPC and will supervise all activities, manage planning, coordination, reservoir modelling, conceptual studies and early development plans and will interface with the Government. The managing director of NCOC will be nominated on a rotating basis among the participants, beginning with a representative from Total EP Kazakhstan. The deputy managing director will at all times be a representative KMG Kashagan B.V.

Kashagan Field. In 2001, a commercial discovery was made in the Kashagan Field in the North Caspian Sea, 80 km southeast of Atyrau. The Kashagan Field extends over a surface of 820 km². As at 31 December 2009, the Kashagan Field had A+B+C1 reserves of crude oil of 127.9 million tonnes attributable to the Company on a consolidated basis, based on

the Company's 16.81 per cent. interest in NCPC, representing 17.6 per cent. of the Company's A+B+C1 reserves of crude oil.

Developing the Kashagan Field combines technical complexity and environmental challenges. The climate in this part of Kazakhstan is extreme with cold winters, hot summers and drastic variations of temperature. Winters are harsh and temperatures can drop to -40°C, while summer temperatures can reach +40°C. The waters in the Kashagan Field are only three to four metres deep. The sea waters are frozen for four to five months per year, from November to March, and the ice thickness averages about 0.6 - 0.7 m. The combination of ice, shallow waters and sea level fluctuations represents a significant logistical challenge. Due to the complicated natural and geological conditions at the Kashagan Field, as well as additional design enhancements to the offshore element of the project, first commercial production is currently expected to occur in the fourth quarter of 2012, with full field development expected to be completed by 2020.

Due to the delay of the start of commercial production from 2008 to the fourth quarter of 2012, capital expenditures have increased by almost three times. This delay and the relevant cost increase over the original budget were driven by the depreciation of the U.S. Dollar against the Euro and other currencies, the cost price escalation of goods and services required to execute the project, an original underestimation of the costs and complexity to operate in the North Caspian Sea, due to lack of benchmarks and design changes to enhance the operability and safety standards of the offshore facilities.

As at 31 December 2009, total investments in the Kashagan Field by the parties to the NC PSA amounted to U.S.$29.1 billion. The experimental phase of the project has been completed, with the construction of five artificial islands in the Caspian Sea and 40 wells, including 30 production wells and ten injection wells. The parties to the NC PSA estimate that the Kashagan Field has 7 to 9 billion bbl of recoverable crude oil. The results of the well tests and the findings of subsurface studies support estimates for a full field production of up to 1.5 million bbl per day.

The phased development plan of the Kashagan Field provides for the drilling of 240 wells and the construction of production plants located on artificial islands in the Caspian Sea, which will collect production from other satellite artificial islands. Natural gas produced in the Kashagan Field is expected to be used primarily for re-injection into the reservoir to maintain pressure levels.

Eni S.p.A. will retain responsibility of the execution of the first phase of the Kashagan project, while Shell Kazakhstan Development B.V. and the Company will jointly manage the production operations. In the second phase, Shell will manage the offshore development, while Eni S.p.A. will manage the onshore plant and ExxonMobil Kazakhstan Inc. will manage the drilling. Eni S.p.A., Shell Kazakhstan Development B.V. and ExxonMobil Kazakhstan Inc. will have authority on matters such as staffing, procurement, operating procedures and management in order to carry out their responsibilities.

Significant Exploration Projects of KazMunayTeniz

The Kurmangazy Block. Kurmangazy Petroleum LLP ("**Kurmangazy Petroleum**") is a wholly-owned subsidiary of KazMunayTeniz, which is in turn a wholly-owned subsidiary of the Company. Kurmangazy Petroleum engages in exploration activities at the Kurmangazy Field. Exploration activities at the Kurmangazy Field are conducted under a joint operating agreement between KazMunayTeniz and RN Kazakhstan LLP, a subsidiary of Rosneft, entered into pursuant to a production sharing agreement dated 6 July 2005 between KazMunayTeniz and RN Kazakhstan LLP, with each owning a 50 per cent. interest in the project.

The Kurmangazy Block is situated on the southern slope of the Bozashinskaya shelf of the North Caspian between the oil and gas fields of Kashagan and South Korchagina (Shirotnoye). The Kurmangazy Block covers an area of 3,512 km^2 and lies in water depths of between five and seven metres. In June 2006, the first exploration well at Kurmangazy, Kurmangazy-1, was drilled and, in May 2009, the second exploration well, Kurmangazy-2, was drilled, reaching a total depth of 1,600 m below sea level. Although both exploration wells were unsuccessful, the drilling of those wells helped to generate data on the geological properties of the structure and identify certain reservoirs and seals of the Cretaceous and Jurassic ages. Based on this data, the joint partners are planning additional seismic and drilling activities. KazMunayTeniz's share in exploration expenses at Kurmangazy Field was KZT 3,062 million in 2009 and is expected to be KZT 899 million in 2010.

The Atash Block. Atash LLP is a jointly-controlled entity between KazMunayTeniz and Lukoil Overseas Atash B.V., with each having a 50 per cent. interest. Atash LLP is currently exploring the Atash Block.

The Atash Block is located in the central part of Kazakhstan's sector of the Caspian Sea. The contract area covers 9,744 km^2. Water depth ranges from one to 40 metres. In 2009, the works performed at the Atash Block included the re-processing of seismic data, the processing of electric data and various other geological analyses. The first exploration

well, Atash-1, was drilled in June 2008, reaching a total depth of 2,500 m below sea level, at a cost of U.S.$36 million. KazMunayTeniz's share of the exploration expenses at the Atash Block was KZT 105 million for 2009 and is expected to be KZT 119.6 million for 2010.

Zhemchuzhiny Block. Caspian Meruerty Operating Company B.V. is a jointly-controlled entity among KazMunayTeniz (25 per cent. interest), Shell EP Offshore Ventures Limited (55 per cent. interest) and Oman Pearls Company Limited (20 per cent. interest). Caspian Meruerty Operating Company is currently exploring the Zhemchuzhiny Block.

The Zhemchuzhiny Block is located in the northern part of Kazakhstan's sector of the Caspian Sea. The contract area covers 895 km^2. The structures are mainly Jurassic. Water depth ranges from four to ten metres. In 2007, the joint venture partners conducted site surveys and drilled a first exploration well, reaching a total depth of 2,118 m below sea level. In 2008, the joint venture partners drilled a second exploration well, reaching a total depth of 2,465 m below sea level at a cost of U.S.$65.5 million. In 2009, the joint venture partners drilled a second exploration well, Khazar-2, at a total depth of 2,032 m below sea level at a cost of U.S.$60,4 million. All exploration wells were successful. During the period from 2008 to 2009, 3D seismic operations were performed within a scope of 900 km^2 covering the whole Zhemchuzhiny Block. KazMunayTeniz's share in the exploration expenses at Zhemchuzhiny Block was KZT 5,765 million in 2009 and is expected to be KZT 7,532 million in 2010.

Tyub-Karagan Project. Tyub-Karagan Operating Company B.V. is a jointly-controlled entity between KazMunayTeniz and Lukoil Overseas Shelf B.V., each having a 50 per cent. interest. Tyub-Karagan Operating Company B.V. is currently exploring the Tyub-Karagan Field.

The Tyub-Karagan Field is located in the central part of Kazakhstan's sector of the Caspian Sea. The structures are mainly Triassic, Jurassic and Cretaceous. Water depth ranges from seven to ten metres. In 2009, the works performed at the Tyub-Karagan Field included processing, analysis and geological interpretation of derived materials and specification of structure and tectonic model of the contract area. On 19 November 2008, the MMER, KazMunayTeniz and Lukoil Overseas Shelf B.V. agreed to prolong the period of exploration of the Tyub-Karagan Field until December 2010 and provided for the possibility to prolong this period for another two years until the end of 2012. KazMunayTeniz's share in the exploration expenses at Tyub-Karagan Field was KZT 291 million in 2009 and is expected to be KZT 361 million in 2010

Zhambay Project. Zhambay LLP is a jointly-controlled entity among KazMunayTeniz, which holds a 50 per cent. interest and Caspian Investments Zhambay B.V. and Repsol Exploration Kazakhstan S.A. ("**Repsol**"), each of which holds a 25 per cent. interest). Zhambay LLP is currently exploring the Zhambay Block.

The Zhambay Block is located in the northern portion of the Caspian Sea and borders the eastern portion of the Volga River delta system. The Zhambay Block covers an area of 2,187 km2. The working area is conditionally divided into two parts, one with shallow waters with depths ranging from 0 to 2 m and one with deeper waters with depths ranging from two to four metres. KazMunayTeniz (pursuant to its 50 per cent. interest in Zhambay LLP) made capital expenditures for exploration of the Zhambay Block of KZT 275 million in 2009, and is expected to make related capital expenditures of KZT 3,390 million in 2010.

Significant Exploration Projects of the Company

N Block Project. N Operating Company LLP is a jointly-controlled entity of the Company, which holds a 51 per cent. interest, and ConocoPhillips and Mubadala Development Company PJSC ("**Mubadala**"), each of which holds a 24.5 per cent. interest. N Operating Company LLP is the operator of a project for exploration and development in the Nursultan block (the "**N Block**"), an area covering 8,209 km^2 and located 30 km off the Caspian seaport of Aktau (the "**N Block Project**"), pursuant to a Subsoil Use Agreement. N Block is estimated to hold 270 million tonnes of oil in recoverable reserves. Commercial production at the N Block is expected to begin in 2016. All the necessary preparation activities for drilling the first exploratory well were completed in 2009 and it is expected that the first exploratory well at N Block will be drilled in 2010.

In June 2009, ConocoPhillips and Mubadala, through its business unit Mubadala Oil & Gas, signed an agreement with the Company for joint exploration and development in the N Block. The Company holds a 51 per cent. interest in the related Subsoil Use Agreement and ConocoPhillips and Mubadala each holds a 24.5 per cent. interest. The Company received U.S.$100 million, in the aggregate, for the sale to ConocoPhillips and Mubadala of their respective interests (totalling 49 per cent.) in the Subsoil Use Agreement. Pursuant to the joint operation agreement, until commercial discovery, the N Block Project will be financed solely by ConocoPhillips and Mubadala, although the Company recognises its share in the accrued exploration expenses of N Operating Company LLP in line with its ownership interest as a debt to its co-venturers. This debt will be offset against income attributable to the Company once commercial production at N Block begins. The Company's share in the accrued exploration expenses at N Block was KZT 727.7 million in 2009 and is

expected to be KZT 9,255 million in 2010. ConocoPhillips and Mubadala will also pay the Company a discovery bonus based on the estimated reserves of the project if drilling is successful.

Project Mertviy Kultuk. MK Caspian Zhuldyz LLP is a jointly controlled entity of the Company and Caspian Tristar LLP, with each holding a 50 per cent.

In October 2008, Caspian Tristar and the Company signed an agreement for the joint exploration and development of the Mertviy Kultuk block (the "**Mertviy Kultuk Block**"), an area covering 7,273 km^2 located in the south-east part of the Kazakhstan sector of the Caspian Sea ("**Mertviy Kultuk Project**"), 55 km from Kalamkas town. The Mertviy Kultuk Block is estimated to hold 403 million tonnes of oil in recoverable reserves. The project is operated by MK Caspian Zhuldyz LLP, which is jointly owned by the participants. The Company's share in the exploration expenses of the Mertviy Kultuk Project was KZT 825.7 million in 2009. The budget for the exploration expenses for the year 2010 is not yet agreed due to financial difficulties of Caspian Tristar, as a result of which the Company is currently considering terminating the joint venture.

Project Zhambyl. Zhambyl Petroleum LLP ("**Zhambyl Petroleum**") is a wholly-owned subsidiary of KazMunayTeniz, which is in turn a wholly-owned subsidiary of the Company. Zhambyl Petroleum engages in exploration activities at the Zhambyl Field under a joint operating agreement in which the Company has a 73 per cent. interest and KC Kazakh B.V., a subsidiary of Korea National Oil Corporation, has a 27 per cent. interest. The Company sold this 27 per cent. interest in the joint operating agreement to KC Kazakh B.V. for U.S.$85 million in May 2009.

The Zhambyl Field is situated on the northern slope of the Caspian Sea, 170 km away from Bautino and 160 km away from Atyrau. The Zhambyl Field covers an area of 1,935 km^2, includes five separate prospective oilfields and lies in water depths of four to five metres. Currently, activities at the Zhambyl Field are limited, but 2D exploration seismology indicates that the Zhambyl Field could hold as much as 651.9 million tonnes of oil in recoverable reserves. The Company's share in the exploration expenses at Zhambyl Field was KZT 2,087 million in 2009 and is expected to be KZT 1,100 million in 2010.

Project Satpayev. The Company, the MEMR and OMEL, a joint venture between ONGC Videsh Limited ("**OVL**") and Mittal Investments Sarl ("**OMEL**"), are negotiating an agreement (the "**Satpayev Agreement**") for exploration and development in the Satpayev Block in the Caspian Sea (the "**Satpayev Block**"), an area situated in the pre-Caspian Basin of Kazakhstan, with an area of 1,582 m^2 in shallow waters (the "**Satpayev Project**"). The Satpayev Agreement is expected to be signed before the end of 2010 pursuant to a memorandum of understanding between OVL and the Company that was signed in January 2009. Until commercial discovery, the Satpayev Project will be financed solely by OMEL. Commercial production at the Satpayev Block is expected to begin in 2012.

Significant Exploration Projects of KMG EP

KMG EP has right to explore a 6,030 km^2 area constituting R9 Block and the Liman Field. Between May 2004 and October 2005, KMG EP completed 1,180 km of 2D seismic surveys that are being processed and analysed. KMG EP drilled a 1,688 m exploration well in the second half of 2005 that failed to flow; and, in 2006, KMG EP drilled four additional exploration wells in the R9 Block, each of which also failed to flow. In 2008, KMG EP conducted additional 2D and 3D seismic surveys of 550 km^2. KMG EP also conducted seismic surveys in 2008 in the prospective structures at horizons with a depth ranging from 5,000 to 7,000 m. Exploration expenses for these two assets in the aggregate were KZT 1,179 million in 2009 and are expected to be KZT 3,516 in 2010.

In 2009, organisational arrangements at the R9 Block were performed including the mobilisation of seismic crews and topographic and 2D seismic works. The areas of field works were at Shokat, Akshi and Imankara. The preliminary project of R-9 block, for further exploration, was completed and approved by Zapkaznedra. In accordance with the exploration program, subsalt exploration wells and above-salt wells construction are at the finishing stages. As of 31 December 2009 the depth of the first exploration well in Karashungul's above-salt structure was 2,174 meters.

Subsoil Use Agreements

Onshore Licences and Contracts of the Company

Prior to 1999, the Company was required to obtain production and exploration licences from and enter into Subsoil Use Agreements with the Government authorities to explore and produce oil and gas from their fields. Since 1999, the Company is required to obtain production and exploration rights by entering into exploration, production or production and exploration contracts to extract hydrocarbons for fixed periods of time. As at 31 December 2009, the Company (excluding associates) held a total of 56 licences and contracts including:

- 5 exploration contracts;
- 44 production contracts; and
- 7 combined production and exploration contracts.

Exploration contracts give the contracting party the exclusive right to explore resources from fields in a defined area and are valid for up to six years from issuance. Production contracts give the contracting party the exclusive right to extract resources from fields in a defined area and are in effect for up to 25 years from issuance for small and medium sized deposits and up to 45 years from issuance for large and "unique" deposits. The usual duration of a combined production and exploration contract is up to 31 years for small- and medium-sized deposits or up to 51 years for large and "unique" deposits. Most of the production and combined production and exploration contracts of the Company expire in 2030. Most of the exploration licences of the Company expire between 2028 and 2031.

See "*The Oil and Gas Industry in Kazakhstan—Subsoil Use Agreements*" for a detailed discussion of the role Government-issued licences and contracts play in production and exploration in Kazakhstan.

Offshore Production Sharing Agreements

As at 31 December 2009, the Company, its subsidiaries and its jointly-controlled entities were participants in a total of five production sharing agreements.

The following table sets forth summary information concerning production sharing agreements covering the Company's largest offshore exploration fields as at 31 December 2009:

Production sharing agreement	Parties	Date	Term	Production/Exploration field
NC PSA	AGIP, Total, ExxonMobil and Shell, each holding 16.81 per cent., ConocoPhillips holding 9.26 per cent., Inpex holding 8.33 per cent. and the Company with 16.81 per cent.	18 November 1997	40 years from the moment of commercial discovery	Kashagan, Kalamkas Sea, Kashagan Southwest, Aktoty, Kairan
Zhemchuzhiny PSA	KazMunayTeniz holding 25 per cent., Shell EP Offshore Ventures Limited holding 55 per cent., and Oman Pearls Company Limited holding 20 per cent.	14 December 2005	35 years	Zhemchuzhiny Field
Kurmangazy PSA	RN-Kazakhstan LLP and KazMunayTeniz, each holding 50 per cent.	6 July 2005	45 years	Kurmangazy Block
Zhambay PSA	KazMunayTeniz holding 50 per cent., Repsol Investments Zhambay and Caspian Exploration each holding 25 per cent.	26 December 2001	25 years	Zhambay South–South Zaburunie Block
Tyub—Karagan	Lukoil Overseas and KazMunayTeniz each holding 50 per cent.	29 December 2003	40 years	Tyub–Karagan Block

Taxes, Fees and Royalty under Licences and Contracts

The subsidiaries, joint ventures and associates of the Company are subject to a variety of taxes, fees and duties under their contracts and licences, including the payment of excess profit taxes. On 1 January 2009, the Government cancelled the royalty regime for all producers (except TCO, which continues to pay royalty to the Government). Under the 2009 Tax Code, however, the royalty regime was effectively replaced by the mineral extraction tax. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Mineral Extraction Tax/Royalty Regime Income Tax Expenses*".

Oil Field Development and Rehabilitation

The overall level of crude oil production from the fields described in this Base Prospectus has been and will continue to be affected by several key factors, including the relative age of the fields and, to a lesser degree, the characteristics of the oil and the complex geological formations of the reservoirs. For example, the Uzen Field and several of the EMG fields with the largest reserves and production volumes contain highly paraffinic oil within shallow, low permeability formations. Additionally, oil from the EMG fields also tends to have a high water content, or watercut. Taken together, these factors make oil from the EMG fields difficult to extract and in some cases transport. However, the Company's long production history has provided it with a comprehensive understanding of the geology of its fields. The relatively shallow depth and onshore location of its reservoirs have generally enabled the Company to produce oil in a more cost efficient manner than if the reservoirs were deeper or were offshore.

The Company, its subsidiaries and its joint ventures apply a wide variety of field development and rehabilitation techniques, such as drilling new wells, drilling injection wells and utilising secondary, enhanced recovery and well stimulation techniques, including hydro fracturing and various chemical and thermal methods. The Company does this to meet its strategic objective of sustaining its current production levels.

The following table sets forth the principal activities that were undertaken by the Company's subsidiaries, jointly-controlled entities and associates to develop and rehabilitate their fields between 1 January 2006 and 31 December 2009:

				Wells drilled in 2009		
	Ownership	**Wells where hydro-facturing applied**	**Well workovers**	**Production wells**	**Injection wells**	**Total Incremental Increase in Production**
						(thousand tonnes)
Uzen Field	KMG EP	120	973	67	10	905.6
EMG fields	KMG EP	0	233	18	–	99.2
Akshabulak Field	Kazgermunai	7	17	9	1	67.9
Alibekmola Field	Kazakhoil Aktobe	4	40	3	–	9.1

Transportation

Overview

The Company owns or operates the largest crude oil and gas pipeline networks in Kazakhstan in terms of length and throughput capacity. As at 31 December 2009, the total length of the Company's oil pipeline system was 7,279 km and the total length of its natural gas pipeline system was 12,577 km. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Operating Segments—Transportation of Oil and Gas Segment*".

The following table sets forth certain information with respect to the pipeline segments owned and operated by the Company as at 31 December 2009:

	For the year ended 31 December 2009				
		Diameter of pipelines			
Pipeline	**Kilometres of pipelines**	**Under 0.5 m**	**0.5 m to 1.4 m**	**Throughput capacity[1]**	**Primary source of gas or crude oil**
Transportation of Gas					
Western Pipeline Network:					
Central Asian System	5,042	–	5,042	60.0	Russia and Kazakhstan (from TCO and Karachaganak Fields)[2]
Uralsk System	1,116	–	1,116	45.0	
Aktobe System	2,659	9	2,650	20.0	Turkmenistan
Southern Pipeline Network	2,333	–	2,333	14.0	Uzbekistan
Kyzylorda Pipeline Network[3]	122	122	–	1.0	Akshabulak Field
Kazakhstan-China Pipeline	1,305	–	1,305	30.0	Turkmenistan
Total	**12,577**	**131**	**12,446**	**170.0**	
Transportation of Crude Oil					
KTO System:					
Western Branch:					
UAS pipeline	1,237	–	1,237	17.5	Western Kazakhstan
Other Western Branch pipelines	822.2	229	between 593.2	9.8	Western Kazakhstan
Eastern Branch:					
Omsk-Pavlodar-Shymkent pipeline	1,861	–	1,861	24.0	Siberia
Other Eastern Branch pipelines	702	–	702	13.0	Kazakhstan (Kumkol and Turgai fields) Kazakhstan
Kazakhstan-China System:					
Atyrau-Kenkiyak pipeline	448.8	–	448.8	10.0	Western Kazakhstan
Atasu-Alashankou pipeline	962	–	962	10.0	Western Kazakhstan, Kumkol and Turgai fields
Kenkiyak-Kumkol pipeline	794		794	10.0	Western Kazakhstan
CPC System:					
CPC Pipeline[4]	452	–	452	28.0	Western Kazakhstan, Tengiz Field
Total	**7,279**	**229**	**7,050**	**112.3**	

Notes:

(1) bcm per year for gas and millions of tonnes per year for crude oil.

(2) For a description of Karachaganak Field, see "*The Oil and Gas Industry in Kazakhstan—Oil Reserves and Production—Karachaganak Project*".

(3) Comprises the Akshabulak-Kyzyolrda gas pipeline running from Akshabulak field to one of ICA's gas compressor units in Kyzylorda, which is used for transportation of Akshabulak field gas.

(4) The Company holds a 20.75 per cent. interest and does not operate the CPC Pipeline.

Transportation and Storage of Gas

Overview

ICA, a wholly-owned subsidiary of KTG, operates Kazakhstan's main natural gas pipelines consisting of two separate networks: (i) a network in Western Kazakhstan that services Central Asia's producing natural gas fields (the "**Western Pipeline Network**") and (ii) a network in Southern Kazakhstan that delivers imported natural gas from the Uzbekistan/Kazakhstan border to the southern region of Kazakhstan, including Almaty (the "**Southern Pipeline Network**"). The map in "*Business—Overview*" shows the locations of these pipeline networks. ICA operates the pipelines pursuant to the Concession Agreement, which has an initial term that expires in 2012 and may be extended until 2017. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Commitments—Commitments under Oilfield Licences and Contracts—Investment and other obligations of ICA under the Agreement with the Government*."

The Company uses ICA's main natural gas pipelines for the: (i) transit of third parties' natural gas principally from Turkmenistan and Uzbekistan to Russia; (ii) export of Kazakhstan's natural gas, specifically from the Tengiz and Karachaganak condensate and natural gas fields, to Russia; (iii) transportation of natural gas from one part of Russia to another through Kazakhstan territory; and (iv) distribution of natural gas produced by the Company and others, including joint ventures and associates of the Company.

As at 31 December 2009, ICA operated 12,577 km of natural gas pipelines, utilised 21 compressor stations equipped with 278 gas compressor units, having a total capacity of 1,982 mW, operated 122 natural gas distribution stations and had a total active natural gas storage capacity of 4.65 bcm. The majority of the natural gas transportation system operated by ICA is above-ground with diameters of 1,000 mm, 1,200 mm or 1,400 mm.

The pipeline system operated by ICA was constructed during the 1960s and 1970s and has a certificated lifetime of 20 to 50 years. ICA performed major renovation work on its pipeline system in 2007, allocating KZT 73,660 million to maintain and upgrade its natural gas transportation system. In October 2008, ICA implemented two major projects: (i) the construction of a new compressor at Opornaya station and (ii) the construction of a new by pass pipeline. Due to these projects, the throughput capacity of the Central Asian pipeline system (the "**Central Asian System**") segment of the Western Pipeline Network has increased from 54 bcm to 60 bcm per year. The total cost of these two projects was KZT 82,113 million.

The Western Pipeline Network

ICA's Western Pipeline network consists of three separate systems aggregating 8,817 km of pipeline systems that include: (i) the Central Asian System; (ii) the Uralsk pipeline system (the "**Uralsk System**"); and (iii) the Aktobe pipeline system (the "**Aktobe System**").

Central Asian System. The Central Asian System runs from the Kazakhstan border with Uzbekistan and Turkmenistan in the south to the Kazakhstan border with Russia in the north. It consists of three separate pipeline subsystems, the principal one being the Central Asian Centre pipeline subsystem (the "**CAC Pipeline**"). The CAC Pipeline is used primarily to transport Uzbek and Turkmen natural gas through Kazakhstan into Gazprom's pipeline networks in Russia, through which natural gas is delivered to Ukraine and Europe. In addition, TCO uses the CAC Pipeline for transportation of natural gas from the Tengiz Field to Russia.

The Uralsk System. The Uralsk System comprises the segment of the Western Pipeline Network that runs through north-western Kazakhstan. It links two segments of a Russian pipeline and is used to transport Russian natural gas from Eastern to Western Russia.

The Aktobe System. The Aktobe System runs from the Kazakhstan border with Uzbekistan in the south to the Russian border in the north. It consists of three separate pipeline subsystems that connect to natural gas production facilities at natural gas fields in Zhanazhol and distribute natural gas to domestic customers. The Aktobe System may also be used to supplement the CAC pipeline's capacity to transport Turkmen natural gas to Russia and the European Union.

The Southern Pipeline Network

The Southern Pipeline Network consists of 2,333 km of pipelines and has a throughput capacity of 14.0 bcm per year and includes the Bukhara-Tashkent-Bishkek-Almaty pipeline system and the Gazly-Shymkent pipeline segment. This system supplies natural gas to end users in the most populous regions of Kazakhstan, including Almaty.

Gas Pipeline Projects

Asia Gas Pipeline. In August 2007, an agreement was reached between the Government and China on cooperation for the construction and operation of the Asia Gas Pipeline, which will extend from Turkmenistan through Uzbekistan to Khorgos in China, passing through Kazakhstan. The construction of the Asia Gas Pipeline is being completed in two phases. On 12 December 2009, the first phase of this project, comprising a pipeline with a throughput capacity of 10 bcm per year was completed. The second phase, with a designed throughput capacity of 40 bcm per year, is expected to be completed before the end of 2011. The development of the Asia Gas Pipeline is being funded by a joint venture entered into by the Company and CNPC. The total cost for the project, which will be funded through a syndicated loan facility arranged by a Chinese bank, is expected to be U.S.$7.5 billion and is being spread over the remaining period to completion of the project.

West-to-South Kazakhstan Gas Pipeline. In 2008, the Company and CNPC entered into a framework agreement (the "**West-to-South Framework Agreement**") under which both parties agreed to construct a pipeline from Beyneu in Western Kazakhstan to Shymkent in Southern Kazakhstan (the "**West-to-South Pipeline**"). The construction of the West-to-South Pipeline will be funded by a joint venture entered into by the Company and CNPC. The total cost for the project according to the feasibility study is estimated at U.S.$2.4 billion. The first stage of the West-to-South Pipeline is expected to have a throughput capacity of up to 10 bcm per year, and is expected to be completed, before the end of 2012.

Gas Transportation Volumes

For the years ended 31 December 2009 and 2008, international transit volumes of natural gas represented the substantial majority of ICA's total transportation volume.

The following table sets forth certain information regarding the natural gas transported through the natural gas transportation system operated by ICA for the years indicated:

Pipeline	Transit	For the year ended 31 December 2009	For the year ended 31 December 2008	% change between the years ended 31 December 2008 and 2009
		(bcm)		
International transit through Kazakhstan territory:				
Soyuz/Orenburg-Noyopskov Pipeline of the Uralsk System	Russian gas	48.0	46.1	4.1%
Bukhara-Ural Pipeline of the Aktobe System	Turkmen gas	11.8	40.3	(70.7%)
	Uzbek gas	13.1	10.7	22.4%
	Kyrgyzstanges gas	0.3	0.6	(50%)
Total..		**73.2**	**97.7**	**(25.1%)**
Kazakhstan Gas Export:				
CAC Pipeline of the Central Asian System...	TCO gas	3.5	4.6	(23.9%)
CAC Pipeline of the Central Asian System...	TolkynNefte gas	0	1.1	(100%)
Soyuz/Orenburg-Noyopskov Pipeline of the Uralsk System	Karachaganak gas	6.5	4.0	62.5%
Total..		**10.0**	**9.7**	**3.1%**
Domestic Gas Transportation:		**7.9**	**9.0**	**(12.2%)**
Total gas transportation through the ICA pipeline system		**91.1**	**116.4**	**(21.7%)**

ICA's principal customer is Gazprom, which accounted for 90 per cent. and 90 per cent. of the gas transportation fees of ICA for the years ended 31 December 2009 and 2008, respectively. ICA provides gas transportation services to Gazprom pursuant to two contracts: a Turkmen/Uzbek gas transit contract (the "**Turkmen/Uzbek Gas Transit Contract**"), which specifies the agreed volumes for the transport of Turkmen and Uzbek gas to Russia, and a Russian gas transit contract, which specifies the agreed volumes for the transport of gas to and from gas fields in Western Kazakhstan and the Orenburg gas refinery plant in South-western Russia. The Turkmen/Uzbek Gas Transit Contract was entered into on a ship-or-pay basis, requiring Gazprom to pay for at least 80 per cent. of the agreed volumes regardless of the volumes it actually requires ICA to transport for it. In 2008 and 2009, Gazprom did not transport the required 80 per cent. of the agreed volumes.

Both of ICA's contracts with Gazprom contracts were entered into in 2005 and expire in 2010. Although it is expected that these contracts will be renewed before the end of the year, negotiations between the Company and Gazprom are on-going and there can be no assurance that the new terms of the contracts will be the same as those previously in effect. Under these contracts, ICA charges international transit tariffs.

The volume of natural gas from Turkmenistan transported through the Aktobe System under the Turkmen/Uzbek Gas Transit Contract decreased in 2009 to 11.8 bcm from 40.3 bcm in 2008. These decreases are mainly due to decreased shipments of natural gas from Turkmenistan to Russia due to a contract dispute between Turkmenistan and Gazprom in 2009. In January 2010, Turkmenistan and Gazprom entered into a new agreement and shipments of natural gas resumed.

The volume of natural gas from Kazakhstan exported through the natural gas transportation system operated by ICA increased in 2009 to 10.0 bcm from 9.7 bcm in 2008. These increases are mainly due to increased gas production at the Karachaganak Field in Western Kazakhstan and, to a lesser extent, the Tengiz Field.

Compressor Stations, Gas Distribution Stations and Storage Reservoirs

Natural gas is highly pressurised as it travels through the pipelines, and compressor stations are required periodically along the pipe to ensure that the natural gas flows. ICA has 21 compressor stations, each of which is between 200 km and

250 km apart. In some pipelines, the gas flow direction in a pipeline can be reversed by switching the input and output at the compressor stations.

ICA operates 122 natural gas distribution stations, which are used to reduce pressure, deliver natural gas to consumer pipelines, purify gas, inject odorant and metre natural gas. The majority of these stations were constructed 30 to 35 years ago. ICA has installed additional natural gas metres manufactured in accordance with international specifications in order to improve its collection of revenue, in addition to performing continuous maintenance and general repairs on the stations.

ICA also manages three underground natural gas storage reservoirs in southern and south eastern Kazakhstan with a total active storage capacity of 4.6 bcm.

Gas Transportation Tariffs

Under the Law on Natural Monopolies and the Concession Agreement, ICA's tariffs for domestic natural gas transportation are subject to regulation by the Anti-Monopoly Agency. Under the Concession Agreement, Kazakhstan has agreed that ICA is entitled to freely negotiate, determine and agree on international transportation tariffs with its international transit contractor counterparties without regulation by the Anti-Monopoly Agency.

International Tariffs. In each of 2009 and 2008, international tariffs represented 90 per cent. of ICA's total revenue.

The methodology followed by ICA to set tariffs for international transit is based on a widely-used model, which provides that tariffs are generally a function of costs plus the average rate of return on fixed assets and expressed as a rate based on the volume of transported gas and the distance the gas is transported. When considering a return on fixed assets and investments, ICA takes into account its ongoing maintenance expenditures in order to ensure that it will be able to maintain the stable transit of all contracted international volumes of natural gas.

ICA generates gas transportation revenue from tariffs it charges to its international customers under long-term contracts for the transportation of natural gas through the pipeline systems it operates. At 31 December 2009 and 2008, the international transit tariff was U.S.$1.70 and U.S.$1.40, respectively, per 1,000 cubic metres of natural gas transported over 100 km of pipeline for the export of Russian, Turkmen, Uzbek and Kazakhstan natural gas

Domestic Tariffs. Tariffs for domestic transportation are subject to regulation and approval by the Anti-Monopoly Agency. Once approved, the tariffs remain in effect subject to ICA's right to apply to the Anti-Monopoly Agency once a year with a request to review and modify such tariffs. The Anti-Monopoly Agency also has the right to initiate a review of the domestic transportation tariffs. In the last three years, the Anti-Monopoly Agency has routinely reviewed domestic gas tariffs upon the request of third parties, but no major tariff increases or decreases have been required as a result of such reviews. ICA's domestic transportation tariffs are significantly impacted by social and political considerations and have historically been kept at artificially low levels.

In each of 2009 and 2008, ICA's tariffs for domestic transportation of gas were KZT 171 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for utility companies supplying gas to residential clients and companies engaged in the generation of thermal energy and KZT 420 per 1,000 cubic metres for all other persons.

Transportation of Crude Oil

Overview

Through its wholly-owned subsidiary KTO, the Company partially owns and solely operates the largest crude oil pipeline network in Kazakhstan in terms of length and throughput capacity. As at 31 December 2009, the total length of the Company's oil pipeline network was 7,279 km, of which KTO owns 5,071 km. In 2009 and 2008, the Company transported through its pipeline network a total of 70.8 million tons and 66.6 million tonnes of crude oil, respectively.

KTO Pipeline System

KTO partially owns and solely operates two oil pipeline systems, one in Western Kazakhstan (the "**Western Branch**") and another that runs from Northeast to Southwest Kazakhstan (the "**Eastern Branch**"). In addition, KTO has completed and operates the KC Pipeline, which is comprised of three sections: (i) the Atasu-Alashankou pipeline; (ii) the Kenkiyak-Atyrau pipeline; and (iii) the Kenkiyak-Kumkol pipeline. KTO also owns and operates the pipeline system which connects the Kenkiyak-Kumkol pipeline to the Atasu-Alashankou pipeline and forms part of KTO's Western Branch.

The following table sets forth certain information with respect to volumes of oil transported for the years indicated:

Transportation asset	For the year ended 31 December 2009	2008
	(tonnes in millions)	
KTO Pipelines:		
Western Branch:		
UAS pipeline	17.5	16.8
Other Western Branch pipelines transport to:		
Atryau Refinery	3.5	3.5
Aktau seaport	9.3	7.6
CPC Pipeline	3.9	4.5
Total Western Branch	**34.2**	**32.4**
Eastern Branch pipelines transport to:		
Atasu-Alashankou pipeline	7.7	6.1
Shymkent Refinery	3.5	3.8
Pavlodar Refinery	4.0	4.0
Total Eastern Branch	**15.2**	**13.9**
Other	1.4	1.2
Joint Ventures:		
KC Pipeline:		
Atasu-Alashankou pipeline(1)	7.7	6.1
MunayTas:		
Kenkiyak-Atyrau pipeline(2)	5.9	5.8
Batumi Marine Export Terminal:	6.4	7.2
Total	**20.0**	**19.1**
Total crude oil transported	**70.8**	**66.6**

Notes:

(1) Representing total supply of the pipeline, which is 50 per cent. owned by KTO.

(2) Representing total supply of the pipeline, which is 51 per cent. owned by KTO.

In 2008 and 2009, KTO invested KZT 31.3 billion and KZT 22.2 billion, respectively, to upgrade its pipeline system. In 2010, KTO plans to invest an additional KZT 24.6 billion to further upgrade its pipeline system to increase the throughput capacity and operational safety of the Western Branch and the Eastern Branch in order to meet additional transportation demand resulting from the increased production volumes from, among others, the Tengiz and Kumkol Fields. In addition, KTO plans to invest KZT 3.1 billion for joint venture pipeline improvements and capacity increases in 2010.

Western Branch. As at 31 December 2009, the Western Branch was the Company's largest operational transportation network in terms of throughput capacity, totalling 27.3 million tonnes of crude oil per year. As at 31 December 2009, the Western Branch comprised 2,508 km of main oil pipelines, 2,155 km of main water pipelines, 24 oil pumping stations and tank farms with a total storage capacity of 748,000 cubic metres, including water storage capacity of 152,400 cubic metres.

According to the Company's own data, in 2009, 34.2 million tonnes of crude oil and condensate produced in Kazakhstan, or 44.8 per cent. of the total crude oil and condensate produced in Kazakhstan, was transported through the Western Branch. The income generated from the tariff for the transportation of this crude oil and condensate totalled KZT 67.6 billion and represented 60.8 per cent. of KTO's total revenue.

The most significant pipeline subsystem in the Western Branch is the Kazakhstan segment of the UAS pipeline. This subsystem runs 1,237 km from Uzen in South-western Kazakhstan north through Atyrau, before crossing into Russia and linking either with Russia's Transneft system at Samara for crude oil export to ports on the Black Sea or through the Druzhba pipeline to ports on the Baltic Sea and Central Europe.

As at 31 December 2009, the Kazakhstan segment of the UAS pipeline had an annual capacity of 17.5 million tonnes of crude oil per year. The UAS pipeline serves as the Company's principal export pipeline.

Eastern Branch. As at 31 December 2009, the Eastern Branch had a maximum throughput capacity of 37 million tonnes of crude oil per year and comprised 2,563 km of main oil pipelines, 10 oil pumping stations and tank farms of total storage capacity of 406,000 cubic metres.

According to the Company's own data, in 2009, 15.2 million tonnes of oil and condensate produced in Kazakhstan, or 19.9 per cent. of the total oil and condensate produced in Kazakhstan, was transported through the Eastern Branch. The income generated from the tariff for transportation of this crude oil and condensate totalled KZT 21.7 billion and represented 19.5 per cent. of KTO's total revenue.

The Eastern Branch is used by the Company to transport crude oil, primarily produced at the Kumkol and Turgai fields, to the Shymkent Refinery and for export to China.

KC Pipeline

The KC Pipeline network comprises three systems: (i) the Kenkiyak-Atyrau pipeline, from Kenkiyak in Western Kazakhstan to Atyrau on the Caspian Sea, (ii) the Atasu-Alashankou pipeline, from Atasu in Western Kazakhstan to Alashankou in Western China and (iii) the Kenkiyak-Kumkol pipeline, from Kenkiyak to Kumkol in South Kazakhstan. All three systems are currently operational.

<u>Kenkiyak-Atyrau pipeline</u>. On 3 December 2001, KTO and CNPC E&D established MunayTas, in which KTO owns a 51 per cent. interest and CNPC E&D owns a 49 per cent. interest. MunayTas owns the Kenkiyak-Atyrau pipeline. KTO operates the Kenkiyak-Atyrau pipeline.

In March 2003, the Kenkiyak-Atyrau pipeline became operational. In 2009, the Kenkiyak-Atyrau pipeline had a throughput capacity of 6 million tonnes of crude oil per year and transported 5.9 million tonnes of crude oil. As at 31 December 2009, the length of the pipeline was 448.8 km. Previously, the pipeline flowed towards Atyrau from Kenkiyak, which provided oil producers from the Aktobe region with access to the CPC, the UAS or other Atyrau pipeline connections. Upon completion of the Kenkiyak-Kumkol pipeline, however, the flow of the Kenkiyak-Atyrau pipeline was reversed (and capacity increased to 12 million tonnes of crude oil per year) in order to deliver crude oil from the Atyrau and Aktobe regions to China.

<u>Atasu-Alashankou pipeline</u>. In 2004, KTO and CNODC created KCP, in which each own a 50 per cent. interest. KCP owns and KTO operates the Atasu-Alashankou pipeline.

In July 2006, the Atasu-Alashankou pipeline became operational. In 2009, the Atasu-Alashankou pipeline had a throughput capacity of 10.0 million tonnes of crude oil per year and transported 7.7 million tonnes of crude oil. As at 31 December 2009, the length of the pipeline was 962 km. The Atasu-Alashankou pipeline is expected to be extended to connect the Kenkiyak Field and the Kumkol Field in Southwest Kazakhstan.

<u>Kenkiyak-Kumkol pipeline</u>. KCP owns the Kenkiya-Kumkol Pipeline. In October 2009, the Kenkiyak-Kumkol pipeline became operational with a throughput capacity of 10 million tonnes of crude oil per year. As at 31 December 2009, the length of the pipeline was 794 km. KTO operates the Kenkiyak-Kumkol pipeline.

CPC Pipeline

CPC is a joint venture that owns, operates and maintains the CPC Pipeline. As at 31 December 2009, the CPC Pipeline was 1,510 km long (including storage and loading facilities), with the segment in Kazakhstan totalling 492 km. The CPC Pipeline is the primary transportation route for TCO and is expected to be a major transportation route for NCPC once commercial production commences at the Kashagan Field. In 2009, 28.1 million tonnes of oil and condensate produced in Kazakhstan, were transported through the CPC Pipeline, representing 36.6 per cent. of the total oil and condensate produced in Kazakhstan.

The Company acts and benefits on behalf of the Government in respect of its 19 per cent. holding in CPC. In April 2009, the Company acquired a 49.9 per cent. interest in KPV from BP for U.S.$250 million, as a result of which the Company increased its effective beneficial interest in CPC from 19 per cent. to 20.75 per cent. Only CPC shareholders have rights to capacity in the CPC Pipeline, which consist of preferential capacity rights to specified amounts of capacity and excess capacity rights to use pipeline capacity not being used by other shareholders. The preferential capacity rights and excess capacity rights in respect of the CPC Pipeline are allocated by the agreement of the CPC shareholders and not necessarily by reference to the proportional ownership interests in the joint venture. The Company's preferential capacity rights entitle it to the transportation of 5.76 million tonnes of oil per year.

In 2008, the Company and KMG EP entered into a Services Agreement (the "**Services Agreement**"). As part of the Services Agreement, KMG EP acquired the right to all of the capacity in the CPC Pipeline available to the Company and the Government to ensure that KMG EP is able to deliver at least 5 million tonnes of crude oil per year for so long as the Company owns at least 30 per cent. of KMG EP. See "*Share Capital, Sole Shareholder and Related Party Transactions—Services Agreement*".

The expected increase in production from fields being developed by NCPC will require increased capacity of the transportation infrastructure in Kazakhstan, including the CPC Pipeline. On 17 December 2008, the MEMR, the Russian Ministry of Energy and all other CPC shareholders (except LukArco B.V.) agreed to proceed with the expansion of the CPC Pipeline process and signed a memorandum on expansion, which was approved by the other shareholders in the first half of 2009. On 16 December 2009, the final agreement on expansion was approved. Under the terms of the CPC shareholders' agreement, the design of the CPC Pipeline will be increased from 33 million tonnes per year to 67 million tonnes per year, of which up to 52.5 million tonnes per year of oil and condensate will come from Kazakhstan. The expansion project will also comprise the construction of ten oil-transfer stations (two in Kazakhstan and eight in the Russian Federation), six tank farms next to Novorossiysk, a third berth unit at the CPC oil terminal and the replacement of 88 km of pipeline in Kazakhstan. Transneft will manage the expansion project in the Russian Federation, Chevron will manage the expansion at Novorossiysk port and the Company will manage the expansion in Kazakhstan. As a result of the CPC Pipeline expansion, the Company's preferential capacity rights will increase to 14.3 million tonnes from 5.76 million tonnes. The estimated capital expenditures for expanding the CPC pipeline capacity will be U.S.$4.5 billion, which will be financed out of CPC's own cash flows from the proceeds of oil transportation services provided to the CPC shareholders pursuant to their preferential capacity rights and excess capacity rights on a ship-or-pay basis and, to the extent necessary, through external financings. The expansion is expected to be completed by 2015.

CPC charges shippers a transportation tariff based on the quantity of CPC blend delivered to the shipper. Until 10 October 2007, the tariff for transportation of and delivery to the CPC marine terminal on the Black Sea was U.S.$32.50 per tonne, inclusive of all charges for terminal facilities. In October 2007, this tariff was increased to U.S.$38 per tonne and thereafter has remained unchanged to the date of this Base Prospectus.

Other Export Routes for Crude Oil

Alternative transportation routes for the export of oil from Kazakhstan that are available to the Company in the event of any capacity constraints on the KTO or CPC Pipeline systems include:

- by barge from the Aktau seaport to Baku and then through the BTC pipeline;
- by railways from Kazakhstan to Black Sea export terminals of Odessa and Feodosiya; and
- by oil tankers from the Aktau seaport to Baku and then by rail to Batumi or by oil tankers to Makhachkala and then by rail to Europe.

Batumi Oil Terminal. In February 2008, KTO completed the acquisition of a 100 per cent. ownership interest in Batumi Industrial Holdings Limited and Batumi Capital Partners Limited. Batumi Industrial Holdings Limited and Batumi Capital Partners Limited jointly own Batumi Oil Terminal LLC, which operates a marine export terminal facility in Batumi, Georgia (the "**Batumi Marine Export Terminal**"). Batumi Industrial Holdings Limited also owns Batumi Sea Port LLC, which operates a seaport in Batumi, Georgia (the "**Batumi Port**", and together with the Batumi Marine Export Terminal, the "**Batumi Port and Oil Terminal Facilities**"). The Company uses the Batumi Port and Oil Terminal Facilities to store and reload crude oil and petroleum products from Kazakhstan, including oil produced by the Company, Turkmenistan and Azerbaijan, for further export. The Company transports crude oil and petroleum products to the Batumi Port and Oil Terminal Facility by rail.

The Batumi Port comprises 12 operating terminals, including crude oil terminals, with a loading capacity of 25 million tonnes of oil per year. The terminals at the Batumi Marine Export Terminal are comprised of three terminals and one single point buoy mooring, with a total projected loading capacity of 15 million tonnes of oil and petroleum products per year.

Aktau Seaport Terminal. The Aktau seaport was constructed in 1963 and currently is the only seaport in Kazakhstan, which has a capacity for storage and reloading of crude oil and hydrocarbon products. The Aktau seaport comprises 12 operating terminals, including four crude oil terminals. Crude oil terminals are equipped with oil spillage prevention facilities.

The Company uses these terminals to store and reload crude oil and petroleum products from Kazakhstan, including oil produced by the Company, for further export.

Kazakhstan Caspian Transport System. The Company signed a letter of intent with the operators of the Tengiz and Kashagan projects to establish the Kazakh Caspian Transport System ("**KCTS**"), which would comprise of two segments:

- the Yeskene-Kuryk to Kuryk pipeline on the Caspian coast; and

- the offshore and onshore facilities to enable tankers to transport crude oil across the Caspian Sea to Baku, Azerbaijan, including an oil terminal on the Kazakhstan coast of the Caspian Sea, an oil terminal on the Azerbaijan coast of the Caspian Sea and installations connecting with the BTC Pipeline.

The current intention is to transport crude oil from Baku using the existing BTC Pipeline to the Mediterranean. KCTS capacity is expected to be 24.0 million tonnes per year upon completion of the first stage of the project, with capacity increasing to 36.5 million tonnes per year thereafter. The schedule for project implementation is currently being reviewed to take into account the changing oil production profile in Kazakhstan.

In October 2009, the Company and State Oil and Gas Company of Azerbaijan signed an agreement to jointly perform the feasibility study for the KCTS project.

Crude Oil Transportation Tariffs and Minimum Volumes

KTO, which is classified as a natural monopoly in Kazakhstan, charges the Company and other shippers a flat tariff for shipments through the UAS Pipeline and the Omsk Pavlodar Shymkent Pipeline. The amount of the tariff is set by the Anti-Monopoly Agency based primarily on KTO's costs for maintaining and operating the pipelines. KTO can apply to the Anti-Monopoly Agency once a year for an increase in the tariff. There is no quality bank adjustment mechanism for shipments through the UAS Pipeline and Omsk Pavlodar Shymkent pipeline or the Russian Transneft pipeline system. The MEMR sets the transportation capacity allocation through the UAS and Omsk-Pavlodar-Shymkent Pipelines.

A contract executed between KTO and its customers governs general access and terms of payment. According to this contract, customers, including the subsidiaries, joint ventures and associates of the Company and third party crude oil shippers, are obligated to transport at least the minimum volume approved by the MEMR.

The following table sets forth the minimum volumes that certain customers were or are required to transport through the UAS Pipeline for the years indicated:

	For the year ended 31 December				
	2008	2009	2010	2011	2012
			(million tonnes)		
KMG EP	4,901	4,844	4,842	4,695	4,020
MMG	4,973	5,150	5,350	5,450	5,350
JSC CNPC—Aktobemunaigas	3,782	2,800	2,700	–	–
Other subsoil users	2,408	4,525	4,456	4,379	2,310
Total minimum volumes..	**16,064**	**17,319**	**17,348**	**14,524**	**11,680**

Transportation and Sale of Crude Oil—KMG EP

KMG EP's oil production is transported by: (i) the UAS pipeline to the Atyrau Refinery; (ii) the UAS pipeline to the Russian Transneft transportation system for further transport to ports on the Black Sea or to the Druzhba pipeline for further transport to ports on the Baltic Sea and Eastern and Central Europe; and (iii) the CPC Pipeline to the export marine terminal at Yuzhnaya Ozereevka on the Black Sea near the Russian port of Novorossiysk.

KMG EP exported 77.4 per cent. of its crude oil production in 2009 compared to 78.0 per cent. in 2008.

The following table sets forth KMG EP's crude oil export transportation routes for the years indicated:

	For the year ended 31 December	
	2009	2008
	(thousand tonnes, except percentages)	
CPC Pipeline:		
Novorossiysk	1,999	2,100
UAS Pipeline	4,947	4,901
Total export	**6,946**	**7,001**

Transportation and Sale of Crude Oil—TCO

TCO's oil production is transported (i) by the CPC Pipeline to the export marine terminal at Yuzhnaya Ozereevka on the Black Sea near the Russian port of Novorossiysk; (ii) by rail to Ukrainian export terminals located at Odessa and Feodosiya and (iii) by rail through Aktau seaport to the BTC Pipeline and the Batumi Marine Export Terminal located at the Batumi Port.

TCO shipped 15.9 million tonnes through the CPC Pipeline in 2009. It is expected that the CPC Pipeline will continue to be the primary export route for TCO crude oil. Accordingly, at the end of 2009 in order to accommodate the increased volumes shipped by TCO in 2009, an agreement was reached to expand the CPC Pipeline from its current 33 million tonnes per year to 67 million tonnes per year, which will include up to 52.5 million tonnes per year of oil and condensate produced in Kazakhstan. TCO also ships oil by expanded rail car loading and rail export facilities, designed to transport most of the incremental SGI and SGP production prior to the CPC expansion, which became operational during 2007. Other alternatives are also being considered to increase export capacity.

TCO exports 100 per cent. of its crude oil production, which is transported primarily through the CPC Pipeline. The following table summarises TCO's crude oil exports by region for the years indicated:

	For the year ended 31 December	
	2009	**2008**
	(thousand tonnes, except percentages)	
CPC Pipeline:	15,920	13,600
BTC Pipeline	1,936	300
UAS Pipeline	69	200
Rail transportation to Odessa, Feodosiya and Batumi	4,496	2,700
Total export	**22,419**	**16,800**

In addition, TCO transports:

- LPG by rail to customers within the CIS and to LPG export facilities on the Black Sea and in certain European countries for export outside the CIS;
- dry gas through ICA's pipelines in Kazakhstan for domestic use and for export through TCO's Tengiz Kulsary dry gas pipeline; and
- sulphur by rail through or within Kazakhstan and to Russia, China, Ukraine and various Baltic export terminals for distant exports.

Transportation and Sale of Crude Oil - PKI

PKI's oil production is transported by: (i) two lateral pipelines to Karakoin, where the pipelines connect with the Eastern Branch operated by KTO, which transport oil to the Shymkent Refinery; (ii) the Kumkol - Dzhusaly pipeline to a rail loading terminal at Dzhusaly; (iii) rail from Dzhusaly to Aktau seaport and then across the Caspian Sea, through Azerbaijan and on to the Batumi Port; (iv) rail from Dzhusaly to the Atyrau Samara segment of the UAS pipeline and then by pipeline on to Odessa or Western Europe; (v) rail from Atasu and Tekesu to China; (vi) rail from Tekesu to Uzbekistan and Iran; (vii) the AtasuAlashankou Pipeline to China; and (viii) rail from Tekesu through Turkmenistan, across the Caspian Sea, through Azerbaijan and on to the Batumi Port.

PKI exported 64.0 per cent. of its crude oil production in 2009, compared to 59.4 per cent. in 2008. The following table summarises PKI's crude oil exports by region for the years indicated:

	For the year ended 31 December	
	2009	**2008**
	(thousand tonnes, except percentages)	
Atasu-Alashankou pipeline	4,028	2,787
Rail transportation from Dzhusaly to Aktau	–	23
Rail transportation from Atasu to	–	–
Aktau seaport	–	67
Batumi Port	–	16
Iran	–	34
Total export	**4,028**	**2,918**

Refining, Marketing and Trading

Overview

KMG Trade House is the Company's principal refining, marketing and trading company. The principal activities of KMG Trade House include the refining, marketing and trading oil and oil products. In April 2010 KMG Trade House announced that it is changing its name to "JSC KMG Refining and Marketing" to better reflect its principal activities.

Crude oil from the Company's production operations, in particular from KMG EP, which is not exported, is transported for refining at the Atyrau, Pavlodar and Shymkent Refineries. As at 31 December 2009, KMG Trade House held a 99.17 per cent. ownership interest in the Atyrau Refinery; a 100.00 per cent. interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 58.00 per cent. interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 42.00 per cent. interest in Pavlodar Refinery JSC being held by the State); and a 49.72 per cent. ownership interest in the Shymkent Refinery. Accordingly, the Company had a significant or controlling interest in each of the principal oil refineries in Kazakhstan. In addition, since December 2007, KMG Trade House has had an indirect controlling interest in the Petromidia Refinery in Romania. See "*Risk Factors—Risks Relating to the Company's Business—The Company could lose control of the Petromedia Refinery*". KMG Trade House also owns and operates the Vega Refinery in Romania.

From 2006 until 2009, KMG Trade House had been appointed by the Government to collect in-kind royalty payments from TCO, JSC Turgai Petroleum, Kazgermunai, PKKR and other third parties and received a commission for selling the crude oil on behalf of the Government. On 1 January 2009, the Government cancelled the royalty regime for all producers (except TCO, which continues to pay royalty to the Government) and, accordingly, KMG Trade House no longer collects in-kind royalty payments.

KMG Trade House currently has five principal goals: (i) delivering products to the domestic market and expanding its retail market share in Kazakhstan to over 50 per cent. though the expansion of its retail network organically and through acquisitions and franchising agreements; (ii) modernising its refining assets, including ensuring that all refineries meet the Euro 4 standard by 2015; (iii) further developing its exporting activities; (iv) developing new transportation activities; and (v) further developing the Rompetrol retail network.

Sales of Crude Oil

Since January 2004, the Company has exported substantially all of the crude oil produced by KMG EP under the terms of the Agency Agreement. The Agency Agreement is entered into annually and is subject to a tender carried out in accordance with the S-K Rules. See "*Share Capital, Sole Shareholder and Related Party Transactions—Relationships Between the Subsidiaries, Joint Ventures and Associates of the Company—KMG Trade House Agency Agreement*". The Company has an indirect majority-owned subsidiary in Netherlands, named Trade House KazMunaiGaz N.V., to which oil shipped through Odessa and Novorossiysk is sold.

A new transfer pricing law came into force on 1 January 2009, which restricts the use of trading partners in certain offshore jurisdictions. The Company is in the process of bringing its export sales structures into line with the new law.

Refining Facilities

As at the date of this Base Prospectus, there were three major crude oil refineries operating in Kazakhstan located in the cities of Pavlodar, Atyrau and Shymkent. In 2009, the total actual refining capacity of these refineries was 12.2 million tonnes of crude oil. As at 31 December 2009, the Company held a 100.00 per cent. interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 58.00 per cent. interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery; a 99.17 per cent. ownership interest in the Atyrau Refinery; and a 49.72 per cent. ownership interest in the Shymkent Refinery, and, as such has a significant or controlling interest in all three of Kazakhstan's principal oil refineries. In addition, the Company acquired a 100 per cent. interest in Rompetrol, which owns 76.39 per cent. of the Petromidia Refinery and the Vega Refinery in Romania.

Pavlodar Refinery

In August 2009, KMG Trade House acquired a 100.00 per cent. interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 58.00 per cent. interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 42.00 per cent. interest in Pavlodar Refinery JSC being held by the State). Refinery Company RT leases the assets comprising the Pavlodar Refinery to Pavlodar Refinery JSC, which then operates the Pavlodar Refinery. As at 31 December 2009, the Pavlodar Refinery was the largest and most technically advanced of the three principal oil refineries in Kazakhstan and had a designed refining capacity of 7.5 million tonnes of crude oil per year and an actual capacity of 4.1 million tonnes of crude oil per year.

The Pavlodar Refinery, which was constructed in 1978, is located in the city of Pavlodar in north-east Kazakhstan, Pavlodar Oblast, 100 km from the border with Russia and is linked to the Omsk-Pavlodar-Shymkent Pipeline. The Pavlodar Refinery is the only refinery in Kazakhstan with a catalyst cracker and sulphur granulation unit. All oil supplied to the refinery originates in the Western Siberian oil fields and is transported into the refinery through the Transneft and KTO pipeline systems and associated tank farms located immediately adjacent to the refinery. In addition to Western Siberian crude, recent modernisation has allowed for processing of up to 0.5 per cent. of the Pavlodar Refinery's total

capacity of crude oil from other origins. The share of non-Siberian oil is limited by its high sulphur content that may deteriorate the quality of the refined products.

The Pavlodar Refinery refined 34 per cent. of the total oil refined in Kazakhstan in 2009. In addition, the Pavlodar Refinery produced 47 per cent. of the gasoline, 35 per cent. of the diesel and 21 per cent. of the fuel oil sold in Kazakhstan in 2009.

In 2008, the Pavlodar Refinery completed the reconstruction and commissioning of a hydrogen production unit, which decreases sulphur content in the refinery's finished products. In 2007, reconstruction of some cooling towers was completed in order to reduce water consumption associated with the plant water recirculating system.

The Pavlodar Refinery tolls oil for a processing fee established by Kazakhstan's Agency for Protection of Competition ("**Agency for Protection of Competition**"). In 2010, the Agency for Protection of Competition permitted the Pavlodar Refinery to increase processing fees to KZT 3,742.26 per tonne from KZT 2,519.83 per tonne in 2009, which is expected to have a positive impact on refining revenue.

The following table sets forth the historical product mixture and volumes of refined (oil) products produced at the Pavlodar Refinery for the years indicated:

	For the year ended 31 December	
	2009	**2008**
	(thousand tonnes)	
Gasoline	1,224	1,165
Diesel fuel	1,330	1,347
Jet fuel	89	78
Fuel oil	690	719
Other products	430	393
Total	**3,763**	**3,702**

Atyrau Refinery

Constructed in 1945, the Atyrau Refinery is the oldest refinery of the three operating refineries in Kazakhstan. As at 31 December 2009, the Atyrau Refinery had a post-modernisation designed refining capacity of 5.0 million tonnes of crude oil per year and an actual refining capacity of 4.0 million tonnes of crude oil per year.

The Atyrau Refinery is located in the centre of the major hydrocarbon producing region of Western Kazakhstan and is linked to the Uzen-Atyrau-Samara Pipeline. The Atyrau Refinery refined 33 per cent. of the total oil refined in Kazakhstan in 2009. In addition, the Atyrau Refinery produced 20 per cent. of the gasoline, 31 per cent. of the diesel and 53 per cent. of the fuel oil sold in Kazakhstan in 2009.

As at the date of this Base Prospectus, the market demand for refined (oil) products in Western Kazakhstan is estimated at 3.0 million tonnes per year. In 2009, the Atyrau Refinery operated slightly below the break-even point, refining 4.0 million tonnes of crude oil.

The Atyrau Refinery mainly tolls oil that it receives from KMG Trade House, for which processing fees are established by the Agency for Protection of Competition. In 2010, the Agency for Protection of Competition permitted the Atyrau Refinery to increase its processing fees to KZT 5,764.92 per tonne, which is expected to have a positive impact on refining revenue.

Between March 2003 and September 2006, the Atyrau Refinery underwent a refurbishment and modernisation. As a result of the modernisation, much of the outdated equipment was replaced and technological processes and equipment were brought into compliance with the environmental requirements. The post modernisation production capacity of the Atyrau Refinery is 5.0 million tonnes of crude oil per year. The Company is required to make considerable further investment to improve the utilisation rate and profitability of the Atyrau Refinery and improve the quality of the refined (oil) products produced by the Company at this Atyrau Refinery.

In 2008 and 2009, the capital expenditures invested by KMG Trade House in upgrading the Atyrau Refinery was KZT 3,000 million and KZT 5,460 million, respectively. The Company increased oil refining capacity and improved the quality of the refined (oil) products at Atyrau Refinery to 4.0 million tonnes of crude oil per year by the end of 2009 through this capital investment programme.

On 29 October 2009, KMG Trade House entered into a contract with Sinopec Engineering for construction of the aromatics production complex at the Atyrau Refinery at a cost of U.S.$1.1 billion, which the Company intends to fund through external financing. The construction of the aromatic hydrocarbons production complex will allow production of up to 132,000 tons of benzene per year and up to 497,000 tons of paraxylene per year, as well as production of Euro-4 standard petrol and diesel fuel. The construction of the aromatics production complex is expected to be completed in 2013; however, financing for this project has not yet been agreed and construction is currently on hold.

In 2010, KMG Trade House's anticipated capital expenditures at the Atyrau Refinery is KZT 45,490 million, which KMG Trade House intends to primarily invest in projects related to installation of benzol and aromatics processing facilities, reconstruction of the vacuum block, upgrading of the coker unit and construction of an advanced oil processing complex.

The following table sets forth the historical product mixture and volumes of refined (oil) products produced at the Atyrau Refinery for the years indicated:

	For the year ended 31 December	
	2009	**2008**
	(thousand tonnes)	
Gasoline	520	493
Diesel fuel	1,188	1,176
Jet fuel	42	47
Fuel oil	1,731	1,566
Other products	197	330
Total	**3,678**	**3,612**

Shymkent Refinery

In July 2007, KMG Trade House acquired an indirect 49.72 per cent. interest in PetroKazakhstan Oil Products LLP, which in turn owns the Shymkent Refinery. As at 31 December 2009, the Shymkent Refinery had a designed refining capacity of 5.5 million tonnes of crude oil per year and an actual refining capacity of 4.0 million tonnes of crude oil per year.

The Shymkent Refinery was commissioned in 1985 with the completion of an atmospheric distillation unit for the initial separation of crude oil, catalytic hydro treaters for the removal of impurities from naphtha, jet and diesel fuel and a catalytic cracker unit for the enhancement of octane levels in gasoline.

The Shymkent Refinery is located in Southern Kazakhstan. Most product and crude deliveries to the Shymkent Refinery are made by rail in railcars provided by the state-owned railway or third parties. Crude oil production from Kumkol producing fields and from Western Siberia are the primary source of crude oil for the Shymkent Refinery.

The Shymkent Refinery refined 33 per cent. of the total oil refined in Kazakhstan in 2009. In addition, the Shymkent Refinery produced 32 per cent. of the gasoline, 34 per cent. of the diesel and 21 per cent. of the fuel oil sold in Kazakhstan in 2009.

A vacuum distillation unit at Shymkent was finished in late 2003 and became operational in early January 2004. This vacuum distillation unit allows for the production and sale of vacuum gasoil ("**VGO**"). VGO is a high value product and is highly sought after by refineries with catalytic cracking facilities where the VGO can be converted into gasoline and diesel. The production of VGO reduces the production of fuel oil (which is a lower end product and is present in the market in excessive quantities), thereby improving the economic yield of the Shymkent Refinery.

The Shymkent Refinery works on tolling oil for others for a processing fee established by the Agency for Protection of Competition. In 2008, the Agency for Protection of Competition permitted the Shymkent Refinery to increase its processing fees to KZT 3,100 per tonne from KZT 2,713 per tonne in 2007. No further increase in the processing fees has been permitted in 2009 or to date in 2010.

The following table sets forth the historical product mixture and volumes of refined (oil) products produced at the Shymkent Refinery for the years indicated:

	For the year ended 31 December	
	2009	2008
	(thousand tonnes)	
Gasoline	828	843
Diesel fuel	1,276	1,408
Jet fuel	240	275
Fuel oil	694	635
Other products	765	886
Total	**3,803**	**4,047**

Petromidia Refinery

Through its acquisition of 75 per cent. of the shares of Rompetrol in November 2007 and of the remaining 25 per cent. in June 2009 upon exercise of the Rompetrol Option, KMG Trade House owns and operates the Petromidia Refinery, which is owned by its subsidiary Rompetrol Rafinare S.A. As at 31 December 2009, Rompetrol owned 76.39 per cent. of the shares of Rompetrol Rafinare. In February 2010, KMG Trade House made a mandatory tender offer for the acquisition of the shares of Rompetrol Rafinare, which it did not own. As a result of this tender offer, Rompetrol acquired an additional 21.61 per cent. of the shares of Rompetrol Rafinare and, as a result, as of the date of this Base Prospectus, owns 98 per cent. of the shares of Rompetrol Rafinare. Rompetrol intends to effect a “squeeze out” transaction on the Bucharest Stock Exchange in 2010 in order to obtain the remaining publicly held shares and a 100 per cent. interest in Rompetrol Rafinare.

The Petromidia Refinery was constructed between 1974 and 1979. As at 31 December 2009, the Petromidia Refinery had a designed refining capacity of 5.0 million tonnes of crude oil per year and an actual refining capacity of 4.0 million tonnes of crude oil per year. In 2009, Rompetrol produced 3.8 million tonnes of refined (oil) products at the Petromidia Refinery, achieving 95 per cent. utilisation of actual refining capacity.

The Petromidia Refinery processes a variety of crude oils with high sulphur content and API. Crude oil processed at the Petromidia Refinery is received at Midia port, which is owned by Rompetrol and can accommodate ships of up to 24,000 tonnes of deadweight, or through the larger Constanta port, which is connected to the Petromidia Refinery by a 40 km pipeline. The Petromidia Refinery has its own marshalling yard, with 40 loading and unloading points and vehicle loading ramps.

The Petromidia Refinery produces different types of vehicle fuels (gasoline, diesel and LPG) and Jet A-1 Fuel. The Petromidia Refinery products meet European quality standards and environmental protection regulations for such products.

In Romania, the Petromidia oil products are sold through the Rompetrol downstream distribution network and third party retail and wholesale distribution networks. The Petromedia Refinery exports oil products to Moldova, Bulgaria, Turkey, Georgia, Hungary, Croatia, Bosnia, Albania and Western Europe.

In 2009, the processing fees of the Petromidia Refinery were increased to U.S.$29 per barrel from U.S.$27.48 per barrel in 2008 primarily to offset (in part) an increase in utilities tariffs.

Between 2008 and 2010, Rompetrol’s anticipated capital expenditures at the Petromidia Refinery is U.S.$337 million, of which U.S.$30.2 million was spent in 2008 and U.S.$65.0 million was spent in 2009. Rompetrol intends to invest the balance of U.S.$241.8 million in 2010 to upgrade the catalytic cracker plant, the sulphur processing facility and the hydro plant and to install the soft hydrocracker and other processing equipment at the Petromidia Refinery in order to upgrade production to Euro 5 grade diesel.

The following table sets forth the historical product mixture and volumes of refined (oil) products produced at the Petromidia Refinery for the years indicated:

	For the year ended 31 December	
	2009	**2008**
	(thousand tonnes)	
Gasoline	1,296	1,351
Diesel fuel	1,571	1,552
Jet fuel	91	106
Fuel oil	105	127
Other products	859	1,108
Total	**3,922**	**4,244**

Vega Refinery

Through its acquisition of 75 per cent. of the shares of Rompetrol in November 2007 and its subsequent acquisition of the remaining 25 per cent. in June 2009 upon exercise of the Rompetrol Option, KMG Trade House indirectly owns and operates the Vega Refinery, which was constructed in 1905 and fully modernised between 1970 and 1980. The Vega Refinery uses by-products of the other refineries in the region as raw material. As at 31 December 2009, the Vega Refinery had a designed refining capacity of 0.3 million tonnes of crude oil per year and an actual refining capacity of 0.3 million tonnes of crude oil per year. The Vega Refinery is located in Ploiesti, a small town near Bucharest, Romania.

The Vega Refinery specialises in processing alternative raw materials (naphtha, refined RC, C5 C6 fraction, other oil fractions and fuel oil) and in producing ecological solvents, asphalt for special uses, ecological fuels for heating and other specialised products. The Vega Refinery owns both installations for atmospheric and vacuum distillation of crude oil and installations for processing alternative raw materials.

The range of products produced by the Vega Refinery includes polymerisation solvent-normal hexane, ecological petroleum solvents, other oil products, such as gasoline, naphtha, white spirit and petroleum products (heating oil), light liquid fuel and bitumen (road and polymer modified, special and ground coat for metallic pipes protection).

In 2008 and 2009, the processing fees of the Vega Refinery were U.S.$48.20 per tonne.

The following table sets forth the historical product mixture and volumes of refined (oil) products produced at the Vega Refinery for the years indicated:

	For the year ended 31 December	
	2009	**2008**
	(thousand tonnes)	
Special Gasoline (Solvents) and other gasoline	154	160
White spirit and petroleum	9	26
Gas oil	10	17
Heavy fuel	30	24
Fuel oil	15	16
Bitumen	43	47
Other products	51	0
Total	**312**	**290**

Refined (Oil) Products Sales and Distribution

The Company sells and distributes its refined (oil) products domestically through KMG Trade House, which is responsible for sales and marketing of those products in Kazakhstan, and, through Rompetrol, in Romania and other parts of Eastern Europe.

KMG Trade House

KMG Trade House owns and operates an expanding network of gasoline stations in Kazakhstan. As at 31 December 2009, KMG Trade House owned 235 gasoline stations located in the cities of Astana and Almaty and in West, North and East Kazakhstan, which, according to KMG Trade House's own estimates, represented 10 per cent. of retail gasoline sales in the domestic market in the year then ended.

KMG Trade House sells domestically a full range of petroleum fuel, including high-quality diesel, gasoline and jet fuel. The trading and marketing of refined (oil) products in the domestic market is performed by KMG Trade House through

direct sales primarily though the Atyrau Refinery, as well as from its three wholly-owned subsidiaries, KMG Alatau LLP, KMG Astana LLP and KMG Zhayik LLP. Oil products are transported by railway and subject to a tariff that is based on the actual distance travelled.

The following table sets forth the KMG Trade House product mixture and corresponding domestic market share of the Company in 2009:

Product	Consumption	KMG TH	Market Share
	(thousand tonnes)		%
Gasoline	3,195.5	325.4	10
Jet fuel	367.9	–	0
Diesel	3,596.2	614.3	17
Fuel	1,165.8	783.0	67
Total	**8,325.4**	**1,722.7**	**21**

Rompetrol

Rompetrol's retail network offers a wide range of vehicle fuels, including gas and diesel, which are primarily supplied by the Petromidia Refinery. Rompetrol also sells vehicle fuel through 32 wholesale fuel depots, which supply over 25 per cent. of the Romanian market, 3.5 per cent. of the French market and 1.5 per cent. of the Spanish market.

Rompetrol sells a full range of petroleum products, including gasoline, diesel fuel, LPG and heating oil both domestically in Romania and in Eastern Europe, France and Spain. The trading and marketing of refined (oil) products in the domestic market is performed by various Rompetrol controlled entities, including Rompetrol Downstream, Rom Oil SA (wholesale and retail sale of gasoline and diesel fuel), Romcalor SA (wholesale and retail sale of heating oil) and Rompetrol Gas SRL (wholesale and retail sale of liquefied gas) in Romania, and in Eastern Europe by Vector Energy. Rompetrol Downstream, a subsidiary of Rompetrol, owns and operates over 110 COCO/CODO and controls 180 DODO gasoline stations in Romania and 20 filling stations DODO in Bulgaria.

The following table sets forth Rompetrol's product mixture and percentages sold in Romania and internationally in 2009:

		% volume sold	
Product	**Volume**	**Domestically**	**Internationally**
	(tonnes)		
Gasoline	1,351.0	35%	65%
Diesel fuel	1,552.0	67%	33%
Jet fuel	106.0	100%	–
LPG	198.4	92%	8%
Other products[1]	1,036.6	99%	1%
Total produced	**4,244**	**78.6%**	**21.4%**

Note:
(1) Other products include naphtha gasoline 132.7 kt, fuel oil 65.7 kt, coke 263.2 kt, petroleum sulphur 37.3 kt, fuel gases 96.7 kt, other 49.5 kt.

Natural Gas Sales and Distribution

The Company sells and markets its natural gas through JSC KazTransGas Almaty ("**KTGA**"), previously known as JSC KazTransGas Distribution, a wholly-owned subsidiary of KTG, and KazRosGas, one of the Company's joint ventures.

KTGA

KTGA was established on 15 April 2002 to assume all responsibilities for managing the domestic distribution of natural gas within the Company. KTGA is engaged principally in the transportation of gas through domestic distribution pipeline networks, operation of gas distribution units and pipelines and marketing, purchase and wholesale trading of natural gas in the domestic market. KTGA utilises its own pipeline network.

KazRosGas

KazRosGas was established on the basis of the treaty between the respective governments of Kazakhstan and Russia "On Cooperation in Gas Sector" dated 28 November 2001. KazRosGas is 50 per cent. owned by the Company (representing Kazakhstan) and 50 per cent. owned by OJSC Gazprom (representing Russia).

KazRosGas is engaged in the purchase and marketing of gas from the Karachaganak Field in Western Kazakhstan and the Tengiz Field in the Atyrau oblast. Gas from these fields is transported mainly to the Russian border and further through OJSC Gazprom's transportation system to the CIS and other foreign markets.

The following table sets forth the sources of KazRosGas's gas supply as at the dates indicated:

	As at 31 December	
	2009	2008
	(mcm)	
Karachaganak (dry gas)[1]	7,150	6,816
TCO	779	–
Tolkynneftegas LLP	–	–
Total	**7,929**	**6,816**

Note:
(1) Dry gas is natural gas that does not contain dissolved liquid hydrocarbons.

The following table sets forth the gas distribution destinations of KazRosGas as at the dates indicated:

	As at 31 December	
	2009	2008
	(mcm)	
Export	6,572	6,338
of which swap operations	3,038	4,049
Domestic market	1,357	578
Total	**7,929**	**6,916**

Petrochemicals

On 26 February 2009, the Company acquired a 50 per cent. interest in KPI for an aggregate cash consideration of KZT 4.8 billion. KPI owns two petrochemical plants in Kazakhstan: the Atyrau plant, which is currently not operational, and the Aktau plant, which produces a small amount of petrochemicals.

KPI's principal activity is the implementation of the Program on Development of Petrochemical Industry of the Republic of Kazakhstan for 2004-2010, as approved by Decree No. 101 as at 29 January 2004 of the Government, in particular with respect to the establishment in Atyrau of the first integrated gas-chemicals complex.

Royalty Collection

From 2006 until 2009, royalty was levied on production companies (including the subsidiaries, joint ventures and associates of the Company and third parties) in the form of physical deliveries of oil at differing rates for various oil fields and production rates and were payable quarterly. Upon receipt of the royalty oil volumes, KMG Trade House made cash payments to the Government and then sold the royalty oil volumes to third parties. On 1 January 2009, the Government cancelled the royalty regime for all producers (except TCO, which continues to pay royalty to the Government) and, accordingly, KMG Trade House therefore no longer collects royalty from third parties as the Government's authorised agent. TCO continues to pay royalty directly to the Government pursuant to an ongoing contract. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Results of Operations—Revenue—Other Revenue*".

In 2008, KMG Trade House received 2.4 million tonnes of crude oil as in-kind royalty payments. KMG Trade House received no in-kind royalty payments in 2009.

Competition

Exploration and Production

Kazakhstan's oil and gas sector has been an attractive investment opportunity for leading Western, Asian and Russian oil and gas companies. Since Kazakhstan's independence in 1991, major Western oil companies have invested in the oil and gas sector of Kazakhstan, including:

- investments by Chevron in the Tengiz Field and the Karachaganak Field;

- investments by BG Group, ENI, Chevron and LUKOIL in the Karachaganak Field;
- investments by Shell, Total and ConocoPhillips in the Kashagan Field;
- investments by ExxonMobil in the Tengiz Field and the Kashagan Field; and
- investments by Eni AGIP in the Kashagan Field and the Karachaganak Field.

In recent years, China has enhanced its presence in Kazakhstan's oil and gas industry by entering into several significant joint ventures with the Company. These joint ventures and associates include, among others: (i) PKI, an oil producer which is majority owned by CNPC; (ii) CCEL, a joint venture with CITIC; (iii) KPC, a joint venture with CNOOC formed to construct and operate the KC Pipeline; (iv) AGP, a joint venture between KTG and CNPC to construct and operate the Asia Gas Pipeline; (v) MunayTas, which operates the Kenkiyak-Atyrau pipeline, and in which CNPC E&D owns a 49 per cent. interest; and (vi) MMG, an oil producer which is equally owned by CNPC E&D and the Company.

Other investments by Asian oil and gas companies include investments by Inpex, Sinopec and the Korean National Oil Consortium ("**KNOC**"). LUKOIL and Rosneft have led the investment of Russian oil and gas companies in Kazakhstan with a focus on the Caspian Sea. The last few years have also seen renewed interest, particularly in Western Kazakhstan, from numerous smaller companies that have been attracted by development opportunities and the region's existing infrastructure. Examples of companies in this peer group include, among others, Arawak Energy Limited, BMB Munai Inc., CanArgo Energy Corporation, Caspian Holdings PLC and Victoria Oil & Gas PLC.

The Company does not foresee competition for reserves from regional and international oil and gas companies since the Company is the beneficiary of the Government's pre-emptive right to acquire interests in Subsoil Use Agreements.

Transportation

Kazakhstan occupies a favourable geographical position as a transit country between major gas producers in Turkmenistan, Uzbekistan and Russia and large gas consumption centres in eastern and western Europe. ICA is the monopoly operator of the gas transportation system in Kazakhstan and, accordingly, does not face competition for this international transit business or for domestic gas transportation. ICA may, however, face some competition from outside Kazakhstan in the future. Potential future competitors are the By-Caspian gas pipeline and Nabucco gas pipelines; however, the gas sources for these pipes have not yet been determined and their futures therefore remain uncertain.

In accordance with information published on the website of the EIA (http://www.eia.doe.gov), as at February 2009, the Iranian government has 26,844 bcm in proven natural gas reserves, which are reported to be the world's second largest natural gas reserves, surpassed only by the Russian natural gas reserves. Two-thirds of Iran's natural gas reserves are located in undeveloped non-associated fields, the most significant of which is south Pars, which has reserves of 12,743 bcm and accounts for 47 per cent. of Iran's total natural gas reserves; the other significant fields include north Pars, Kangan-Nar and Khangiran. Accordingly, Iran appears to have the potential for significant natural gas production.

A pipeline has been constructed to export natural gas from Iran to Turkey. While this pipeline handles relatively small volumes of natural gas, Iran is also considering developing further transportation systems to transport natural gas to Ukraine, Europe, India, Pakistan, Armenia, Azerbaijan, Georgia, Taiwan, South Korea and coastal China. Exports could be transported through pipelines or by tankers. Iran's development of these types of export capabilities could pose a competitive threat to ICA; however, the sanctions imposed by the European Union, the United Nations and the United States against Iran may hinder any such development of trade with Iran, at least in the near term.

Iran imports some natural gas from Turkmenistan for use in parts of northern Iran, which are located far from the Iran's main natural gas reserves in the south. In December 1997, Turkmenistan launched the U.S.$190 million Korpezhe Kurt Kui pipeline to Iran, the first natural gas export pipeline in Central Asia to bypass Kazakhstan. According to the terms of a 25-year contract between Turkmenistan and Iran, Iran may import natural gas from Turkmenistan. The Company's management believes, however, that, given the availability of Iran's own significant natural gas reserves, the volume of Turkmen natural gas imported by Iran will not affect the development of additional quantities to be shipped thorough the CAC Pipeline.

In December 2001, Armenia entered into an agreement with Turkmenistan, pursuant to which Turkmenistan will supply up to 2 bcm per year of natural gas to Armenia and, in May 2004, Armenia entered into a separate agreement with Iran, pursuant to which Iran will supply up to 36.4 bcm of natural gas to Armenia over 20 years starting in 2007. Although the supply of natural gas under both of these agreements will bypass the natural gas transportation system operated by ICA, the supply arrangements are, in each case, contingent on the construction of new pipelines, which has not yet begun.

While, in accordance with information available on Gazprom's website (http://www.gazprom.com), as at the date of this Base Prospectus, Gazprom has indicated that its purchases of natural gas from Turkmenistan are expected to constitute a significant proportion of Gazprom's total sales volumes in the coming years, these purchases are expected to decline in importance in the event that Gazprom brings new production fields on stream as planned and particularly in the event that Gazprom brings the fields in the Yamal Peninsula onstream as planned after 2010. In addition, in accordance with information published on the website of the EIA in the long-term, Turkmenistan is considering construction of a pipeline to deliver Turkmenistan natural gas to Europe, which will bypass a section of the CAC pipeline operated by ICA.

While the Company's management believes that the likelihood of ICA becoming subject to significant competition remains remote, at least in the near to medium term, any of the above described developments, if implemented, could result in increased competition for ICA.

Refining, Marketing and Trading

Following its purchase in August 2009 of MMG's controlling interest in the Pavlodar Refinery, which is the largest and most technically-advanced refinery in Kazakhstan and services north Kazakhstan and the adjacent regions in Russia, the Company now has a significant or controlling interest in all three of Kazakhstan's principal oil refineries. In addition to its interests in the Pavlodar Refinery, the Company holds 49.72 per cent. of the Shymkent Refinery, servicing the Southern Kazakhstan market, and 99.17 per cent. of the Atyrau Refinery, servicing the Western Kazakhstan market. Because of the location of these three refineries, the Company is able to supply the local market and export to Europe.

In addition, through its ownership of KMG Trade House, which, in turn, owns Rompetrol, the Company indirectly owns 100 per cent. of the Petromedia Refinery in Romania.

The Company's management believes it has improved its competitive position with its acquisitions of the Petromidia Refinery and the Pavlodar Refinery.

As at 31 December 2009, KMG Trade House was the second largest company in Kazakhstan in terms of retail sale of refined (oil) products having a 21 per cent. market share. Its main competitor, Helios, is the largest retail fuel operator with a 33 per cent. market share as at 31 December 2009. In connection with the Company's purchase of the Pavlodar Refinery, the Company is also considering the purchase of the Helios filling station retail network. Negotiations between the Company and the current shareholders of Helios are continuing. Pending completion of the potential acquisition, the Company has agreed to refine all of Helios' crude oil requirements at the Pavlodar Refinery under a tolling agreement at fixed prices for up to two years. Helios is one of the largest filling stations networks in Kazakhstan.

The following table sets forth certain information relating to the ten leading oil product retailers operating in Kazakhstan as at 31 December 2009:

	For the year ended 31 December 2009	
	Number of Gasoline Stations	**Market Share**
Helios	242	33%
KMG Trade House	235	21%
Sinoil	75	15%
Naroil	75	7%
Bakhyt Munay	72	5%
Ivolga Holding	45	3%
Aurika	33	3%
Esil	26	2%
Deibarr Oil	25	2%
Octan Plus	24	2%

Employees

The following table sets forth the approximate number of employees of the Company, by type of business, as at the dates indicated:

	As at 31 December	
	2009	2008
Operation, Exploration and Production	18,084	18,465
Other (subsidiaries)	21,694	18,688
Refining	9,500	13,000
The Company (as a holding company)	447	467
Distribution and sales	5,739	14,210
Total	**55,464**	**64,830**

On 1 March 2010, workers of KMG EP at the "Ozenmunaygaz" production unit began a strike that ended on 19 March 2010. Although a court declared the strike illegal, a reconciliation committee was established to review, consider and forward the demands of the workers. The overall loss of production at "Ozenmunaygaz" as a result of the strike is estimated at 27,600 tonnes of crude oil.

The Company's trade union was established in September 2007. As at 31 December 2009, it had 44 members. The following subsidiaries of the Company have employees that are members of a trade union: KMG EP (14,084 members), KazMunayTeniz (114 members), KTG (15 members) and ICA (5,446 members). The Company is contemplating creating an Association of Trade Unions of the Company and its principal subsidiaries.

Except for the aforementioned strike at "Ozenmunaygaz" there have not been any material labour disputes or strikes at any of the principal oil production, transportation, refining or distribution owned or operated by the Company or its subsidiaries, joint ventures or associates and no material wage arrears are currently known to exist. Overall, the Company considers employee relations to be good.

Litigation

As at the date of this Base Prospectus, except as discussed below, the Company is not a party to any material litigation. The Company is not, and has not been, involved in any governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which the Company is aware, during the last 12 months preceding the date of this Base Prospectus that may have, or have had, during that time a significant effect on the financial position or profitability of the Company.

Storage of Sulphur Claims

In June 2007 and March 2008, the Atyrau Department of Environmental Protection initiated separate proceedings against TCO in connection with an alleged environmental violation due to the improper storing of sulphur in the Tengiz Field. As a result of these proceedings, penalties were assessed against TCO in the amount of U.S.$307 million in respect of the 2007 proceedings and the amount of U.S.$307 million in respect of the 2008 proceedings. In November 2007, TCO paid the U.S.$307 million 2007 assessment under protest and pursued the appeal process available to it. TCO did not pay the 2008 assessment, but entered into negotiations with the Government to have the penalty withdrawn.

In May 2009, the Government and TCO entered into a memorandum of understanding pursuant to which: (i) the proceedings relating to both the 2007 and 2008 assessments will be cancelled (upon issuance of a formal resolution by the Government, which is expected before the end of April 2010); (ii) TCO will be reimbursed the full amount of the U.S.$307 million administrative penalty paid by it in respect of the 2007 proceedings, through an off-set against TCO's royalty obligations, and the U.S.$307 million administrative penalty in respect of the 2008 proceedings will be cancelled; and (iii) TCO will build appropriate sulphur storage facilities and undertake certain other social programmes.

Separately, in November 2008, TCO received a notification from Atyrau Tax Department alleging that TCO underreported sulphur volumes for the years 2004 to 2006. This notification requested the filing of amended returns for those years using the cumulative volume basis. TCO appealed the notification in December 2008.

Rompetrol Proceedings

Criminal proceedings before a court of law were initiated by the Department of Investigation of Organised Crime and Terrorism on 7 September 2006 against the then chairman of the board and CEO and former minority shareholder of Rompetrol, Mr. Dinu Patriciu, as well as Mr. Alexandru Bucsa and ten others, all of whom are, or were at the relevant time, officials in Romanian state agencies, licensed securities brokers or traders or businessmen. The proceedings before

the court involve a number of allegations, including embezzlement, money laundering, insider trading and manipulation of capital markets. A number of other allegations remain subject to formal criminal investigation.

In accordance with a judicial order dated 26 March 2007, the Romanian Ministry of Public Finance intervened as a civil party in the trial and Rompetrol was introduced in the criminal proceedings as a party with potential civil, but not criminal liability, which means that should the prosecutors be successful in pressing charges against the criminal defendants, Rompetrol may be found jointly and severally liable together with the criminal defendants to compensate the financial loss incurred by the Romanian State budget. Although Mr. Patriciu resigned as CEO of Rompetrol in June 2009 and as a member of Rompetrol's management board in February 2010, Rompetrol has not been dismissed as a party in the proceedings. The Company estimates that Rompetrol is exposed to potential monetary damages amounting to U.S.$88 million, excluding interest and penalties.

As at the date of this Base Prospectus, the presiding court has not issued a ruling in the court case, and both the court case and the investigation are expected to proceed slowly.

Karachaganak Arbitration

On 13 July 2009, the Company received notice regarding the initiation of arbitration proceedings related to the indirect expropriation of investments from certain Karachaganak partners. The plaintiffs are claiming U.S.$1.43 billion, which is subject to increase. A counterclaim has been filed in respect of mismanagement, construction deficiencies and other technical problems in an amount of U.S.$1.8 billion. Currently, the parties are negotiating a settlement. On 13 July 2009, the Company and a co-respondent received notice regarding the initiation of arbitration proceedings related to the indirect expropriation of investments from certain Karachaganak partners. The claimants are seeking U.S.$1.43 billion in damages, subject to increase. A counterclaim has been filed by the Company and its co-respondent against the claimants in respect of mismanagement, construction deficiencies and other technical problems relating to the project. Pursuant to this counterclaim, the Company is seeking damages in the amount of U.S.$1.8 billion, also subject to increase.

The Company's management believes that, in light of the express acknowledgements by the claimants of the absence of a causal link between any actions of the Company and the damages incurred by the claimants and the fact that the Company acts solely as an agent of the State in connection with the Karaghaganak Field, the risk that the Company will be ultimately liable for these claims, even if the plaintiffs are successful, is remote.

The parties are currently negotiating a settlement.

Turgai Petroleum/Lukoil Arbitration

On 28 October 2009, the Arbitration Institute of Stockholm Chamber of Commerce rendered an arbitration award in relation to the alleged pre-emption right of Lukoil Overseas Kumkol B.V. ("**Lukoil**") over PKI's 50 per cent. stake in JSC Turgai Petroleum ("**TP**"). Pursuant to the award, an order was made for PKI to assign all of its shares in TP to Lukoil in return for net consideration in the amount of U.S.$800 million and to pay U.S.$488 million in damages on account of paid-out dividends plus interest at a rate 4.42 per cent. annually from October 2008. As of February 2010, the Company had received no notice in respect of any proceedings to enforce the award or effect a settlement or requesting the execution of any share transfer agreement.

Customs Duty Claims Against KMG EP

On 18 August 2009, the customs committee of the Republic of Kazakhstan filed a claim against KMG EP for underpaid export customs duties (including principal of KZT 15.3 billion and late payment interest of KZT 2.3 billion). This claim relates to export shipments of crude oil in January 2009 on which export rental tax was fully paid under applicable Kazakhstan laws. On 9 March 2010 the court of the city of Astana ruled in favour of the customs committee and ordered KMG EP to pay the abovementioned amounts. KMG EP is now in the process of appealing to the Supreme Court.

KMG Trade House

As a result of a tax inspection carried out in 2008 for the activities of KMG Trade House during the period 2003-2005, the tax authorities imposed tax liability and late payment interest, in an aggregate amount of KZT 84 billion on KMG Trade House. KMG Trade House has been advised that a KZT 21 billion administrative penalty may also be imposed. KMG Trade House has appealed the results of the tax audit to the higher tax authorities, which have issued a ruling to conduct an additional tax inspection. No further action has been taken by the tax authorities to collect the aforementioned amounts. Management of KMG Trade House believes that the tax liability and late payment interest were imposed as a result of an incorrect interpretation of laws then in force. Management is confident of its position and believes that it is highly unlikely that there will be material outflow of the Company's resources as a result of this inspection.

Insurance

The Company implemented in 2001 and modified in 2007 a unified corporate insurance programme (the "**Insurance Programme**"). The terms of the Insurance Programme are similar to those that are generally accepted in the oil and gas industry and are tailored to address the specific activities of the Company. The Insurance Programme mandates environmental insurance, employer's liability insurance, hazardous object insurance and directors' and officers' liability insurance and also covers property. However, the Insurance Programme does not mandate and the Company does not carry insurance for environmental damage caused by the Company's subsidiaries operations, sabotage or terrorist attacks. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions*".

As at 31 December 2009, KMG EP, KTO, ICA and KMG Trade House, and its subsidiaries, including the Atyrau Refinery, the Pavlodar Refinery, the Shymkent Refinery and KazMunayTeniz, participated in the Insurance Programme. The Company's captive insurance company, Kazakhstan Energy Reinsurance Company Ltd ("**KERC**"), is responsible for the implementation of the Insurance Programme as well as addressing other insurance needs of the Company. KERC prepares reports on the implementation of the Insurance Programme for supervisory authorities in Kazakhstan and the Company and monitors the reinsurance agreements it enters into.

In addition, to the Insurance Programme, the Company also maintains liability insurance to cover certain assets with respect to fire, lightning, explosion and earthquake and medical insurance for its employees with JSC Kazakhinstrakh insurance company.

Information Technology

The IT management of the Company is undertaken by the IT department, which performs the following functions: development and implementation of the IT programme, development of technical requirements for IT projects, control of implementation and use of information systems and maintenance of uninterrupted performance of the information and telecommunication infrastructure of the Company. As part of the Company's corporate reorganisation, the Company is in the process of integrating the IT systems of all of the Company's subsidiaries into one centralised IT framework, which will service the entire Company. The Company expects that the integration should be finally completed in two and three years. The Company has budgeted KZT 750 million for maintaining and further upgrading its information and technology systems in 2010.

The Company is planning to create a disaster recovery centre in 2010 or 2011; it does not currently have a separate disaster recovery centre or an off-site server located outside of the Company's main administrative premises.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

The operations of the Company are subject to environmental, health and safety legislation, laws and other requirements of Kazakhstan applicable to oil and gas companies ("**Environmental Legislation**"). The Subsoil Use Agreements made by the Company requires that its subsoil operations be carried out in conformity with Environmental Legislation. See "*Business—Exploration and Production—Subsoil Use Agreements*".

Under Articles 68 and 69 of the Ecological Code of the Republic of Kazakhstan, the Company is also obliged to apply for an ecological permit, which sets out certain levels of permitted ecological contamination. The Company is subject to limitations as to air emissions, water use and disposal, waste management, impacts on wildlife as well as land use and reclamation.

State authorities conduct inspections on a regular basis. With respect to any findings resulting from such inspections, the Company is required to remedy violations of Kazakhstan's environmental laws.

The Company has conducted scientific and technological studies to create base standards and implement new engineering mechanisms in its upstream operations that are designed to minimise environmental, health and safety hazards. The Company utilises systems based upon the best practices of environmental protection and certified under the requirements of environmental international standards ("**ISO 14001**") and the industrial safety and labour protection ("**OHSAS 18001**"). The Company is in the process of obtaining ISO 14001 and OHSAS 18001 certifications for its industrial and ecological safety systems. An independent ecological audit of the Company in 2006 found that its industrial and ecological safety systems conformed to the requirements of ISO 14001.

Environmental Capital Expenditures

The Company has begun a stage by stage implementation of a comprehensive ecological compliance programme based on Environmental Legislation and approved by the Management Board of the Company on 7 November 2006 ("**Ecological Programme**"). The Management believes the Ecological Programme will be implemented by 2015. Its objectives include the following:

- assure emissions levels are at or below the permitted levels established by Kazakhstan's environmental laws;
- reduced water contamination;
- assure the volume of contaminated substances in sewage waters at or below the permitted levels;
- dispose of industrial waste as permitted by Environmental Legislation;
- remediation or recultivation of areas impacted by hydrocarbons contamination and well abandonment;
- mitigate oil storage pits; and
- prevent and respond to oil and oil products spillages.

The table set forth below represents the annual expenditures of the material subsidiaries, joint ventures and associates of the Company for environmental purposes and improvement for the years indicated:

	As at 31 December	
	2009	**2008**
	(KZT millions)	
KMG EP	4,883	4,914
TCO	27,000	32,284
KazMunayTeniz	704.8	564.0
PKI	5,757	5,905

Environmental Impact From Operations

The Company's material environmental liability arises from the requirement to remediate historically contaminated land. This accounts for the total liability in the amount of KZT 561 million.

Air Emissions

The Company, including KMP EP and TCO, are required under Environmental Legislation law to submit to the MEP an application for an ecological permit that certifies the right to emit regulated substances into the environment up to certain permitted levels based on a specific fee. Such permit specifies maximum levels of air emissions, waste water disposal and municipal and industrial waste permitted to be discharged or disposed of by a Company. In the event that the established limits of discharged contaminants and disposed waste exceed permitted levels, penalties for such environmental contamination are assessed. Total fees paid by the Company, including penalties, were KZT 738 million in 2009 and KZT 2,746 million in 2008. Penalty and emission fee rates have been increased in the past, and the Company expects that increases will continue in the future.

The flaring of gas refers to the burning of gas as a means of disposal. The flaring of associated and natural gas is prohibited, except for emergency situations and where there is a threat to human life or the environment. Despite the prohibition on flaring, the MEP has suspended future sanctions for gas flaring violations by companies in Kazakhstan that developed programmes to reduce and eliminate their volumes of gas flaring by 1 July 2006. As at the date of this Base Prospectus the sanctions are still suspended and the following members of the Company have programmes for reduction and elimination of the volumes of gas flaring in place: KMG EP, TCO, PKI, Kazgermunai, Kazkakhturkmunai and Kazakhoil Aktobe.

Municipal and Industrial Wastewater Treatment and Disposal

Municipal wastewater is handled in accordance with accepted international practices utilising basic treatment and discharge to different unlined evaporation ponds. Industrial wastewaters are discharged only to a lined evaporation pond or injected into a wastewater disposal well. Preliminary wastewater injection permission has been received from most Kazakhstan government agencies. Further, after receiving final approval from the MEP, certain entities of the Company, such as TCO, started to include wastewater injection in environmental use permits.

Municipal and Industrial Solid Waste Management

A number of the Company's subsidiaries, joint ventures and associates, such as KMG EP, have significant quantities of contaminated soils currently stored in various areas. There are also a number of pits and storage areas that have yet to receive environmental permits remaining from periods before current Environmental Legislation took effect. As a result of KMG EP's ongoing efforts, the number of pits and storage areas has decreased from 164 in 1997 to two in 2008.

Sulphur Storage

TCO's fields contain high amounts of hydrogen sulphide. The production of oil and gas with high hydrogen sulphide content requires additional processing to convert the hydrogen sulphide into elemental sulphur, a useful product. Elemental sulphur is stored in block form until it can be sent to market. TCO estimates that 6.9 million tonnes of elemental sulphur was stored in block form as at 31 December 2009. TCO strives to store block sulphur according to internationally accepted practices and has included the storage of sulphur in its environmental use permits and pays fees accordingly. The potential environmental and health impacts from open storage of sulphur has been studied by various institutes selected by an interdepartmental coordination council made up of the MEP, MEMR and Ministries of Health and Emergency Situations. The results of this study were presented in a public hearing in Atyrau and have been expertised by the MEP. The conclusions of this study confirmed that the impact from open storage of sulphur beyond the immediate area of the blocks is insignificant. In 2008, TCO began selling sulphur to third parties in order to decrease the amount of sulphur that it is required to store and thereby reduce the risk of incurring fines connected to sulphur storage in the future. In 2009, TCO sold 2.2 million tonnes of sulphur to third parties and expects to sell 2.6 million tonnes in 2010.

Land Use and Reclamation, Including Oil Storage Pits and Oil Lakes

Crude oil contaminated earth is carried to sludge collectors that have a waste water drain system, fencing and waterproof membrane. Crude oil contaminated earth itself is treated with the Company's special equipment as well as the advanced equipment of third party contractors. Additional projects have been launched to rehabilitate the dams at a number of operations and develop a programme for removing oil storage pits and oil contaminated areas, including by means of various biological treatment methods.

In some instances, the MEP has agreed not to sanction KMG EP with respect to contamination occurring prior to KMG EP's incorporation in March 2004.

Under the oil production technology prevailing during the time of the Soviet Union, open reservoirs were formed in natural ground folds or specifically designed on the land surface to store accumulations of water oil fractions for

emergency purposes or for the disposal of oil and water oil mixtures. The Company no longer use open reservoirs for these purposes and are in the process of gradually remediating in them with the assistance of external contractors.

The most significant open reservoirs are (i) KMG EP's water oil lake at the Uzen depression (the "**Uzen Lake**") and technological oil pit at the Central Oil Transfer Station (the "**COTS Pit**"). In November 2003, the MEP approved, KMG EP's utilisation plan for cleaning the Uzen Lake (ii) the COTS Pit. The Company's subsidiaries, joint ventures and associates spent an aggregate of KZT 8,320 million in 2009 in relation to the above-mentioned utilisation plan and other similar plans.

Oil and Chemical Spills

Equipment reliability procedures are in place with the Company's subsidiaries, joint ventures and associates, which are intended to evaluate and correct deficiencies and prevent oil and chemical spills. As a result, spill volumes relating to operations, on a per tonne of production basis, have steadily declined. At the same time, as a precaution, the Company's subsidiaries, joint ventures and associates have prepared emergency response plans and routinely conduct drills and training of key response personnel.

MANAGEMENT

Governance Bodies

The Company's management structure consists of its sole shareholder, Samruk-Kazyna, its Board of Directors, its Management Board and its President, the last two of which are responsible for the day to day management of the Company.

Sole Shareholder

The sole shareholder performs the functions of the general shareholders' meeting as set forth in the Kazakhstan Law on Joint Stock Companies date No. 415-II 13 May 2003, as amended from time to time ("**JSC Law**") the Kazakhstan Law on the Natural Welfare Fund No. 134-IV dated 13 February 2009, the Company's charter and the presidential edicts and decrees of the Government on the establishment of Samruk-Kazyna and its role and functions in Kazakhstan's economy. See "*Share Capital, Sole Shareholder and Related Party Transactions—Samruk-Kazyna*".

Such functions include, among others, the following:

- approving the Company's five year strategic development plans;
- appointing the Company's auditors;
- approving any increase in the Company's share capital;
- appointing the members of the Board of Directors;
- approving the Company's annual financial statements;
- appointing the President (Chairman of the Management Board);
- approving payment of dividends by the Company; and
- approving purchases by the Company of shares in other legal entities (whether at such entities' establishment or otherwise) and participation by the Company in joint ventures where the amount of consideration paid by the Company in cash or in-kind for such acquisition or participation exceeds 25 per cent. of the balance sheet value of the Company's assets.

Board of Directors

The Board of Directors is responsible for the general management of the Company's activities, directs the Company's strategy and policy and has authority to make decisions on all aspects of the Company's activities, except those matters expressly reserved to the sole shareholder pursuant to the JSC Law and the Company's charter (as outlined above). In particular, the powers of the Board of Directors include, among others, the following:

- setting the Company's objectives and preparing five year strategic development plans;
- setting the risk management and accounting policies of the Company;
- appointing the members of the Management Board;
- approving transactions related to the incurrence of liabilities by the Company in amounts exceeding 10 per cent. of the Company's equity and major transactions related to, *inter alia*, subject to Shareholder approval, acquisition, disposal or possibility of disposal by the Company of assets the value of which exceeds 25 per cent. of the balance sheet value of the Company's assets;
- approving interested party transactions by independent directors;
- approving purchases by the Company of 10 per cent. or more of the shares in other legal entities;

- approving the Company's budget; and
- appointing the Company's independent share registrar.

Members of the Board of Directors are appointed by a resolution of the sole shareholder for a term of five years, subject to re-election for a total of up to three terms. As at the date of this Base Prospectus, the Board of Directors consists of six members, two of whom, Messrs. Lane and Kuijlaars, are considered to be independent directors.

As at the date of this Base Prospectus, the Company's Board of Directors consists of the following members:

Name	Age	First Appointed	Term expires	Current Position
Timur Kulibayev	42	2009	2011	Chairman of the Board of Directors of the Company, Deputy Chairman of the Management Board of Samruk-Kazyna
Bolat Akchulakov	38	2006	2011	Member of the Board of Directors of the Company, Managing Director of Samruk-Kazyna
Peter Lane	63	2008	2011	Member of the Board of Directors of the Company, Independent Director, Executive Chairman of the Management Board of Campi & Co. Ltd
Frank Kuijlaars	51	2006	2011	Member of the Board of Directors of the Company, Independent Director, Former Executive Vice President, Managing Director for Energy and Resources of ABN AMRO N.V.
Kairgeldy Kabyldin	56	2008	2011	Chairman of the Management Board of the Company

Timur Kulibayev. Mr. Kulibayev was born on 10 September 1966 and graduated from Moscow State University named after M.V. Lomonosov. He has a Ph.D. in Economics. He started his career in 1988 and until 1992 his professional activity was connected with academic research. He worked as an economist, a junior researcher at the Research Institute of Economic Planning and Standards under the State Planning Committee of the Kazakh Soviet Socialist Republic, and a director of the Research and Consultative Center under the Fund for Cultural, Social and Technological Development in Kazakhstan. Since 1992, he has been in charge of several businesses. In 1997, Mr. Kulibayev was appointed director of the Directorate for Project Assessment and Negotiating under the Investment Committee of Kazakhstan. From May 1997 until March 1999, he was the Vice-President on Economy and Finance of CJSC National Oil and Gas Company "KazakhOil". Since March 1999, he has served as President of CJSC National Company for Oil Transportation "KazTransOil". From May 2001 until February 2002, he served as General Director of CJSC National Company "Oil and Gas Transportation". From February 2002 until October 2005 he was the First Vice-President of JSC NC "KazMunayGas", a merger of CJSC NC "KazakhOil" and CJSC NC "Oil and Gas Transportation". In October 2005, Mr. Kulibayev was appointed to the position of Adviser to the President of the Republic of Kazakhstan. From April 2006 until August 2007 he was the Vice-Chairman of the Management Board of JSC "Kazakhstan Holding Company for State Assets Management Samruk". On October 17, 2008, he was appointed Vice-Chairman of the Management Board of JSC "Fund of National Welfare 'Samruk-Kazyna'. From 2005 he has been heading the Association "KazEnergy", which unites enterprises of the petroleum and energy sectors present in the Republic of Kazakhstan. He was also awarded with the Kurmet order of the Republic of Kazakhstan (2001), the jubilee medal "The 10th Anniversary of Kazakhstan Constitution" (RoK, 2005), the Druzhba order of the Russian Federation (RF, 2007) and the medal "The 10th Anniversary of Astana" (RoK, 2008). He was appointed Chairman of the Management Board of the Company in May 2009.

Bolat Akchulakov. Mr. Akchulakov was born in 1971 and graduated from Kazakh State Management Academy in 1993. Mr. Akchulakov started his career in 1994 as an economist for Alem Bank Kazakhstan and as a department director for the Central Asian Bank for Cooperation and Development. In 1997, he worked as a senior expert for the Asset Management Department and then as a Manager and Deputy Director for the Asset Management Department of TCO. In 2001, he joined Commonwealth & British Services Ltd. as a business analyst and as a finance director. Since 2003, Mr. Akchulakov has been the Executive Director of the Company. In February 2006, he became the Vice Minister of the MEMR. In 2008, he became the Managing Director of Samruk-Kazyna.

Peter Lane. Mr. Lane was born in 1946 and graduated from the London School of Economics in 1968 with a Bachelor's degree and from Essex University in 1970 with a Master's degree, each in economics. He began his career in 1972 as an advisor on the economy in the Industry and Trade Sectors of Her Majesty's Treasury of the United Kingdom. From 1978 to 1980, he served as an advisor on the economy and as an investment manager (representing Her Majesty's Treasury of the United Kingdom) at the National Department of Entrepreneurship. From 1980 to 1985, he worked as Manager for

crude oil trading at Shell International Trading Company and later at Shell UK Oil. From 1985 to 1987, Mr. Lane served as Head of the Marketing and Distribution Department of Shell UK Oil. From 1987 to 1991, he worked as the General Director of Royal Dutch Shell East Caribbean Group. From 1991 to 1993, he worked as Commercial Marketing Director of Shell UK Oil and Director for Brand Development of Shell International Petroleum Company. Between 1994 and 1998, Mr. Lane worked as Marketing and PR Director of Lloyds of London and later as General Director for Anti-Crisis Regulation of Lloyds North America. Between 1999 and 2002, he worked as the Chairman of the Board of Directors and General Director of A1 Holdings Inc. In 2004, Mr. Lane founded Exchange Insurance Company Inc. where he served until 2007 as General Director. In 2002, Mr. Lane became Executive Chairman of the Management Board of Campi & Co Ltd., in which position he serves to current date. He was appointed at his current position with the Company in June 2008.

Frank Kuijlaars. Mr. Kuijlaars was born in 1958 and holds a Master's degree in law and post university studies at the Dutch Institute for Bank and Insurance Companies and Cambridge University. Mr. Kuijlaars started his career with ABN AMRO in 1984. In 1990, he served as the Head of the Corporate and Investment Banking Services Department in Belgium. In 1994, he worked as a regional manager in São Paulo, Brazil. From 1995 to 1999, he worked as a country manager for Russia and Argentina. In 2001, Mr. Kuijlaars served as a member of ABN AMRO's respective supervisory boards in Russia, Kazakhstan and Uzbekistan. From 2000 till 2003, he led ABN AMRO's Integrated Energy team in Central and Eastern Europe, Middle East and Africa. In 2003, he was appointed Global Head of Oil & Gas, a position which later expanded to include the chemicals sector. In 2004, he became the Head of the Global Industries Team of ABN AMRO supervising the oil and gas divisions of ABN AMRO worldwide. In 2006, he was appointed to the Board of Directors of KazMunayGas. Mr. Kuijlaars holds several Board memberships in companies operating in emerging markets. He is also a member of the Industry Advisory Panel of the European Energy Charter.

Kairgeldy Kabyldin. Mr. Kabyldin was born in 1953 and graduated from Kazakh Polytechnical Institute in 1975. Mr. Kabyldin started his career in 1977 as a field engineer with the Ministry of Oil and Gas Industry of the USSR. From 1989 to 1991, he held a number of positions at Mainline Oil Pipelines of Kazakhstan and Central Asia, most recently as the Deputy General Director. From 1993 to 1994, he worked as the Head of the Transport Development Department of the MEMR. From 1994 to 1997, Mr. Kabyldin worked as the Head of the Production Infrastructure Development Department at the Ministry of Oil and Gas Industry of the Republic of Kazakhstan. In 1997, he became the Vice President for Strategic Development of KTO. From 2001 to 2002, Mr. Kabyldin worked as the First Vice President of CJSC "National Company Oil and Gas Transport". Since 2003, he has been the Managing Director for the Transportation of Oil and Gas Department of the Company. In September 2007 he was appointed Deputy Chairman of the Management Board of Samruk and the Chairman of the Board of Directors of the Company.

The Company's Board of Directors includes the Audit Committee and the Remuneration Committee.

Audit Committee

The Audit Committee is an advisory body of the Board of Directors that makes recommendations to the Board of Directors on the efficiency of the internal control and risk management systems of the Company, its corporate governance and compliance with applicable auditing requirements under Kazakhstan law (including recommendations on the appointment of external auditors). The Audit Committee consists of three members, of which at least two members should be independent directors.

As at the date of this Base Prospectus, the Audit Committee consists of the following members:

Name	Position
Frank Kuijlaars	Chairman of the Audit Committee, Independent Director of the Company
Peter Lane	Deputy Chairman of the Management Board of Samruk-Kazyna
Kaldibay Tulekeshev	Deputy Director of the Group for Management of Oil and Gas Assets of Samruk-Kazyna

Remuneration Committee

The Remuneration Committee is an advisory body of the Board of Directors that makes recommendations to the Board of Directors on policy and the structure of remuneration of the top management of the Company and provides recommendations on the level of remuneration of the top management of the Company on an annual basis. The Remuneration Committee also reviews the remuneration of the members of the Boards of Directors and the Management Boards of the subsidiaries, joint ventures and associates of the Company and provides its recommendations thereon. The Remuneration Committee consists of three members, of which at least two members are independent directors. As at the date of this Base Prospectus, the members of the Remuneration Committee are Timur Kulibayev, the Chairman of the Board of Directors of the Company, and Peter Lane and Frank Kuijlaars, Independent Directors of the Company.

The business address of each of the members of the Board of Directors and of the members of the Board's committees is the registered office of the Company at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

Management Board

In 2009, the Board of Directors of the Company approved a strategy to reorganise the Company's corporate structure into five business segments, including (i) oil and gas exploration and production, (ii) gas transportation and export, (iii) oil transportation, (iv) refining, marketing and retail and (v) oil and gas related services. Each business unit is run by a Managing Director who is responsible for the operations of the business unit, including appointing senior management and branch representatives, coordinating the work of the Company's branches and coordinating and guiding the operations of the Company's branch and representative offices and the operations of the members of Company. The managing director of each business unit reports to the President (Chairman of the Management Board) and sits on the Management Board of the Company. The corporate reorganisation was approved by the Board of Directors of the Company on 23 June 2009 and is expected to be completed by 2013.

The Management Board is responsible for the day to day management and administration of the Company, subject to the supervision of the Board of Directors and the sole shareholder. The Management Board's responsibilities include the following:

- approving purchases by the Company of up to 10 per cent. of the shares in other legal entities;
- implementing the business strategy and budget for each business unit established by the Board of Directors and the sole shareholder;
- implementing resolutions of the Board of Directors and the sole shareholder and recommendations of the Internal Audit Service; and
- dealing with all other matters not reserved to the Board of Directors or the sole shareholder.

As at the date of this Base Prospectus, the Company's Management Board consists of eight members. The Board of Directors appoints members of the Management Board for a term of three years. The current members of the Management Board were appointed on 23 June 2008. The Board of Directors may at any time terminate the authority of any Management Board members other than the President, who is appointed by the Sole Shareholder.

As at the date of this Base Prospectus, the Company's Management Board consists of the following members:

Name	Age	Position with the Company
Kairgeldy Kabyldin	56	Chairman of the Management Board
Askar Balzhanov	51	Managing Director for Exploration and Production
Bolat Nazarov	40	Managing Director for Gas Related Products
Nurtas Shmanov	52	Managing Director for Oil Transportation
Daniyar Tiyesov		Managing Director for Oil Refining and Marketing
Nurlan Sauranbayev	42	Managing Director for Services Related Projects
Maksat Idenov	41	Managing Director for Authorised Body Relations
Tolegen Bozzhanov	35	Managing Director for Corporate Center
Yerzhan Zhangaulov	42	General Manager for Legal Support

Kairgeldy Kabyldin. See "—*Board of Directors*".

Askar Balzhanov. Mr. Balzhanov was born in 1958. After graduating from the Moscow Institute of Petrochemical and Gas Industry, he started his career at Embaneft PA and worked there from 1980 to 1987. Having held various positions in a range of hydrocarbon enterprises including Embaneft PA, KazakhstanNefteGas SE, KazakhstanMunayGas SE, KazRosGas CJSC and NC KMG, Mr. Balzhanov has gained broad experience in the oil and gas field. Mr. Balzhanov worked as the Vice-president of KazakhstanMunayGas SE from 1991 to 1992, after which he held a position of the General Director there. Mr. Balzhanov was the CEO of the KMG EP from June 2006 to May 2009. Prior to this, he was General Director of JSC KazMunaiTeniz, as subsidiary of NC KMG specialising in off-shore oil and gas operations. Currently Mr. Balzhanov holds the position of General Director of JSC KMG EP.

Bolat Nazarov. Mr. Nazarov was born in 1955. He graduated from the Aktyubinsk Educational University in 1979 with a degree in Physics and Mathematics and from the Kazakh Polytechnical State University in 1988 with a degree in Oil and

Gas well drilling. Mr. Nazarov started his career in 1979 as a research analyst at the Kazakh Geological Oil and Gas Institute. He also worked as a Vice-President of “KarachaganakGazprom” JSC and as Director of the Karachaganak project department at NC “KazakhOil”. He held the position of General Director at “KazTransGas” JSC from March 2008 to December 2009, following that, Mr. Sauranbayev was appointed as Managing Director of JSC NC KazMunayGas for gas-related projects.

Nurtas Shmanov. Mr. Shmanov was born in 1956. Having graduated from Ufa Oil Institute in 1979 and Market Institute under Kazakh State Agrarian University in 1998, he gained the degree in oil and gas pipeline, gas storage and petroleum storage depot engineering and operation as well as in finance and credit. Mr. Shmanov started his career at the Atyrau Petroleum Pipeline Administration and worked there until 1992. He was General Director of JSC KazTransOil from December 2007 to January 2009. Prior to that Mr. Shmanov worked at ChevronMunayGas in Almaty and ChevronNefteGas in Moscow as a Regional Transportation Manager. From May 2006 to December 2007 he was the Deputy Director at Caspian Pipeline Consortium—Russia.

Daniyar Tiyesov. Mr. Tiyesov was born in 1970. He graduated from the East-Kazakhstanian State University in 1997 with a degree in Preservation of the Environment in the Oil and Gas Industry and from Atyrau Oil and Gas University in 2004 with a degree in Oil, Gas and Coal Refining. Mr. Tiyesov started his career in 1994 and worked in various petroleum retail companies. Mr. Tiyesov joined the KMG group in 1999 as Secretary of the Board of Atyrau Refinery. He then held various positions in NC “KazakhOil” and was in charge of several refining projects. In August 2006, he was appointed Deputy General Director of Trade House KMG, responsible for production. In June 2009 he was appointed Managing Director for Oil Refining and Marketing of the Company.

Nurlan Sauranbayev. Mr. Sauranbayev was born in 1967. He graduated from Al-Farabi Kazakh State University in 1991 with a degree in economy and finance as well as from the training unit ENI-AGIP in 2001 with a master’s degree in oil administration. Mr. Sauranbayev started his career in 1991 at “Yenbek” L.L.P. as a General Director. He also worked as an Executive Director at Kazakhstan Entrepreneur Congress, and as a Director at JSC “Passenger Operations”. Mr. Sauranbayev started making his contribution to the oil and gas industry in 2000. He held the position of First Vice-President at Atyrau Refinery from January 2000 to December 2001, after that Mr. Sauranbayev was the General Project Manager at Kazakhoil. Prior to his current position of the Managing Director of JSC NC KazMunayGas, he worked as a General Director at “TenizService” LLP.

Maksat Idenov. Mr. Idenov was born in 1967 and graduated from Al Farabi Kazakh State University in 1992 with a degree in law. Mr. Idenov started his career in 1992 as a senior lawyer in State Holding Company Munaygas. From 1993 to 1994, he served as an assistant to the Minister of Oil and Gas Industry of Kazakhstan on general and legal issues. From 1994 to 1995, Mr. Idenov worked as an energy advisor at Akin Gump Strauss Hauer & Feld. From 1995 to 1999, he was the Deputy Head of the European and Central Asian Countries Energy Department at the International Bank for Reconstruction and Development. From 1999 to 2004, Mr. Idenov was an advisor to the President on the Caspian Sea issues and export oil and gas pipelines. In 2004, he joined Shell as the Regional Vice President on for commercial development of the Middle East, South Asia and Caspian Regions. He has been in his current position with the Company since June 2007.

Tolegen Bozzhanov. Mr. Bozzhanov was born in 1974. He graduated from the State University of Kazakhstan with a degree in Physics. He also graduated from the Construction Academy of Kazakhstan specializing in Economics and was awarded a Degree in Economics from Warwick University (UK). Mr. Bozzhanov started his career in 1997 as a senior banker at the Joint-stock National Savings Bank of Kazakhstan. From 1998 to 2002, he worked as a Managing Director at JSC “Kazcommertssecurities”. After that Mr. Bozzhanov held a position of Sales Director at “Kar-Tel” L.L.P. for two years. Concerning his career in oil and gas industry, Mr. Bozzhanov has worked a as Vice-President of NC KMG since August 2008. From 2006 until July 2008 he was the General Director of JSC Trading House KazMunayGas, and prior to that from August 2004 until 2006 Mr. Bozzhanov worked as an Executive Director of JSC NC KazMunayGas.

Yerzhan Zhangaulov. Mr. Zhangaulov was born in 1968. Mr. Zhangaulov obtained a law degree at Karaganda State University in 1992. Before joining the Company, he was head of the legal service and HR departments in the Ministry of Justice, the Office of the Prime Minister and the Office of the President. He was appointed General Manager of the Company on 6 June 2006. Prior to this appointment he was Executive Director for Legal Matters of the Company.

The business address of each of the members of the Management Board is the registered office of the Company at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

Chairman of the Management Board

Chairman of the Management Board is the Company's chief executive officer. The current President, Kairgeldy Kabyldin, was appointed by resolution of the Board of Directors of Samruk-Kazyna, the Sole Shareholder dated 20 August, 2009 for an indefinite term.

The business address of the President (Chairman of the Management Board) is the registered office of the Company at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

Internal Audit Service

The Internal Audit Service is a permanent collective body of the Company that performs internal audits of the Company and, appraisals of reliability and efficiency of the Company's internal risk management and internal controls and monitors the Company's operations and its compliance with the laws of Kazakhstan and internal policies and procedures of the Company. The Internal Audit Service monitors and supervises internal audit services of the Company's subsidiaries, joint ventures and associates and provides such internal audit services with guidance on the organisation of internal control and internal audit systems. The Internal Audit Service of the Company may, upon instructions of the Board of Directors of the Company, perform an audit of any subsidiary, joint venture or associate of the Company. Members of the Internal Audit Service of the Company are appointed by the Board of Directors for a term determined by the Board of Directors.

Members of the Internal Audit Service report to the Board of Directors and can be removed at any time. The Internal Audit Service has the right to convene an extraordinary meeting of the Board of Directors of the Company.

As at the date of this Base Prospectus, the Company's Internal Audit Service consists of the following members:

Name	Position with the Company
Kaidar Bayan	Head of the Internal Audit Service
Aizhan Utembayeva	Deputy Head of the Internal Audit Service
Damirzhan Intykbayev	Head of Group
Zhetken Koshkarov	Head of Group
Yerbol Musayev	Head of Group
Maksat Nogaibayev	Head of Group
Kanat Nurpeisov	Head of Group
Askar Abdikairov	Chief Internal Auditor
Gulnar Adenova	Chief Internal Auditor
Leila Akasheva	Chief Internal Auditor
Zhumagul Amrenova	Chief Internal Auditor
Abdibek Askanbekov	Chief Internal Auditor
Anargul Kairulla	Chief Internal Auditor
Asel Kurmasheva	Chief Internal Auditor
Kamshat Skakova	Chief Internal Auditor
Assiya Timerbayeva-Datt	Chief Internal Auditor
Akmaral Shayakhmetova	Chief Internal Auditor
Saltanat Aydarbekova	Chief Internal Auditor
Tolegen Ermukhametov	Senior Internal Auditor
Galina Kirilishina	Chief Internal Auditor
Ayazbek Koshatayev	Chief Internal Auditor
Arman Tagashbayev	Chief Internal Auditor
Saltanat Tuyakbayeva	Chief Internal Auditor
Gulshat Mergenova	Internal Auditor
Kymbat Musurgaliyeva	Internal Auditor

Management Remuneration

In accordance with the Company's Charter, the remuneration of the members of the Board of Directors is determined by the sole shareholder, while remuneration of the Chairman of the Management Board, the members of the Management Board and the Internal Audit Service is determined by the Board of Directors.

Total compensation to the key management personnel of the Company amounted to KZT 2,155 million and KZT 2,240 million for the years ended 31 December 2009 and 31 December 2008, respectively. Compensation to key management personnel consists of salary and a performance bonus based on operating results.

Employment Contracts with Senior Executive Officers

In general, the Company enters into employment contracts of indefinite duration with its senior executive officers. Under these contracts, the senior executive officers of the Company are entitled, in addition to their regular salary, to annual bonuses based on the Company's annual performance.

Conflicts of Interest

There are no potential conflicts of interest between any duties owed to the Company by members of the Board of Directors, the Management Board, the President and the Internal Audit Service and their private interests or other duties.

SHARE CAPITAL, SOLE SHAREHOLDER AND RELATED PARTY TRANSACTIONS

Share Capital

The initial share capital of the Company, which was formed in February 2002, in the amount of KZT 47,874 million was completed by the transfer to the Company of 14,561,629 common shares of Kazakhoil with a nominal value of KZT 1,000 per share and 333,119,985 common shares of CJSC NC of Oil and Gas Transport with a nominal value of KZT 100 per share. On 7 August 2002, the Company registered its share capital in the amount of KZT 48,874 million, comprising of 95,747,255 common shares with a nominal value of KZT 500 per share.

In 2004, 2005 and 2006 the share capital of the Company was increased several times as a result of the issue of new shares to the Government as a result of cash contributions, which was partially offset by certain sums owed to the Government and expenses incurred by the Government and by the transfer of shares of certain Government owned entities to the Company. On 28 January 2006, the Government shares in the Company were transferred to Samruk-Kazyna. As at the date of this Base Prospectus, Samruk-Kazyna is the sole shareholder of the company and is in turn wholly-owned by the Government. Following the most recent increase in the Company's share capital, which became effective on 16 December 2009, as of the date of this Base Prospectus, the Company's share capital comprised 320,141,249 common shares with a nominal value of KZT 500 per share, of which 319,294,976 common shares are issued and outstanding.

Samruk-Kazyna

Samruk-Kazyna is wholly-owned by the Government and is the national managing holding company for substantially all state enterprises. Samruk-Kazyna was created in 2008 pursuant to the Presidential Edict No. 669, dated 13 October 2008, and the Resolution of the Government No. 962, dated 17 October 2008, by way of the merger of JSC "Kazakhstan Holding for Management of State Assets" "Samruk" and JSC "Sustainable Development Fund" "Kazyna". Samruk-Kazyna is a joint stock company whose shares are held by the Ministry of Finance's Committee of State Property and Privatization on behalf of Kazakhstan. In the end of 2008, 100 per cent. of the Company's shares were transferred to Samruk-Kazyna.

Samruk-Kazyna's primary objective is to manage shares (participatory interests) of legal entities it owns with a goal of maximising long-term value and increasing competitiveness of such legal entities in world markets.

The governance of Samruk-Kazyna's activities is subject to general corporate governance applicable to all joint stock companies in Kazakhstan. Accordingly, the corporate governance structure of Samruk-Kazyna is as follows: the Government, as the sole shareholder constitutes the supreme governing body, the board of directors constitutes the managing body, and the management board constitutes the executive body.

Members of Samruk-Kazyna's board of directors are appointed by the Government, and its members are, among others, the Minister of Economy and Budget Planning, the Minister of Finance, the Minister of Energy and Mineral Resources, the Minister of Industry and Trade, independent directors and the chairman of the management board of Samruk-Kazyna. In addition, the board of directors is chaired by the Prime Minister of Kazakhstan.

The registered office of Samruk-Kazyna is at 23 Kabanbay Batyr Avenue, Astana 010000, Kazakhstan and the telephone number is: +7 7172 790 486.

Relationships Between the Company and its Significant Subsidiaries

Set out below is a summary of the material agreements and transactions that have been entered into by the Company with its significant subsidiaries.

Relationship Agreement

The Relationship Agreement regulating the degree of control that the Company may exercise over the management of KMG EP was entered into between the Company and KMG EP dated 8 September 2006. The principal purposes of the Relationship Agreement are to ensure that:

- KMG EP can effectively access the international capital markets;

- KMG EP (i) is capable of carrying on its business as an independent and free standing business apart from the Company and of any of its affiliates and (ii) operates in the best interests of all shareholders;

- the Company shall use its reasonable endeavours to ensure that no member of the Company shall act in any way which shall prejudice the ability of KMG EP to carry on its business independently of the Company (or render it unsuitable for continued listing on any recognised stock exchange);

- subject to the JSC Law and to the terms of the Services Agreement (as defined below), the Company will not exercise its voting rights in KMG EP, whether as a shareholder or through its representation on KMG EP's Board of Directors, in respect of any resolution which relates to a transaction between KMG EP and the Company and, with respect to KMG EP's Board of Directors, on matters in which the Company's representatives may have an interest as a result of being a director or officer of the Company or any entities of the Company;

- the Company will not require KMG EP to increase the amount of financial contribution to assist in implementing social projects in the regions and cities in which members of KMG EP operate, except as required by social programmes that predate the Relationship Agreement, the terms of exploration or production licences and contracts held by members of KMG EP from time to time, Kazakhstan laws or as otherwise approved by KMG EP's board in accordance with its Charter; and

- both the Company and KMG EP shall (and shall ensure that their respective subsidiaries shall), be subject to all applicable laws and the terms of existing agreements between the Company and KMG EP (or their respective affiliates), conduct any transactions and relationships (whether contractual or otherwise) between any member of the Company, on the one hand, and any member of KMG EP, on the other, on arm's length terms and on a normal commercial basis.

The Relationship Agreement remains valid until the earlier of (i) the GDRs issued by KMG EP ceasing to be listed on any stock exchange to which KMG EP's securities have been admitted (other than the KASE) or (ii) the Company (and/or any of its affiliates) ceasing to be a "controlling shareholder" in KMG EP. For these purposes, a controlling shareholder is any person (or persons acting jointly by agreement whether formal or otherwise) who is entitled to exercise or to control the exercise of 30 per cent. or more of the rights to vote at KMG EP's general meetings or is able to control the appointment of directors who are able to exercise a majority of votes at KMG EP's board meetings.

Services Agreement

KMG EP and the Company enter into the Services Agreement on an annual basis whereby the Company grants certain rights and renders certain services to KMG EP and refrains from undertaking certain business activities in Kazakhstan. The Services Agreement is subject to the requirements of the S-K Rules, which means that KMG EP conducts, on an annual basis, a tender process for the services to be provided under the Services Agreement. Accordingly, the Services Agreement is renewed on an annual basis if KMG EP determines that entry into the Services Agreement is beneficial to KMG EP. KMG EP has received a written assurance from the Company that the Company will continue to participate in any such annual tender in respect of the services to be provided under the Services Agreement until 2016. The Services Agreement was last renewed on 22 April 2009.

Under the Services Agreement:

- The Company undertakes that it will not (and will procure that each member of the Company will not) carry on, be engaged in or otherwise interested economically in onshore exploration, development or production of oil at predominantly oil hydrocarbon deposits in Kazakhstan, except:

  (i) where such operations are carried on by a member of the Company or by an entity in which a member of the Company has an ownership or participatory interest at the date of the Services Agreement and/or pursuant to resolutions of the Government and/or international obligations of Kazakhstan;

  (ii) in connection with the acquisition or holding of any Existing Onshore Oil Asset or New Onshore Oil Asset (each as defined below) as required in order to perform its obligations under the Services Agreement;

  (iii) where the Company has acquired any Existing Onshore Oil Asset or New Onshore Oil Asset and KMG EP has notified the Company that it does not want to acquire such existing onshore oil asset or new onshore oil interest; or

(iv) as otherwise agreed in writing by KMG EP provided that KMG EP undertakes that it shall only be entitled to grant such consent if approved at a meeting of the Board of Directors of KMG EP at which a majority of Independent Non Executive Directors are present at such meeting and approve such consent.

- If the State elects to sell or transfer a controlling interest in any subsoil use right, in respect of onshore hydrocarbon deposits in Kazakhstan, or any unlicensed exploration areas, fields or blocks in connection with the exploration and production owned or controlled by the Government, the MEMR or the Company (a "**New Onshore Oil Interest**"), the Company will, if requested by KMG EP, make a proposal to the MEMR that the Company wishes to acquire such New Onshore Oil Interest without undertaking a tender in respect of such New Onshore Oil Interest. If the Company has acquired a New Onshore Oil Interest without undertaking a tender in respect of such interest or the Company decides to sell or transfer a controlling interest in any New Onshore Oil Interest already held by the Company, the Company will first grant KMG EP a right of first refusal to acquire such New Onshore Oil Interest at fair market value. If the Company and KMG EP are unable to agree on the terms of such acquisition, the Company must offer such New Onshore Oil Interest for sale by way of auction to interested parties, in which event KMG EP will be entitled to match the winning bid for such interest and acquire up to 50 per cent. of such offered new onshore oil interest.

- If the Government elects to exercise its pre-emptive right (pursuant to Article 71 of the Subsoil Law, see "*Regulation in Kazakhstan—State Pre-Emption and Regulation of Subsoil Use Rights*") to acquire an interest in any subsoil use right or asset in respect of oil onshore hydrocarbon deposits in Kazakhstan or an ownership or other participatory interest in any entity (whether incorporated in Kazakhstan or elsewhere) owning (wholly or primarily) such a subsoil use right, or asset (other than a new onshore oil interest) (an "**Existing Onshore Oil Asset**") in which KMG EP has declared an interest to acquire, the Company must use its reasonable endeavours to procure that the Government exercises such pre-emptive right on behalf of KMG EP and KMG EP will acquire such Existing Onshore Oil Asset. If the Company elects to dispose of a controlling interest in any other Existing Onshore Oil Asset held by the Company and in which KMG EP has declared an interest to acquire, the Company must first grant KMG EP a right of first refusal to acquire such Existing Onshore Oil Asset at fair market value. If the Company and KMG EP are unable to agree on the terms of such acquisition, the Company must offer such Existing Onshore Oil Asset (but not less than any part thereof that was offered to KMG EP) by way of auction to interested parties, in which event KMG EP will be entitled to match the winning bid for such interest and acquire 50 per cent. of such offered Existing Onshore Oil Asset. If the Company has failed to sell a controlling interest in any Existing Onshore Oil Asset (whether pursuant to the exercise of KMG EP's right of first refusal or by way of auction or otherwise) and subsequently KMG EP requests that the Company sell such Existing Onshore Oil Asset, the Company must consider such request in good faith (but will not be obliged to sell such Existing Onshore Oil Asset to KMG EP).

- The Company will use all reasonable endeavours to ensure that KMG EP continues to benefit on materially the same terms from transportation infrastructure used by members of the Company for so long as the Services Agreement continues. In particular, the Company must procure, in respect of itself, and must use all reasonable endeavours to procure, in respect of any act required of any third party, the following:

  (i) KTO will continue to provide the Company with transportation facilities as provided in the KTO Transportation Agreement (See "*—Relationship Between the Members of the Group—KTO Transportation Agreement*") and KMG EP shall provide the volume of crude oil for transportation and make payments as provided in the KTO Transportation Agreement;

  (ii) after the expiration of the KTO Transportation Agreement, KTO shall allocate to KMG EP at the relevant time oil transportation capacity on terms no less favourable than those offered to other users provided that KTO may give a preferential right of first refusal to users which are in compliance with their contractual obligations to KTO; and

  (iii) KTO shall allocate to KMG EP additional residual oil transportation capacities (or new transportation routes) on commercial terms on a take-or-pay basis.

- The Company will use all reasonable endeavours within the rights of the shareholder from Kazakhstan under the CPC Shareholder Agreement (See "*Business—Transportation—Transportation of Crude Oil—CPC Pipeline*") to ensure that:

  (i) KMG EP (or any specified member of KMG EP) is nominated "affiliated shipper" of the Company (including all rights and obligations pursuant to which the Company has access to the CPC

Pipeline) for the purposes of access to the CPC Pipeline in respect of any volume of crude oil proposed in writing by KMG EP to be delivered through the CPC Pipeline;

(ii) the Company is entitled to deliver into the CPC Pipeline any volume of crude oil proposed in writing by KMG EP to be delivered through the CPC Pipeline in accordance with the quota allocated to the shareholder from Kazakhstan; and

(iii) the CPC consortium allocates any increased capacity (as notified in writing from time to time by KMG EP to the Company) in the CPC Pipeline to KMG EP as the "affiliated shipper" of the Company (where commercially practicable).

In consideration for the grant of such rights and the provision of such services and for the Company agreeing to restrict its business, KMG EP has agreed to pay to the Company the sum of KZT 8.0 billion per year. To the extent that the Company successfully participates in the annual tender for the provision of services set out in the Services Agreement, the annual fee for such services shall be as specified in the tender, but the Company anticipates that it will increase in line with the Consumer Prices Index of Kazakhstan as provided in the Relationship Agreement (see "*—Relationship Agreement*").

Relationships Between the Subsidiaries, Joint Ventures and Associates of the Company

The Company's subsidiaries, joint ventures and associates enter into transactions with each other from time to time. Set out below is a summary of the material agreements and transactions that have been entered into among the Company's subsidiaries, joint ventures and associates other than in the ordinary course of business.

Atyrau Refinery Supply Arrangements

KMG Trade House, as the owner of the Atyrau Refinery, is required by the S-K Rules to make an annual tender for the supply of crude oil to be processed by the Atyrau Refinery. Pursuant to the Relationship Agreement, KMG EP undertook to participate in the annual crude oil procurement tenders until 2015.

KMG EP and the Company agreed that such participation by KMG EP would be on the following terms:

- KMG EP shall be required to supply at least 1.9 million tonnes of crude oil per year in respect of any crude oil procurement tender for Atyrau Refinery between 1 January 2006 and 31 December 2010; and

- the price of any crude oil supplied by KMG EP shall be equal to the cost of such crude oil plus a margin of 3 per cent., where cost is calculated as the production cost of one tonne of crude oil for KMG EP plus the transportation cost incurred by KMG EP, where:

  (i) the production cost of one tonne of crude oil is the ratio of (A) the total crude oil production costs and all administrative and non-production costs (including general administration costs) under the procurement tender plan for the relevant calendar year to (B) the total volume of crude oil production at all production branches of KMG EP under the procurement tender plan for the relevant calendar year; and

  (ii) the transportation cost of one tonne of crude oil is the ratio of (A) the total costs of crude oil transportation from all the branches of KMG EP to the Atyrau Refinery under the procurement tender plan for the relevant calendar year to (B) the total volume of crude oil supplies to the Atyrau Refinery from all production branches of KMG EP under the procurement tender plan for the relevant calendar year.

KMG Trade House Agency Agreement

In accordance with the S-K Rules, the Agency Agreement between KMG EP and KMG Trade House is subject to annual renewal. Principal provisions of the Agency Agreement are intended to remain the same from year to year. The current Agency Agreement for the year 2010 was executed in December 2009 and entered into force on 1 January 2010, with an expiration date of 31 December 2010. Under the Agency Agreement, KMG EP is obliged, within one month of a request from KMG Trade House, to provide KMG Trade House with planned annual volumes for the sale of crude oil for export through KMG Trade House approved by the MEMR. KMG EP must also submit to KMG Trade House quarterly and monthly schedules, approved by the MEMR, of oil supplies for export, showing transportation and loading requirements. Monthly schedules must be provided seven days before the beginning of the relevant month. KMG Trade House on behalf of KMG EP is required to offer the crude oil sold to it by KMG EP to the market at the best possible price, and must solicit as many offers as possible. Details of each offer must be sent to KMG EP in prescribed form within ten working days of

receipt by KMG Trade House. Each purchase sale agreement signed by KMG Trade House on behalf of KMG EP must contain certain provisions (including, as to payment, either provision of a letter of credit, 100 per cent. pre payment or payment within 30 days of delivery). The signed original copy must be submitted to KMG EP within ten working days of its execution.

The Agency Agreement requires that each purchase sale agreement provides that ownership of the crude oil will transfer from KMG EP no earlier than upon full payment of the purchase price. In consideration for the agency services provided by KMG Trade House, KMG EP is obliged to pay KMG Trade House a commission in the amount of KZT 75 (plus VAT) per tonne of crude oil sold by KMG Trade House for export. This amount is payable on a monthly basis upon receipt by KMG EP of KMG Trade House's invoice and is subject to review every six months. KMG EP is also liable for KMG Trade House's expenses incurred in carrying out its agency function under the Agency Agreement.

KTO Transportation Agreement

Pursuant to the agreement between KMG EP and KTO dated 10 September 2004, as amended on 26 April 2006 (the "**KTO Transportation Agreement**"), KTO transports oil produced by KMG EP for export and for the domestic market using its system of main pipelines. The KTO Transportation Agreement expires in 2013. The required minimum volumes specified by the KTO Transportation Agreement for transportation through the UAS pipeline are for future years, 4,842 tonnes in 2010, 4,695 thousand tonnes in 2011 and 4,020 tonnes in 2012. The KTO Transportation Agreement does not set limits on the minimum volume of transportation through KTO's other pipelines.

KMG EP is required to provide KTO with annual, quarterly and monthly schedules (approved by the MEMR) of planned volumes of crude oil for transportation through the KTO pipeline system. Within ten days from the receipt of the annual or quarterly schedule and within three days from the receipt of the monthly schedule, KTO must submit to KMG EP a notification specifying transportation routes for crude oil and volumes to be transported through each route. The payment for the transportation of crude oil by KTO is made by KMG EP based on the gross weight of the transported crude oil in accordance with the tariffs approved by the MEMR.

Relationships Between the Company and TCO

Several material agreements have been entered into among TCO and its partner, including the Company and the Government. These agreements set out a number of important rights, including TCO taxation and royalty arrangements with the Government, economic stabilisation provisions relating to changes in taxes or other levies and TCO right to export its products and to receive and retain revenue in hard currency in offshore accounts.

Formation Agreement

The Formation Agreement establishing TCO was entered into on 2 April 1993 and was last amended on 13 October 2004, by the Company, Chevron Overseas, LukArco and ExxonMobil Kazakhstan Ventures Inc. The Formation Agreement provides that TCO's objectives are to develop hydrocarbon resources and explore, produce, process, store, transport, export and sell hydrocarbons, hydrocarbon products, and sulphur. The term of the Formation Agreement is 40 years.

The Formation Agreement may terminate prior to the expiration of its term under the following circumstances: (a) mutual agreement of its partners; (b) insolvency of the partnership or withdrawal of one of the partners in accordance with the Formation Agreement; (c) bankruptcy, liquidation or similar events affecting one of its partners; (d) breach by one of the partners of a material obligation under the Formation Agreement, subject to a cure period; (e) a change of control, merger, amalgamation or reconstruction of one of the partners or any person who has control of a partner, except that (i) no change of control will be considered to occur in the event the Company, or any Kazakhstan legal entity which has control of the Company is privatised, restructured, merged, amalgamated, reconstructed or incorporated in such a way that no person other than the Government holds, directly or indirectly, more than a ten per cent. interest in the Company or such Kazakhstan legal entity, and (ii) such provision does not apply to Chevron Corporation, Mobil Corporation, LUKOIL or Atlantic Richfield Company; or (f) the elapse of six months after a merger or change of control of Chevron Corporation, Mobil Corporation, LUKOIL or Atlantic Richfield Company if the Government has reasonable grounds to disapprove of such merger or change of control after having discussed the matter in good faith with Chevron Corporation, Mobil Corporation, LUKOIL or Atlantic Richfield Company or their new controller.

The Formation Agreement provides that each of TCO's partners has an undivided interest in TCO equal to its participatory interest. Parent companies of TCO's partners have entered into guarantees whereby they guarantee to the Government, to TCO and to TCO's partners, their affiliate's cash call obligations under the Formation Agreement. The Company's obligations are guaranteed by the Government.

The Formation Agreement provides that TCO's highest governing body is the general meetings of its partners conducted in the form of (a) Partnership Council meetings or (b) meetings of its partners to accomplish matters reserved to them at law. The Partnership Council consists of eight members: three appointed by Chevron Overseas, two appointed by the Government (failing whom, the Company); two appointed by ExxonMobil Kazakhstan Ventures Inc. and one appointed by LukArco. TCO's General Director and Deputy General Director are unofficial members of the Partnership Council. Unless otherwise agreed, the Government (failing whom, the Company) nominates the Chair of the Partnership Council (subject to a vote) but the Chair has no authority to represent TCO.

The Formation Agreement provides that Partnership Council meetings are held at TCO offices at least quarterly, unless decided otherwise by Partnership Council. A quorum of at least 81 per cent. of TCO's Participatory Interests is required for any Partnership Council meetings. Each partner has one vote weighted in accordance with its participatory interest. All Partnership Council decisions require the affirmative vote of at least 81 per cent. of participatory interests in TCO, except for the following six fundamental issues that must be decided unanimously:

- termination, liquidation or wind up of TCO's operations, appointment of a receiver or liquidator, or entering into any arrangement with creditors;

- commencement of any new businesses, trading under any name other than "Tengizchevroil" or discontinuing any of TCO's business;

- any sale, transfer, lease, licence, right to use or disposal of all or a substantial part of TCO's business, undertaking or assets;

- any consolidation, merger, acquisition or disposal of any interest in any other entity or becoming a partner in any other partnership;

- applying for or surrendering any exploration or production licence or relinquishing any area covered by a licence; and

- entering into or amending any loan agreement with a partner or affiliate of a partner, unless such agreements or amendments are made on identical terms to all partners.

Under the Formation Agreement, Chevron Overseas provides management and administrative expertise to TCO, including nomination of all of department heads of TCO except the heads of the Governmental Relations, Human Resources and Legal Departments, which are jointly nominated by the Company, ExxonMobil Kazakhstan Ventures Inc. and Chevron Overseas or, failing a joint nomination, Kazakhstan. The Formation Agreement requires that all nominees must be qualified to perform their jobs.

Financial Arrangements under Formation Agreement

The Formation Agreement, to the extent TCO does not have sufficient cash available, establishes its right to require its partners, in proportion to their participatory interests, to make up cash deficiencies required to conduct partnership activities in accordance with approved work programmes and budgets. These cash calls are to be advanced in U.S. Dollars and accounted for as loans between TCO and its partners. Defaults on cash calls are to be made up by non-defaulting partners of TCO and are compensated with interest and a prior right to defaulting partner's share of any of revenue of TCO upon distribution until repaid.

Where such a default lasts for 90 days, non-defaulting partners of TCO may within 60 days thereafter elect to buy the defaulting partner's interest or liquidate TCO. If a price cannot be agreed, non-defaulting partners have a right of first offer with respect to the sale of any of assets of TCO. Under the Formation Agreement, the right to cash calls by TCO partners exists only between TCO and its partners and may be enforced only by TCO and its partners. Nothing in the Formation Agreement confers any rights or remedies on any person other than the parties to it, their respective successors and assigns and TCO, and no provision gives any third person any right of subrogation or action over and against any other party.

The Formation Agreement provides that TCO distributes the maximum amounts of cash available, subject to its reasonable cash requirements. Under this Agreement, each of TCO's partners has the right to receive, keep and use cash advances from TCO outside of Kazakhstan and the CIS in proportion to their interests in TCO. The Formation Agreement provides that TCO is responsible for withholding the applicable taxes on profit and interest distributions it makes.

The Formation Agreement provides that all sales proceeds of TCO in freely convertible currencies will be deposited into London bank accounts of TCO, non-convertible currency proceeds may be deposited as decided by the Partnership

Council, freely convertible currency obligations will be paid directly from London accounts of TCO and non-convertible obligations from non-convertible accounts of TCO.

Transfer and Assignment of Interest

The Formation Agreement provides that each of TCO's partners has the right to transfer all or part of its interest in TCO to any person capable of performing its obligations, subject to the consent (not to be unreasonably withheld) of the other partners. If any such transfer is to a non-affiliate, the transferring partner shall first offer to sell or transfer all or part of such participatory interest to the non-transferring partners, but where TCO partners cannot agree on terms within 45 days, the transferring partner has 180 days thereafter to sell its interest to qualified third parties (subject to the consent of non-transferring partners of TCO, which shall not be unreasonably withheld) on terms no more favourable than those offered to non-transferring partners of TCO. Under the Formation Agreement TCO's partners may withdraw from the partnership at any time after giving 180 days advance notice. Other partners have 45 days from receipt of such notice to accept the withdrawing partner's interest (subject to assumption of all future obligations related thereto) or join in withdrawal. Withdrawal does not excuse a partner from its financial obligations existing or accrued up to the date of the withdrawal notice.

Project Agreement

A project agreement was entered into on 2 April 1993 and was last amended on 13 October 2004 by the Government, the Company, Chevron Overseas, CTOPI, ExxonMobil Kazakhstan Ventures Inc. and LukArco (the "**Project Agreement**") and sets forth the parties' obligations with respect to payments, taxes, royalty and other matters associated with the activities of TCO. Pursuant to the Project Agreement, TCO has exclusive rights until 6 April 2033 to develop and produce all hydrocarbons, hydrocarbon products and sulphur from its concession area, as set out in its production licence. The Government is obligated to ensure that TCO operations are not adversely affected by the actions and operations of other operators in the area with respect to emissions and the use of natural resources and the infrastructure.

The Project Agreement provides that agreements between TCO and Kazakhstan with respect to (a) taxes and other governmental exactions, (b) royalty, (c) exchange, transportation, export and marketing and (d) currency matters are effective until 6 April 2033, shall govern in case of any inconsistency with existing or future Kazakhstan laws and may not be changed without the express written consent of the Government, Chevron Corporation, Mobil Corporation, OJSC Oil Company LUKOIL and Atlantic Richfield Company (now a subsidiary of BP). The Project Agreement provides that the Government shall take such action as may be required to give such provisions the force of law. The Project Agreement provides that the aggregate amount of taxes and other forms of levies and royalty applicable to TCO with respect to the Tengiz project, the Company with respect to payments of interest and profit distributions received from TCO, CTOPI with respect to payments from TCO and the Government, and Chevron Overseas, ExxonMobil Kazakhstan Ventures Inc. and LUKARCO, each with respect to its participatory interest in TCO and otherwise in connection with the Tengiz project, are fixed as described below until 6 April 2033.

TCO pays the Government a base royalty of 25 per cent. of the dollar value equivalent of crude oil, gas, propane, sulphur and other products valued at the wellhead. Under the terms of the Project Agreement, TCO pays the base royalty quarterly. Each quarterly payment is due within 30 days of the end of the applicable quarter and consists of 90 per cent. of the base royalty estimated to be due for such quarter plus the difference between the prior quarter's estimated payment and the amount of the base royalty actually due for the prior quarter. The Government may elect to receive the base royalty in the form of crude oil and other products if sufficient production is available.

The Project Agreement provides that TCO will not make any claim for refund from the Government in respect of any Net VAT (defined below) or claim depreciation in respect of any amount representing an increase in Non-Offsettable VAT (defined below). The Project Agreement provides that the base royalty will be reduced by an amount equal to (a) the amount of any refund in respect of Net VAT referable solely to the Tengiz project that would be due to TCO but for the provision of the Project Agreement described in the preceding sentence plus (b) any increase in the amount of Non-Offsettable VAT paid by TCO over the amount of Non-Offsettable VAT that would have been payable had the applicable goods or services been purchased on the date of the Project Agreement. "**Net VAT**" means the difference between (i) those amounts of value added tax imposed by any republic in the CIS paid by TCO on goods and services supplied to TCO in relation to the Tengiz project and (ii) those amounts of value added tax imposed by Kazakhstan which are received by TCO on goods and services supplied by TCO in relation to the Tengiz project. "**Non-Offsettable VAT**" means value added tax imposed by any republic in the CIS on goods and services which under Kazakhstan law from time to time is not to be included in determining Net VAT.

The Project Agreement establishes a profits tax at the rate of 30 per cent. until such time as a lower tax rate on profits is made available to at least two other similar joint venture projects.

If the total amount of (a) taxes and levies paid pursuant to the Project Agreement for any tax year less VAT, (b) taxes assessed which were not applicable to TCO at the time of the formation ("**non-applicable taxes**"), and (c) employment taxes, exceeds or falls short of the amount that would be payable at the following rates then the amount of royalty payable to Kazakhstan is to be adjusted. The adjustment is made to ensure that the aggregate amount received by Kazakhstan in taxes and royalty (excluding VAT, non-applicable taxes and employment taxes) equals the amount which would be payable under the following rates: 30 per cent. on TCO profit, 20 per cent. withholding tax on interest paid by TCO, 15 per cent. withholding tax on profit distributions made by TCO and the aggregate relevant indexed amount (U.S.$7 million indexed to 1997 prices), as defined in the Project Agreement, with respect to additional taxes. The profit tax and withholding tax rates must be adjusted if a lower tax rate is made available to at least two other similar joint ventures.

Where reductions in royalty payable to the Government exceed royalty due to the Government, such excess will be offset against any taxes and other non-discriminatory government exactions owed to the Government. If TCO is prevented from receiving the world market price (which is defined as the freely negotiated arms length export price at the time) for the full value of any of TCO's crude oil sold or any part of the proceeds of crude sales is prevented from being deposited in freely-convertible currency in London, then base royalty payments are reduced by an amount equal to the amount of such loss.

Relationships with Certain Related Parties

The Company also enters into transactions with related parties other than those described above. See Note 33 to the 2009 Financial Statements. The Company identifies related party transactions as transactions between its subsidiaries, joint ventures and associates and:

- the key management personnel of the Company;
- enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Company's key management personnel; and/or
- Samruk-Kazyna entities and other entities controlled by the Government.

Related party transactions are made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following table provides the total amount of transactions, which have been entered into with related parties during 2009 and 2008 and the related balances as at 31 December 2009 and 2008 respectively:

Related party	Year	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
				(KZT in million)	
	2009	8,597.7	19,141.4	3,783.3	652.7
Samruk-Kazyna entities[1]	2008	6,320	20,392	9,427	573
	2009	1,106.9	12,651.6	786.0	423.0
Other state-controlled entities	2008	828	9,290	–	7,275
	2009	9,158	291	–	1,205
Associates	2008	14,768	405	457	3,280
	2009	–	4,315.0	8,028.2	–
Other related parties	2008	–	–	–	16,099
	2009	23,719.5	78,717.5	29,233.8	40,749.7
Joint ventures in which the Company is a partner	2008	3,890	49,462	7,980	5,988

Note:

(1) Includes primarily transactions of the Company with JSC Kazakhstan Temir Zholy, JSC Kazakhtelecom, JSC Kazatomprom, JSC KEGOK, JSC Kazpost and other entities.

Transactions with Samruk-Kazyna and other state controlled entities are mainly represented by transactions of the Company with JSC Kazakhstan Temir Zholy, JSC Kazakhtelecom, JSC Kazatomprom, JSC KEGOK, JSC Kazpost and other entities.

Applicable Kazakhstan law, including the JSC Law, as well as Samruk-Kazyna internal regulations, requires that related party transactions be made with market terms and conditions. In addition, state-owned companies, including Samruk-Kazyna, are subject to the S-K Rules, which requires Samruk-Kazyna group companies to conduct a public tender for any purchase of goods or services with a contract size exceeding 1,000 times the monthly calculation index

(established annually by the budget law) aimed at ensuring that Samruk-Kazyna group companies enter transactions only on market terms and conditions.

Following the establishment of Samruk-Kazyna, Halyk Bank is considered to be a related party to the Company as it is controlled by a key member of the Company's management and Samruk-Kazyna. On 2 February 2009, the Government, represented by Samruk-Kazyna, also became a controlling shareholder of Alliance Bank and BTA Bank with 76.0 per cent. and 78.0 per cent. of the total shares of these banks, respectively, and, accordingly, the Company also treats Alliance Bank and BTA Bank as related parties for financial accounting and reporting purposes. As at 31 December 2009, the Company had placements with these related-party banks comprising cash in the aggregate amount of KZT 288.2 billion, short-term deposits in the aggregate amount of KZT 257.1 billion and long-term deposits in the aggregate amount of KZT 17.8 billion.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

Final Terms dated [●]

KAZMUNAIGAZ FINANCE SUB B.V.

Issue of *[Aggregate Nominal Amount of Tranche] [Title of Notes]*

Guaranteed by JSC NATIONAL COMPANY KAZMUNAYGAS
under the
U.S.$[●] Guaranteed Debt Issuance Programme

PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [●] 2010 [and the supplemental Base Prospectus dated [●]][1] which [together] constitute[s] a Base Prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. [The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing during normal business hours at [*address*] [and] [*website*] and copies may be obtained from [*address*].][2]

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Base Prospectus dated [●] 2010 [and the supplemental Base Prospectus dated [●]][1]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated [●] 2010 [and the supplemental Base Prospectus dated [●]][1], which [together] constitute[s] a Base Prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [●] 2010 [and the supplemental Base Prospectus dated [●]] and are attached hereto. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [●] 2010 and [*current date*] [and the supplemental Base Prospectuses dated [●] and [●]]. [The Base Prospectuses [and the supplemental Base Prospectuses] are available for viewing during normal business hours at [*address*] [and] [*website*] and copies may be obtained from [*address*].]

[The following alternative language applies if Notes are issued pursuant to Rule 144A.]

THE NOTES REFERRED TO HEREIN THAT ARE REPRESENTED BY A RULE 144A GLOBAL NOTE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN SECTION 2(a)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED PURCHASING FOR ITS OWN ACCOUNT QUALIFIED PURCHASER, (2) IN

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1 Only include details of a supplemental Base Prospectus in which the Conditions have been amended for the purposes of all future issues under the Programme.

2 Article 14.2 of the Prospectus Directive provides that a Base Prospectus is deemed available to the public when, inter alia, made available (i) in printed form free of charge at the offices of the market on which securities are being admitted to trading; OR (ii) at the registered office of the Issuer and at the offices of the Paying Agents; OR (iii) in an electronic form on the Issuer's website. Article 16 of the Prospectus Directive requires that the same arrangements are applied to supplemental Base Prospectuses.

AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF NOTES REPRESENTED BY A RULE 144A GLOBAL NOTE.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK, SEE THE SECTION ENTITLED "RISK FACTORS" SET OUT IN THE BASE PROSPECTUS.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub paragraphs. Italics denote guidance for completing the Final Terms.]

1.	(i)	Issuer:	KazMunaiGaz Finance Sub B.V.
	(ii)	Guarantor:	JSC National Company KazMunayGas
2.	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●] (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible). [●]
3.		Specified Currency or Currencies:	[●]
4.		Aggregate Nominal Amount of Notes admitted to trading:	[●]
	(i)	Series:	[●]
	(ii)	Tranche:	[●]
5.		Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6.	(i)	Specified Denominations:	[●]
	(ii)	Calculation Amount:	[●] [*Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).*]
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[●]
8.		Maturity Date:	[*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9.		Interest Basis:	[[●]% Fixed Rate] [[*specify reference rate*] +/- [●]% Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)
10.		Redemption/Payment Basis :	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (specify)]
11.		Change of Interest or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis*]
12.		Put/Call Options:	[Noteholder Put] [Issuer Call] [(further particulars specified below)]
13.	(i)	Status of the Notes:	Senior
	(ii)	Status of the Guarantee:	Senior
	(iii)	[Date [Board] approval for issuance	[●] [and [●], respectively]]

		of Notes and Guarantee obtained:	(*N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee*)]
14.		Method of distribution:	[Syndicated/Non syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE[3]

15.		Fixed Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub paragraphs of this paragraph*)
	(i)	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi annually/quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/*not adjusted*]
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv)	Broken Amount(s):	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction (Condition 19):	[30/360 / Actual/Actual ([ICMA]/ISDA)/ other] (*Day count fraction should be Actual/Actual ICMA for all fixed rate issues other than those denominated in U.S. Dollars, unless requested otherwise*)
	(vi)	Interest Determination Date(s) (Condition 19):	[●] in each year (*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA]*))
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate:	[Not Applicable/*give details*]
16.		Floating Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub paragraphs of this paragraph*)
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●]
	(iii)	First Interest Payment Date:	[●]
	(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
	(v)	Business Centre(s) (Condition 19):	[●]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[*Screen Rate Determination/ISDA Determination/other (give details)*]
	(vii)	Interest Period Date(s):	[Not Applicable/*specify dates*]
	(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
	(ix)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
	—	Relevant Time:	[●]
	—	Interest Determination	[[●] TARGET2 Business Days in [*specify city*] for [*specify currency*] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]][●]
	—	Primary Source for Floating Rate:	[*Specify "Page" or "Reference Banks"*]

3 If the Final Redemption Amount is less than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.

	—	Reference Banks (if Primary Source is "Reference):	[*Specify four*]
	—	Page (if Primary Source is "Page"):	[Page]
	—	Relevant Financial Centre:	[*The financial centre most closely connected to the Benchmark specify if not London*]
	—	Benchmark:	[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]
	—	Representative Amount:	[*Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount*]
	—	Effective Date:	[*Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period*]
	—	Specified Duration:	[*Specify period for quotation if not duration of Interest Accrual Period*]
	—	Relevant Screen Page:	[●]
	(x)	ISDA Determination (Condition 5(b)(iii)(A)):	
	—	Floating Rate Option:	[●]
	—	Designated Maturity:	[●]
	—	Reset Date:	[●]
	—	ISDA Definitions (if different from those set out in the Conditions:	[●]
	(xi)	Margin(s):	[+/][●] per cent. per annum
	(xii)	Minimum Rate of Interest:	[●] per cent. per annum
	(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
	(xiv)	Day Count Fraction (Condition 19):	[●]
	(xv)	Rate Multiplier	[●]
	(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
17.	Zero Coupon Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub paragraphs of this paragraph*)
	(i)	[Amortisation/Accrual] Yield:	[●] per cent. per annum
	(ii)	Reference Price:	[●]
	(iii)	Day Count Fraction (Condition 19):	[●]
	(iv)	Any other formula/basis of determining amount payable:	[●]
18.	Index Linked Interest Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub paragraphs of this paragraph*)
	(i)	Index/Formula:	[*give or annex details*]
	(ii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[●]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or variable:	[●]
	(iv)	Interest Determination Date(s):	[●]
	(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise	

	disrupted:	
(vi)	Interest or calculation period(s):	[●]
(vii)	Specified Interest Payment Dates:	[●]
(viii)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
(ix)	Business Centre(s):	[●]
(x)	Minimum Rate/Amount of Interest:	[●] per cent. per annum
(xi)	Maximum Rate/Amount of Interest:	[●] per cent. per annum
(xii)	Day Count Fraction (Condition 19):	[●]
19.	Dual Currency Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub paragraphs of this paragraph*)
(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
(ii)	Party, if any responsible for calculating the principal and/or interest due (if not the [Agent]):	[●]
(iii)	Provisions applicable where calculating by reference to Rate of Exchange impossible or impracticable:	[●]
(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]
(v)	Day Count Fraction (Condition 19):	[●]

PROVISIONS RELATING TO REDEMPTION

20.	Call Option	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub paragraphs of this paragraph*)
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount(s) of each Note and Method, if any, of calculation of such amount(s):	[●] per Note of [●] specified denomination
(iii)	If redeemable in part:	
(a)	Minimum Redemption Amount:	[●]
(b)	Maximum Redemption Amount:	[●]
(iv)	Description of any other Issuer's option:	[●]
(iv)	Option Exercise Date(s):	[●]
(v)	Description of any other Issuer's option:	[●]
(vi)	Notice period:[4]	[●]
21.	Put Option	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub paragraphs of this paragraph*)
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount(s) of each Note and method, if any, of	[●] per Calculation Amount

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4 If setting notice periods which are different to those provided in the terms and conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Trustee.

		calculation of such amount(s):	
	(iii)	Option Exercise Date(s):	[●]
	(iv)	Description of any other Issuer's option:	[●]
	(v)	Notice period:[5]	[●]
22.	Final Redemption Amount of each Cash Note:[6]		[●] per Calculation Amount
	In cases where the Final Redemption Amount is Index Linked or other Variable linked:		
	(i)	Index/Formula/variable:	[*give or annex details*]
	(ii)	Party responsible for calculating the Final Redemption Amount (if not the [Agent]):	[●]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Interest Determination Date(s):	[●]
	(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi)	Payment Date:	[●]
	(vii)	Minimum Final Redemption Amount:	[●] per Calculation Amount
	(viii)	Maximum Final Redemption Amount:	[●] per Calculation Amount
23.	Early Redemption Amount:		
	(i)	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or on event of default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]
	(ii)	Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 6(c)):	[Yes/No]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	[specify amount of the Regulation S / Rule 144A Notes] Global Notes exchangeable for Definitive Notes in the limited circumstances specified in the Global Note
25.	Financial Centre(s) (Condition 7) or other special provisions relating to Payment	[Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which

5 If setting notice periods which are different to those provided in the terms and conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Trustee.

6 If the Final Redemption Amount is less than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.

	Dates:	items [15(ii)], [16(iv)] and [18(ix)] relate]
26.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
28.	Details relating to Instalment Notes	[Not Applicable/*give details*]
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]
29.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition ●] apply]
30.	Consolidation provisions:	[Not Applicable/The provisions [in Condition ●] apply]
31.	Other final terms:	[Not Applicable/*give details*] (*When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)

DISTRIBUTION

32.	(i) If syndicated names of Managers:	[Not Applicable/give names] (*Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and entities of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.*)
	(ii) Date of Subscription Agreement:	[●]
	(iii) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
33.	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
34.	U.S. Selling Restrictions:	[Reg. S Compliance Category; TEFRA C/ TEFRA D/ TEFRA not applicable]
35.	Additional selling restrictions:	[Not Applicable/*give details*]

[LISTING AND ADMISSION TO TRADING APPLICATION]

These Final Terms comprise the final terms required for issue and admission to trading on [London/other] of Notes described herein pursuant to the Issuer's U.S.$[●] Guaranteed Debt Issuance Programme guaranteed by JSC National Company KazMunayGas.

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms, [[relevant third party information] has been extracted from [specify source]. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: ___________________________
Duly authorised

Signed on behalf of the Guarantor:

By: ___________________________
Duly authorised

FINAL TERMS

PART B—OTHER INFORMATION

1. LISTING

(i)	Listing:	London/other (*specify*)/None
(ii)	Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] with effect from [●].] [Not Applicable.] (*Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.*)
(iii)	Estimate of total expenses related to admission to trading:	[●]

2. RATINGS The Notes to be issued have been rated:

[S & P: [●]]
[Moody's: [●]]
[Fitch: [●]]
[[Other]: [●]]

(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. [NOTIFICATION

The [*include name of competent authority in EEA home Member State*] [has been requested to provide/has provided include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer and the Guarantor are aware, no person involved in the offer of the Notes has an interest material to the offer".]

[5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i)	Reasons for the offer:	[●] (*See ["Use of Proceeds"] wording in Base Prospectus - if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.*)]
[(ii)]	Estimated net proceeds:	[●] *(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

[(iii)]	Estimated total expenses:	[●] [Include breakdown of expenses.]
		(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]*

6. [Fixed Rate Notes only - YIELD

Indication of yield:	[●]
	The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. [Index Linked or other variable linked Notes only—PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

8. [Dual Currency Notes only - PERFORMANCE OF RATE[S] OF EXCHANGE

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

9. OPERATIONAL INFORMATION

ISIN Code (Reg S Notes):	[●]
ISIN Code (Rule 144A Notes):	[●]
Common Code (Reg S Notes):	[●]
Common Code (Rule 144A Notes):	[●]
Rule 144A Notes CUSIP number:	[●]
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme or DTC and the relevant Identification number(s):	[Not Applicable/*give name(s) and number(s)*]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[●]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Summary of the Provisions Relating to the Notes in Global Form" for a description of the content of the Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a duly authorised issue of notes (the "**Notes**", issued by KazMunaiGaz Finance Sub B.V. (the "**Issuer**") under its U.S.$7,500,000,000 Medium Term Note Programme (the "**Programme**") established by the Issuer and JSC National Company KazMunayGas (the "**Guarantor**") and unconditionally and irrevocably guaranteed by the Guarantor, pursuant to the guarantee (the "**Guarantee**") contained in the Trust Deed (as defined below).

The Notes are constituted by a Trust Deed dated 18 June 2008 as supplemented by a supplemental trust deed dated 8 July 2009 and a further supplemental trust deed dated 15 April 2010 (as further amended or supplemented as at the date of issue of the Notes (the "**Issue Date**"), the "**Trust Deed**") between the Issuer, the Guarantor and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all Persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes referred to below. An Agency Agreement dated 18 June 2008 as supplemented by a supplemental agency agreement dated 8 July 2009 and a further supplemental agency agreement dated 15 April 2010 (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, Citibank N.A., London as calculation agent (the "**Calculation Agent**"), principal paying agent (the "**Principal Paying Agent**" and a "**Paying Agent**") and a transfer agent (a "**Transfer Agent**"), Citigroup Global Markets Deutschland AG & Co. KGaA as registrar (the "**Registrar**"), and Citibank N.A., London (in its capacity as paying agent, a "**Paying Agent**", and in its capacity as transfer agent, a "**Transfer Agent**"). Copies of the Trust Deed, the Agency Agreement and any Final Terms are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. All Capitalised terms that are not defined in these conditions will have the meanings given to them in the Trust Deed and the relevant Final Terms.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects except for the Issue Date, Interest Communication Date and the amount of the first interest payment.

1. Form, Denomination and Title

The Notes are issued in registered form in the Specified Denomination(s) shown in the relevant Final Terms or integral multiples thereof, without interest coupons, provided that (i) the Specified Denomination(s) shall not be less than €50,000 or its equivalent in other currencies, (ii) with respect to (a) Notes which are not admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive and (b) Notes with a maturity of less than 365 days, a lower Specified Denomination may apply as more fully set out in Part A of the relevant Final Terms and (iii) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.$100,000 or its equivalent in other currencies.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note, a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the relevant Final Terms.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no Person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the Person in whose name a Note is registered, "**holder**" shall be read accordingly and capitalised terms have the meanings given to them in the relevant Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. Transfers of Notes

(a) **Transfer of Notes**: One or more Notes may be transferred, in whole or in part in the authorised denominations set out in the applicable Final Terms and subject to minimum transfer amounts specified therein, upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Note or Notes, together with the form of transfer endorsed on such Note or Notes (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of a Note, a new Note shall be issued to the transferee in respect of the part transferred and a further new Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer or the Guarantor, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) **Exercise of Options or Partial Redemption in Respect of Notes**: In the case of an exercise of the Issuer's, Guarantor's or Noteholders' options in respect of, or a partial redemption of, a holding of Notes, a new Note shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Notes shall be issued in respect of those Notes of that holding that have the same terms. New Notes shall only be issued against surrender of the existing Notes to the Registrar or any Transfer Agent. In the case of a transfer of Notes to a Person who is already a holder of Notes, a new Note representing the enlarged holding shall only be issued against surrender of the Note representing the existing holding.

(c) **Delivery of New Notes**: Each new Note to be issued pursuant to Conditions 2(a) or (b) shall be available for delivery within five business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(f)) and surrender of the Note for exchange. Delivery of the new Note(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition (c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) **Transfer Free of Charge**: Transfer of Notes on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) **Closed Periods**: No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount or Interest Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(e) or (iii) after any such Note has been called for redemption.

(f) **Restrictions on Transfer**: If at any time, the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a QIB and a QP is not a QIB and a QP, the Issuer may (i) require such beneficial owner to sell its Notes, or may sell such Notes on behalf of such beneficial owner, to a non-U.S. person who purchases in an offshore transaction pursuant to Regulation S or to a person who is a QIB who is also a QP and who is otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act or (ii) require the beneficial owner to sell such Notes, or may sell such Notes on behalf of such beneficial owner, to the Issuer or an affiliate thereof at a price equal to the lesser of (x) the purchase price paid by the beneficial owner for such Notes, (y) 100 per cent. of the principal amount thereof and (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of interests in the Rule 144A Global Note or of Rule 144A Definitive Notes to a U.S. person who is not a QIB and a QP.

3. Guarantee and Status

(a) **Status of the Notes:** The Notes constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Issuer which rank and will rank pari passu among themselves and at least pari passu in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law.

(b) **Status of the Guarantee:** The Guarantor has, in the Trust Deed, unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes and the Trust Deed (the "**Guarantee**"). The obligations of the Guarantor under the Guarantee constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Guarantor which rank and will rank at least pari passu in right of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor, save only for such obligations as may be preferred by mandatory provisions of applicable law.

4. Negative Pledge and Covenants

So long as any amount remains outstanding under the Notes:

(a) **Negative Pledge**: the Guarantor shall not, and shall not permit any Material Subsidiary to, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its or their assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Notes are secured equally and rateably with such other Indebtedness or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its sole discretion shall consider to be not materially less beneficial to the interests of the Noteholders.

(b) **Limitation on Payments of Dividends**

(i) The Guarantor will not pay any dividends, in cash or otherwise, or make any other distribution of any sort (whether by way of redemption, acquisition or otherwise) in respect of its share capital or by way of management or other similar fees payable to its direct or indirect shareholders:

(A) at any time when there exists an Event of Default (as defined in Condition 10 or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default); or

(B) at any time when no such Event of Default or event exists, in an aggregate amount exceeding 50 per cent. of the Guarantor's Consolidated Net Income for the period in respect of which the dividend or other distribution or other fee is being paid; provided that for the purposes of this Condition 4(b)(i), Consolidated Net Income shall exclude any gains or losses from the Net Cash Proceeds of the sale of all or substantially all of the assets or property or any business or division, or the Capital Stock, respectively of any Material Subsidiary or Minority Company.

(ii) The above limitation shall not apply to the payment of (i) any dividends in respect of any Preferred Stock of the Guarantor, which may be issued by the Guarantor from time to time and (ii) any dividends in respect of any Capital Stock of the Guarantor made out of the Net Cash Proceeds of the substantially concurrent sale of, or by issuance of, Capital Stock of the Guarantor (other than Disqualified Stock and other than Capital Stock issued

or sold to a Subsidiary of the Guarantor or an employee stock ownership plan or to a trust established by the Guarantor or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Guarantor from its shareholders.

(iii) The Guarantor will not permit any Material Subsidiary to make any dividends or other distributions in respect of any series of Capital Stock of such Material Subsidiary unless such dividends or distributions are made on a *pro rata* basis to holders of such series of Capital Stock or such dividends or distributions are made on a basis that results in the Guarantor or a Material Subsidiary receiving dividends or other distributions of greater value than would result on a *pro rata* basis.

(c) Limitation on Sales of Assets and Subsidiary Stock

The Guarantor will not, and will not permit any Material Subsidiary to, consummate any Asset Disposition unless:

(i) the Guarantor or such Material Subsidiary receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the shares and assets subject to such Asset Disposition; and

(ii) solely with respect to an Asset Disposition of shares of Capital Stock of a Material Subsidiary, after giving effect to any such Asset Disposition, the Guarantor will continue to "beneficially own" (as such term is defined in Rule 13(d)(3) and Rule 13(d)(5) under the Exchange Act), directly or indirectly, at least the Restricted Percentage of the shares of Capital Stock of such Material Subsidiary.

(d) Limitation on Indebtedness

(i) The Guarantor will not, and will not permit any Material Subsidiary to Incur, directly or indirectly, any Indebtedness; *provided, however,* that the Guarantor and Material Subsidiaries will be entitled to Incur Indebtedness if:

(A) after giving effect to such Incurrence and the application of the proceeds thereof, on a *pro forma* basis, no Default or Event of Default would occur or be continuing; and

(B) the ratio of Consolidated Guarantor Net Indebtedness as of any date of determination, after giving effect to such Incurrence and the application of the proceeds thereof, on a *pro forma* basis, to the aggregate amount of Consolidated Guarantor EBITDA for the most recent two semi annual financial periods for which consolidated financial statements have been delivered pursuant to Condition 4(e) (or, prior to the delivery of the first consolidated financial statements following the Issue Date pursuant to Condition 4(e)(i) or 4(e)(ii), the Consolidated Guarantor EBITDA for the six months ended 31 December 2007, multiplied by two), does not exceed 3.5 to 1.

For purposes of calculating the ratios described in this Condition 4(d)(i), acquisitions that have been made by the Guarantor or any Material Subsidiary, including through mergers or consolidations and including any related financing transactions (including, without limitation, any acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of Indebtedness), during (a) for the most recent two semi annual financial periods for which consolidated financial statements have been delivered pursuant to Condition 4(e) or (b) subsequent to such semi annual financial periods and on or prior to the date on which the ratio is calculated, will be given pro forma effect as if they had occurred on the first day of the measurement period used in the calculation of Consolidated Guarantor EBITDA; *provided, however,* that (i) any such *pro forma* EBITDA in respect of an acquisition may only be so included in the calculation of Consolidated Guarantor EBITDA if such pro forma EBITDA shall have been derived from financial statements of, or relating to or including, such acquired entity and (ii) such financial statements have been prepared in accordance with IFRS, U.S. GAAP or any body of accounting principles that has been determined by the European Commission to be equivalent to IFRS (without regard to any modification to such

principles that may be required after the date of such financial statements in connection with or pursuant to such determination).

(ii) Condition 4(d)(i) will not prohibit the incurrence of any of the following items of Indebtedness:

(A) refinancing (including successive refinancing) of Indebtedness of the Guarantor or any Material Subsidiary outstanding on the Issue Date (including the Notes issued on the Issue Date) or permitted to be Incurred under Condition 4(d)(i) above; *provided* that the aggregate principal amount is not thereby increased by more than the expenses incurred by the Guarantor or its Material Subsidiaries in connection with such refinancing plus the amount of any premium to be paid in connection with such refinancing;

(B) intercompany debt (i) between the Guarantor and any Material Subsidiary and (ii) between any Material Subsidiary and another Material Subsidiary; *provided, however,* that any subsequent issuance or transfer of any Capital Stock which results in any such Material Subsidiary ceasing to be a Material Subsidiary or any subsequent disposition, pledge or transfer of such Indebtedness (other than to the Guarantor or a Material Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon; and

(C) Indebtedness arising out of interest rate agreements or currency hedging agreements for the benefit of the Guarantor or any Material Subsidiary; *provided* that such interest rate agreements do not exceed the aggregate principal amount of the related Indebtedness and such currency hedging agreements do not increase the obligations of the Guarantor or any Material Subsidiary other than as a result of fluctuations in interest or foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder.

(e) Financial Information

(i) The Guarantor shall deliver to the Trustee as soon as they become available, but in any event within five months after the end of each of its financial years, copies of the Guarantor's stand alone financial statements and consolidated financial statements for such financial year, in each case audited by the Auditors and prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period.

(ii) The Guarantor shall as soon as the same become available, but in any event within (x) 120 days following the end of the half year ended 30 June 2008, and (y) 90 days following the end of each first half year of each of its financial years thereafter, deliver to the Trustee the Guarantor's stand alone financial statements and consolidated financial statements for such period.

(iii) The Guarantor hereby undertakes that it will deliver to the Trustee, without undue delay, such additional information regarding the financial position or the business of the Guarantor, any Material Subsidiary or any Minority Company as the Trustee may reasonably request, including providing certification according to the Trust Deed.

(iv) The Guarantor shall ensure that each set of stand alone financial statements and consolidated financial statements delivered by it pursuant to this Condition 4(e) is:

(A) prepared generally on the same basis as was used in the preparation of its Original Financial Statements (including with respect to presentation of prior periods) and in accordance with IFRS and consistently applied;

(B) in the case of the statements provided pursuant to Condition 4(e)(i), accompanied by a report thereon of the Auditors referred to in Condition 4(e)(i) (including opinions of such Auditors with accompanying notes and annexes); and

(C) in the case of the statements provided pursuant to Conditions 4(e)(i) and 4(e)(ii), certified by an Authorised Signatory of the Guarantor that the information with respect to the Group included in the financial statements pursuant to Condition 4(e)(vi) give a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period.

(v) The Guarantor undertakes to furnish to the Trustee such information as the Regulated Market of the London Stock Exchange plc (the "**Stock Exchange**") (or any other or further stock exchange or stock exchanges or any relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require as necessary in connection with the listing or admission to trading on such stock exchange or relevant authority of such instruments.

(vi) The semi annual and annual financial information to be delivered pursuant to Conditions 4(e)(i) and 4(e)(ii) will be prepared on the basis of accounting principles consistent with those that formed the basis of the Original Financial Statements in respect of the Group, in each case as at and for the periods covered by the relevant financial information, either on the face of the financial statements or in the footnotes thereto.

(f) Limitations on Dividends from Material Subsidiaries

(i) The Guarantor shall procure that none of the Material Subsidiaries will create, assume or otherwise permit to subsist or become effective any encumbrance or restriction on the ability of such Material Subsidiaries to:

(A) pay any dividends or make any other payment or distribution on or in respect of its shares;

(B) make payments in respect of any Indebtedness owed to the Guarantor or any other Material Subsidiary; or

(C) make loans or advances to the Guarantor or any other Material Subsidiary or guarantee indebtedness of the Guarantor or any other Material Subsidiary.

(ii) The provisions of Condition 4(f)(i) will not prohibit:

(A) solely with respect to Condition 4(f)(i)(A), any encumbrance or restriction pursuant to an agreement relating to the Incurrence of Indebtedness; *provided, however,* that any such encumbrance or restriction shall be limited such that the payment of dividends or other payments or distributions in any period in an amount up to 50 per cent. of Consolidated Net Income for such period shall be permitted;

(B) any encumbrance or restrictions pursuant to an agreement (including any shareholder or joint venture or similar agreement) in the form in effect at or entered into on the Issue Date the terms of which were disclosed in the Prospectus;

(C) any encumbrance or restriction with respect to an entity that becomes a Material Subsidiary after the Issue Date pursuant to an agreement relating to any Indebtedness Incurred prior to the date on which such Subsidiary becomes a Material Subsidiary (to the extent such encumbrance or restriction was not put in place in anticipation of such entity becoming a Material Subsidiary) and outstanding on such date;

(D) any encumbrance or restriction pursuant to an agreement effecting a refinancing of Indebtedness incurred pursuant to an agreement referred to in Condition 4(f)(ii)(B) above or Condition 4(f)(ii)(C) above or Condition 4(f)(ii)(E) below or contained in any amendment, modification, restatement, renewal, increase, supplement, refunding or replacement of an agreement referred to in Condition 4(f)(ii)(B) above or Condition 4(f)(ii)(C) above or Condition 4(f)(ii)(E) below; *provided, however,* that the encumbrances and restrictions with respect to such Material Subsidiary contained in any such refinancing agreement or amendment,

modification, restatement, renewal, increase, supplement, refunding or replacement agreements are no more restrictive in any material respect than those encumbrances and restrictions, taken as a whole, with respect to such Material Subsidiary contained in such predecessor agreements; and

(E) any encumbrance or restriction that is as a result of applicable law or regulation.

(g) Maintenance of Authorisations

(i) The Guarantor shall, and shall procure that each of the Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Guarantor or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and/or operations; and

(ii) the Guarantor shall, and shall procure that each of the Material Subsidiaries shall, take all necessary action to obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in any relevant jurisdiction for the execution, delivery or performance of the Notes and the Agreements or for the validity or enforceability thereof.

(h) Mergers and Consolidations

(i) The Guarantor will not, directly or indirectly, in a single transaction or a series of related transactions, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable legislation or otherwise), participate in any other type of corporate reconstruction unless, or sell, lease, transfer, convey or otherwise dispose of all or substantially all of the assets of the Guarantor or the Guarantor and the Material Subsidiaries (taken as a whole) (in each case, a "**reorganisation**") unless:

(A) the Guarantor will be the surviving or continuing Person;

(B) immediately prior to and immediately after giving effect to such transaction and the incurrence of any Indebtedness to be incurred in connection therewith, and the use of any net proceeds therefrom on a pro forma basis, no Event of Default shall have occurred and be continuing; and

(C) during the period commencing upon the announcement or (in the absence of such announcement) the occurrence of any such reorganisation and ending upon the occurrence of such reorganisation, no Adverse Ratings Event shall have occurred by reason of such reorganisation; *provided* that any if any Adverse Ratings Event shall have occurred during the six months immediately following the occurrence of such reorganisation by reason of such reorganisation, the Issuer shall comply with provisions of Condition 6(d).

(ii) The Guarantor shall ensure that no Material Subsidiary will enter into any reorganisation unless:

(A) such Material Subsidiary will be the surviving or continuing Person;

(B) immediately prior to and immediately after giving effect to such transaction and the incurrence of any Indebtedness to be incurred in connection therewith, and the use of any net proceeds therefrom on a pro forma basis, no Event of Default shall have occurred and be continuing; and

(C) during the period commencing upon the announcement or (in the absence of such announcement) the occurrence of any such reorganisation and ending upon the occurrence of such reorganisation, no Adverse Ratings Event shall have occurred by reason of such reorganisation; *provided* that any if any Adverse Ratings Event shall have occurred during the six months immediately following the occurrence of such

reorganisation by reason of such reorganisation, the Issuer shall comply with provisions of Condition 6(d).

(iii) For purposes of the foregoing, the transfer (by lease, assignment, sale, conveyance or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Material Subsidiaries, the Capital Stock of which constitute all or substantially all of the properties and assets of the Guarantor, will be deemed to be the transfer of all or substantially all of the properties and assets of the Guarantor.

Notwithstanding the foregoing, any Material Subsidiary may consolidate with, merge with or into or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to the Guarantor or another Subsidiary of the Guarantor (which after such transaction will be deemed to be a Material Subsidiary for purposes hereof).

(i) Transactions with Affiliates

The Guarantor shall not, and shall ensure that none of the Material Subsidiaries, directly or indirectly, will enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans, disposals or acquisitions, unless the terms of such Affiliate Transaction are no less favourable to the Guarantor or such Material Subsidiary, as the case may be, than those that could be obtained (at the time of such transaction or, if such transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefor) in a comparable arm's length transaction with a Person that is not an Affiliate of the Guarantor or such Material Subsidiary.

This Condition 4(i) shall not apply to (i) compensation or employee benefit arrangements with any officer or director of the Guarantor or any of its Subsidiaries arising as a result of their employment contract, (ii) Affiliate Transactions pursuant to agreements or arrangements entered into prior to the Issue Date the terms of which were disclosed in the Prospectus, (iii) any sale of equity of the Guarantor, (iv) transactions between the Guarantor and a Material Subsidiary, transactions between the Guarantor and/or a Material Subsidiary and a Subsidiary or transactions between Material Subsidiaries and (v) Affiliate Transactions involving an aggregate amount not to exceed U.S.$100 million in any one calendar year.

(j) Payment of Taxes and Other Claims

The Guarantor shall, and shall ensure that the Material Subsidiaries will, pay or discharge or cause to be paid or discharged before the same shall become overdue all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Guarantor and the Material Subsidiaries provided that none of the Guarantor nor any Material Subsidiary shall be in breach of this Condition 4(j) if the Guarantor or any Material Subsidiary has failed to pay or discharge or cause to be paid or discharged any tax, assessment, charge or claim (a) if such amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made, or (b) if a failure to pay or discharge or cause to be paid or discharged such amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, would not have a Material Adverse Effect.

(k) Officers' Certificates

(i) Within 14 days of any request by the Trustee, the Guarantor shall deliver to the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default or Put Event has occurred and, if it has occurred and shall be continuing, what action the Guarantor is taking or proposes to take with respect thereto and that the Guarantor has complied with its obligations under the Trust Deed.

(ii) The Guarantor will at the same time as delivering the Guarantor's audited annual financial statements pursuant to Condition 4(e)(i) and within 30 days of a request from the Trustee, deliver to the Trustee an Officers' Certificate specifying those companies which were, at a date no more than 20 days before the date of such Officers' Certificate, Material Subsidiaries or Minority Companies, as the case may be.

(iii) Following the occurrence of any matter or event specified in the Notes or the Trust Deed where the Notes or the Trust Deed provide for a determination of whether such matter or event has or will have a Material Adverse Effect, the Guarantor, at the request of the Trustee, shall provide the Trustee with an Officers' Certificate certifying whether such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Trustee shall be entitled to rely solely on an Officers' Certificate from the Guarantor, certifying whether or not such matter has or will have a Material Adverse Effect.

(l) Change of Business

The Guarantor shall not, and shall ensure that no Material Subsidiary will engage in any business other than a Permitted Business.

5. Interest and other Calculations

(a) Interest on Fixed Rate Notes: Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is partly paid, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest, such interest being payable in arrear on each Interest Payment Date up to the Maturity Date.

If a Fixed Coupon Amount or a Broken Amount is specified in the Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the Final Terms.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes:

(i) *Interest Payment Dates*: Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is partly paid Note, the amount paid up) from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the Final Terms;

(y) the Designated Maturity is a period specified in the Final Terms; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Final Terms.

For the purposes of this sub paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(x) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:

(I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

(II) the arithmetic mean of the Relevant Rates of the Persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

(y) if the Primary Source for the Floating Rate is Reference Banks or if sub paragraph (x)(I) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub paragraph (x)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is euro,

in Europe (the "**Principal Financial Centre**") are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes*: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and interest will accrue by reference to an Index or Formula as specified in the Final Terms.

(c) **Zero Coupon Notes**: Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the due date for payment, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes**: In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the Final Terms.

(e) **Partly Paid Notes**: In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid up nominal amount of such Notes and otherwise as specified in the Final Terms.

(f) **Accrual of Interest**: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding:**

(i) If any Margin or Rate Multiplier is specified in the Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the Final Terms, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes

"unit" means the lowest amount of such currency that is available as legal tender in the country or countries (as applicable) of such currency.

(h) **Calculations**: The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**: As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, the Guarantor, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Determination or Calculation by Trustee**: If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may do so (or may appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee may apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6. Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified in the Final Terms) is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d), 6(e) or 6(f), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in the Final Terms. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment

Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d), 6(e) or 6(f), each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount (which, unless otherwise provided in the Final Terms, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) Early Redemption:

(i) *Zero Coupon Notes:*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the Final Terms.

(B) Subject to the provisions of sub paragraph (C) below, the "**Amortised Face Amount**" of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub paragraph (B) above, except that such sub paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be a made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Final Terms.

(ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified in the Final Terms.

(c) Redemption for Taxation Reasons: The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified in the Final Terms, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if, immediately before giving such notice, the Issuer satisfies the Trustee that (a) (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Netherlands or any political subdivision or any authority thereof having power to tax therein, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue of the first Tranche of the Notes and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (b) (i) the Guarantor has or (if a demand was

made under the Guarantee) would become obliged to pay additional amounts as provided or referred to in Condition 8 or the Guarantee, as the case may be, or the Guarantor has or will become obliged to make any such withholding or deduction of the type referred to in Condition 8 or in the Guarantee, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case to any greater extent than would have been required had such a payment been required to be made before the date on which agreement is reached to issue the first Tranche of the Notes as a result of any change in, or amendment to, the laws or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Guarantor (or the Issuer, as the case may be) taking reasonable measures available to it; *provided, however,* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due, or (as the case may be) a demand under the Guarantee were then made or (also as the case may be) the Guarantor would be obliged to make a payment to the Issuer to enable it to make a payment of principal or interest in respect of the Notes if any such payment on the Notes were then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (1) a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers in form and substance satisfactory to the Trustee of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (a)(ii) and/or (b)(ii) above in which event it shall be conclusive and binding on Noteholders.

(d) **Redemption at the Option of Noteholders upon a Change of Status**: If at any time while any Note remains outstanding a Change of Status occurs, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer redeem such Note on the Optional Redemption Date(s) at 101 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Change of Status Put Date (as defined below).

Such option (the "**Change of Status Put Option**") shall operate as set out below.

If a Change of Status occurs then, within 14 days of the occurrence of the Change of Status, the Issuer shall, and upon the Trustee becoming so aware (the Issuer having failed to do so) the Trustee may, and, if so requested by the holders of at least one fifth in principal amount of the Notes then outstanding, shall, give notice (a "**Change of Status Notice**") to the Noteholders in accordance with Condition 16 specifying the nature of the Change of Status and the procedure for exercising the Change of Status Put Option.

To exercise the Change of Status Put Option, a holder of Notes must deliver at the specified office of any Paying Agent on any Business Day falling within the period commencing on the occurrence of a Change of Status and ending 90 days after such occurrence or, if later, 90 days after the date on which the Change of Status Notice is given to Noteholders as required by this Condition 6(d) (the "**Change of Status Put Period**"), a duly signed and completed notice of exercise in the form (for the time being current and which may, if the certificate for such Notes is held in a clearing system, be any form acceptable to the clearing system delivered in any manner acceptable to the clearing system) obtainable from any specified office of any Paying Agent (a "**Change of Status Put Option Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this paragraph accompanied by the certificate for such Notes or evidence satisfactory to the Paying Agent concerned that the certificate for such Notes will, following the delivery of the Change of Status Put Option Notice, be held to its order or under its control.

The Issuer shall at its option redeem or purchase (or procure the purchase of) the Notes the subject of each Change of Status Put Option Notice on the date (the "**Change of Status Put Date**") seven days after the expiration of the Change of Status Put Period unless previously redeemed or purchased and cancelled. A Change of Status Put Option Notice given by a holder of any Note shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in

which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Status Put Option Notice.

For the purposes of this Condition 6(d):

A "**Change of Status**" will be deemed to have occurred upon the occurrence of any of the following:

(i) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that the Republic of Kazakhstan and/or any other federal or state agencies appropriately authorised to hold the shares of the Guarantor ceases to own and control (directly or indirectly) 100 per cent. of the issued and outstanding voting share capital of the Guarantor; or

(ii) the Guarantor ceasing to be a "national company" within the meaning of Article 1 of the Law of the Republic of Kazakhstan No. 2350 "On Petroleum" dated 28 June 1995 (as amended) and the Law of the Republic of Kazakhstan No 2828 "On Subsoil and Subsoil Use" dated 27 January 1996 (as amended) (the "**Subsoil Law**"); or

(iii) any change to such laws the result of which is that the Guarantor ceases to act as the government of Kazakhstan's agent in relation to domestic production sharing agreements, or ceases to benefit from the Guarantor's first right of refusal to acquire 50 per cent. of the participation and operating rights in all new hydrocarbon deposits in Kazakhstan as provided by article 71 of the Subsoil Law; or

(iv) the occurrence of an Adverse Ratings Event during the six months immediately following the occurrence of a reorganisation entered into by the Guarantor (directly or indirectly) or any Material Subsidiary in accordance with Condition 4(h)(i) and (ii), by reason of such reorganisation.

(e) Redemption at the Option of the Issuer and Exercise of Issuer's Options: If Call Option is specified in the Final Terms, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the Final Terms) redeem, or exercise any Issuer's option (as may be described in the Final Terms) in relation to, all or, if so provided, some of the Notes on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's option, the notice to Noteholders shall specify the nominal amount of Notes drawn and the holder(s) of such Notes, to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements. So long as the Notes are listed on the Official List of the Financial Services Authority and admitted to trading on the Stock Exchange or any other stock exchange and the rules of the relevant stock exchange so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation in London or as specified by such other stock exchange, a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

(f) Redemption at the Option of Noteholders and Exercise of Noteholders' Options: If Put Option is specified in the Final Terms, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to (but excluding) the date fixed for redemption.

To exercise such option or any other Noteholders' option that may be set out in the Final Terms (which must be exercised on an Option Exercise Date) the holder must deposit the Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(g) **Partly Paid Notes**: Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the Final Terms.

(h) **Purchases**: The Issuer, the Guarantor and any of their Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(i) **Cancellation**: All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their Subsidiaries may be held, resold or, at the option of the Issuer, surrendered for cancellation by surrendering the Notes to the Registrar and, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

7. Payments

(a) **Payments of Principal and Interest:**

(i) Payments of principal (which for the purposes of this Condition 7(a) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Notes shall be made against presentation and surrender of the relevant Notes at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(a) shall include all Instalment Amounts other than final Instalment Amounts) on Notes shall be paid to the Person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed by uninsured post to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. The holder of such Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of such Notes as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

(b) **Payments subject to Laws**: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Appointment of Agents**: The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer, the Guarantor and, in certain circumstances, the Trustee and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) a Paying Agent and a Transfer Agent having specified offices in such cities as may be required by any stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vi) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders in accordance with Condition 16.

(d) **Calculation Agent and Reference Banks**: The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the Notes and for so long as any such Note is outstanding (as defined in the Trust Deed). If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall (with the prior written approval of the Trustee) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, within 7 days of the date upon which any such amount is due to be calculated, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over the counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

Notice of any such change shall promptly be given to the Noteholders.

(e) **Non Business Days**: If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" in the Final Terms and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET2 Business Day.

8. Taxation

All payments by or on behalf of the Issuer or the Guarantor in respect of the Notes or under the Guarantee shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Netherlands or the Republic of Kazakhstan or, in either case, any political subdivision or any authority thereof or therein having the power to tax (collectively "**Taxes**") unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the Guarantor will pay such additional amounts to the holder of any Note as will result in receipt by the Noteholder of such amounts as would have been received by them had no such withholding or deduction on account of any such Taxes had been required, except that no additional amounts shall be payable with respect to any Note:

(a) **Other connection**: to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Note by reason of his having some connection with the Netherlands or, in the case of payments by the Guarantor, the Republic of Kazakhstan other than the mere holding of the Note or the receipt of payment thereunder or under the guarantee; or

(b) **Presentation more than 30 days after the Relevant Date**: presented (or in respect of which the Note representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day;

(c) **Payment to individuals**: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/ EC or any other Directive

implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(d) **Presentation in another jurisdiction**: presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union.

As used in these Conditions, "**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

9. Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. Events of Default

If any of the following events (each an "**Event of Default**") occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least one fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject to it being indemnified and/or secured to its satisfaction, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together with accrued interest to the date of such notice:

(a) **Non payment**: the Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or additional amounts on any of the Notes and such default in respect of interest or additional amounts continues for a period of five days; or

(b) **Breach of other obligations**: the Issuer or the Guarantor is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes, the Guarantee or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 10) and such default or breach is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer or the Guarantor, as the case may be, by the Trustee; or

(c) **Cross default**: (i) any Indebtedness for Borrowed Money of the Issuer, the Guarantor or any Material Subsidiary (a) becomes due and payable prior to the due date for payment thereof by reason of default by the Issuer, the Guarantor or such Material Subsidiary or (b) is not repaid at maturity as extended by the period of grace, if any, applicable thereto or (ii) any Indebtedness Guarantee given by the Issuer, the Guarantor or any Material Subsidiary in respect of Indebtedness for Borrowed Money of any other Person is not honoured when due and called, provided that the aggregate principal amount of such Indebtedness for Borrowed Money exceeds U.S.$50,000,000 (or its equivalent in other currencies); or

(d) **Bankruptcy**: (i) any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities, moratorium of payments or similar arrangements involving the Issuer or the Guarantor or any Material Subsidiary or all or (in the opinion of the Trustee) substantially all of their respective properties and such proceeding, decree or order shall not have been vacated or

shall have remained in force undischarged or unstayed for a period of 45 days; or (ii) the Issuer or the Guarantor or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or the Guarantor or any Material Subsidiary, as the case may be, or in respect of its property, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or the Issuer or the Guarantor or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the Material Subsidiary, (in the sole opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or

(e) **Judgments**: The failure by the Guarantor or any subsidiary to pay any final judgment in excess of U.S.$10,000,000 (or its equivalent in other currencies) which final judgment remains unpaid, and undischarged, and unwaived and unstayed for a period of more than 30 consecutive days after such judgement becomes final and non-appealable, and, in the event such judgment is covered by insurance, an enforcement proceeding has been commenced by any creditor upon such judgment that is not promptly stayed; or

(f) **Material compliance with applicable laws**: the Issuer or the Guarantor fails to comply in any respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable the Issuer or the Guarantor lawfully to exercise its rights or perform or comply with its obligations under the Notes, the Guarantee or the Trust Deed or the Agency Agreement or to ensure that those obligations are legally binding and enforceable or to ensure that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect and the Trustee certifies that such non-compliance is, in the sole opinion of the Trustee, materially prejudicial to the interests of Noteholders; or

(g) **Invalidity or Unenforceability**: (i) the validity of the Notes, the Trust Deed, the Guarantee or the Agency Agreement is contested by the Issuer or the Guarantor or the Issuer or the Guarantor shall deny any of its obligations under the Notes, the Trust Deed, the Guarantee or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (ii) it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed, the Guarantee or the Agency Agreement or (iii) all or any of the Issuer's or the Guarantor's obligations set out in the Notes, the Trust Deed, the Guarantee or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 10(g), the Trustee is of the opinion (determined in its sole discretion) that such occurrence is materially prejudicial to the interests of the Noteholders; or

(h) **Government Intervention**: (i) all or any substantial part of the undertaking, assets and revenue of the Issuer, the Guarantor or any Material Subsidiary is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any Material Subsidiary is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets, revenue and, following the occurrence of any of the events specified in this Condition 10(h), the Trustee is of the opinion (determined in its sole discretion) that such occurrence is materially prejudicial to the interests of the Noteholders.

11. Meetings of Noteholders, Modification, Waiver and Substitution

(a) **Meetings of Noteholders**: The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more Persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more Persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest

Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown in the Final Terms, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to take any steps that as specified in the Final Terms may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution or any resolution, or (ix) to modify or cancel the Guarantee, in which case the necessary quorum shall be two or more Persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

(b) **Modification**: The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Notes or the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Notes or the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution**: The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of the Issuer's successor in business or of the Guarantor or its successor in business or any subsidiary of the Guarantor or its successor in business in place of the Issuer or Guarantor, or of any previous substituted company, as principal debtor or Guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee determined in its sole discretion be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee**: In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

12. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Notes or the Guarantee but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes as a result of such holders being connected in any way with a particular territory or tax jurisdiction and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, any indemnification or payment in respect of any tax consequences of such exercise upon individual Noteholders.

14. Replacement of Notes

If a Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes) and otherwise as the

Issuer may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

15. Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single Series with the outstanding securities of any Series or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single Series with existing Notes or a separate Series. Any further securities forming a single Series with the outstanding securities of any Series shall, and any other securities forming a separate Series may (with the consent of the Trustee), be constituted by the Trust Deed or any deed supplemental to it. The Trust Deed contains provisions for convening a single meeting of the Noteholders of a Series and the holders of securities of other Series where the Trustee so decides.

16. Notices

Notices to the Noteholders shall be sent by first class mail of (if posted overseas) by airmail to them (or, in the case of joint holders, to the first named in the Register) at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. In addition, so long as any Notes are listed on a stock exchange, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of such stock exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

17. Contracts (Rights of Third Parties) Act 1999

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. Governing Law, Jurisdiction and Arbitration

(a) **Governing law**: The Trust Deed and the Notes, including any non-contractual obligations arising out of or in connection with the Trust Deed and/or the Notes, are governed by, and shall be construed in accordance with, English Law.

(b) **Submission to Jurisdiction; Arbitration**: Each of the Issuer and the Guarantor has, in the Trust Deed, (i) submitted irrevocably to the jurisdiction of the courts of England for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed or the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated Jordans International Limited at 20-22 Bedford Row, London WC1R 4JJ to accept service of any process on its behalf in England; (iv) consented to the enforcement of any judgement; (v) to the

extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenue such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction; and (vi) agreed that the Trustee may elect by written notice to the Issuer that any dispute (including a claim, dispute or difference regarding the existence, termination or validity of the Notes), shall be finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration as at present in force and as modified by the Trust Deed.

19. Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Adverse Ratings Event**" shall be deemed to have occurred if any Rated Security or any corporate credit rating of the Guarantor or any Material Subsidiary assigned by any Rating Agency is (i) placed on "credit watch" or formal review or equivalent with negative implications or negative outlook or (ii) downgraded or withdrawn on the date such Rated Security or corporate rating of the Guarantor is so placed, downgraded or withdrawn as the case may be;

"**Affiliates**" of any specified person means any other persons, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified person. For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing;

"**Agreements**" means the Agency Agreement and the Trust Deed;

"**Asset Disposition**" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Guarantor or any Material Subsidiary, including any disposition by means of a merger, consolidation or similar transaction, of:

(i) any shares of Capital Stock of a Material Subsidiary or Minority Company; or

(ii) any other assets of the Guarantor or any Material Subsidiary or Minority Company;

Notwithstanding the preceding, transfers of assets between or among the Guarantor and any Subsidiaries shall not be deemed to be Asset Dispositions;

"**Attributable Indebtedness**" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded semi annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended);

"**Auditors**" means the Ernst & Young LLP or, if they are unable or unwilling to carry out any action requested of them under the Agreements, such other internationally recognised firm of accountants as may be nominated by the Guarantor and approved in writing by the Trustee for this purpose;

"**Authorised Signatory**" means, in relation to the Guarantor, any Person who is duly authorised and in respect of whom the Trustee has received a certificate or certificates signed by a director or another Authorised Signatory of the Guarantor setting out the name and signature of such Person and confirming such Person's authority to act;

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET2 System is operating (a "TARGET2 Business Day"); and/or

(iii) in the case of a currency and/or one or more Business Centres (specified in the Final Terms) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

"**Capital Stock**" of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity;

"**Capitalised Lease Obligations**" means an obligation that is required to be classified and accounted for as a capitalised lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation will be the capitalised amount of such obligation at the time any determination thereof is to be made as determined in accordance with IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty;

"**Commodity Hedging Agreements**" means, in respect to any Person, any forward, futures, spot deferred or option contract or other similar agreement or arrangement to which such Person is a party or a beneficiary entered into for protection against or to benefit from fluctuations in the price of any commodity produced or used by the Guarantor or its Material Subsidiaries pursuant to a Permitted Business;

"**Consolidated Group**" means in respect of any Person (including the Guarantor), any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which 50 per cent. or less of the total voting power of the Voting Stock is held by the Guarantor and/or any of its Subsidiaries or the Guarantor and/or any of its Subsidiaries does not have the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which the Guarantor or any of its Subsidiaries does not have the power to direct or cause the direction of the management and policies of such entity by contract, if (in the case of each of (a) or (b) above) in accordance with IFRS such entity would be consolidated with the Guarantor for financial statement purposes;

"**Consolidated Guarantor EBITDA**" means EBITDA of the Guarantor and its Material Subsidiaries on a consolidated basis in accordance with IFRS as shown in the then most recent financial statements delivered pursuant to Condition 4(e) (or, prior to the delivery of the first consolidated financial statements following the Issue Date pursuant to Condition 4(e), the Consolidated Guarantor EBITDA for the six months ended 31 December 2007 multiplied by two);

"**Consolidated Guarantor Net Indebtedness**" means, at any date of determination, Consolidated Guarantor Total Indebtedness minus cash and Temporary Cash Investments of the Guarantor and the Issuer;

"**Consolidated Guarantor Total Asset Value**" means, at any date of determination, the amount of the consolidated total assets of the Guarantor and its Material Subsidiaries, as calculated in accordance with the then most recent financial statements delivered pursuant to Condition 4(e);

"**Consolidated Guarantor Total Indebtedness**" means, at any date of determination, the total amount (without duplication) of the Indebtedness of the Guarantor and its Material Subsidiaries on a consolidated basis in accordance with IFRS;

"**Consolidated Income Taxes**" means, with respect to any Person for any period, taxes imposed upon such person or other payments required to be made by such Person by any governmental authority which taxes or other payments are calculated by reference to the income or profits of such Person or person and its Material Subsidiaries (to the extent such income or profits were included in computing Consolidated Net Income for such period), regardless of whether such taxes or payments are required to be remitted to any governmental authority;

"**Consolidated Interest Expense**" means, for any period, the total interest expense of the Guarantor and its Subsidiaries, on a consolidated basis, whether paid or accrued, plus, to the extent not included in such interest expense:

(i) interest expense attributable to Capitalised Lease Obligations and the interest portion of rent expense associated with Attributable Indebtedness in respect of the relevant lease giving rise thereto, determined as if such lease were a capitalised lease in accordance with IFRS and the interest component of any deferred payment obligations;

(ii) amortisation of debt discount and debt issuance cost;

(iii) non-cash interest expense;

(iv) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(v) interest actually paid by the Guarantor or any such Material Subsidiary under any Guarantee of Indebtedness or other obligation of any other Person;

(vi) net costs associated with Hedging Obligations;

(vii) the consolidated interest expense of such Person and its Material Subsidiaries that was capitalised during such period;

(viii) all dividends paid or payable in cash, Temporary Cash Investments or Indebtedness or accrued during such period on any series of Disqualified Stock of such Person or on Preferred Stock of its Material Subsidiaries payable to a party other than the Guarantor or a Material Subsidiary; and

(ix) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Guarantor) in connection with Indebtedness Incurred by such plan or trust, provided, however, that there will be excluded therefrom any such interest expense of any Immaterial Subsidiary to the extent the related Indebtedness is not Guaranteed or paid by the Guarantor or any Material Subsidiary.

(x) For purposes of the foregoing, total interest expense will be determined after giving effect to any net payments made or received by the Guarantor and its Subsidiaries, on a consolidated basis, with respect to Interest Rate Agreements;

"**Consolidated Net Income**" means, for any period, the net income (loss) (being income (loss) attributable to equity shareholders of the Guarantor) of the Guarantor and its Subsidiaries, on a consolidated basis, determined in accordance with IFRS; *provided, however,* that there will not be included in such Consolidated Net Income:

(i) any net income (loss) of any Person if such Person is not a Material Subsidiary, except that:

(A) subject to the limitations contained in paragraphs (iii), (iv) and (v) below, the Guarantor's equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Guarantor or a Material Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Material Subsidiary, to the limitations contained in paragraph (ii) below); and

(B) the Guarantor's equity in a net loss of any such Person for such period will be included in determining such Consolidated Net Income to the extent such loss has been funded with cash from the Guarantor or a Material Subsidiary;

(ii) any net income (but not loss) of any Material Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Material Subsidiary, directly or indirectly, to the Guarantor, except that:

(A) subject to the limitations contained in paragraphs (iii), (iv) and (v) below, the Guarantor's equity in the net income of any such Material Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Material Subsidiary during such period to the Guarantor or another Material Subsidiary as a dividend or distribution paid or permitted to be paid, directly or indirectly, by loans, advances, intercompany transfers or otherwise (for so long as permitted) to the Guarantor or a Material Subsidiary of the Guarantor (subject, in the case of such a dividend or distribution to another Material Subsidiary, to the limitation contained in this clause); and

(B) the Guarantor's equity in a net loss of any such Material Subsidiary for such period will be included in determining such Consolidated Net Income;

(iii) any gain (loss) realised upon the sale or other disposition of any property, plant or equipment of the Guarantor or its consolidated Material Subsidiaries (including pursuant to any Sale/Leaseback Transaction) which is not sold or otherwise disposed of in the ordinary course of business and any gain (loss) realised upon the sale or other disposition of any Capital Stock of any Person;

(iv) any extraordinary gain or loss;

(v) any foreign exchange gains or losses; and

(vi) the cumulative effect of a change in accounting principles;

"**Currency Agreement**" means in respect of a Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party or a beneficiary;

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the "**Calculation Period**"):

(i) if "**Actual/365**" or "**Actual/Actual ISDA**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction = $[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] +)D_2 - D_1)$

360

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(v) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction = $[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] +)D_2 - D_1)$

360

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction = $[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] +)D_2 - D_1)$

360

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30;

"**Disqualified Stock**" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(i) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(ii) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(iii) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

"**EBITDA**" means, for any period with respect to any Person, without duplication, the Consolidated Net Income for such period of such Person, plus the following to the extent deducted in calculating such Consolidated Net Income:

(i) Consolidated Interest Expense;

(ii) Consolidated Income Taxes;

(iii) consolidated depreciation expense;

(iv) consolidated amortisation of intangibles;

(v) other non-cash charges reducing Consolidated Net Income (excluding any such non-cash charge to the extent it represents an accrual of or reserve for cash charges in any future period or amortisation of a prepaid cash expense that was paid in a prior period not included in the calculation) less other non-cash items of income increasing Consolidated Net Income (excluding any such non-cash item of income to the extent it represents a receipt of cash in any future period); and

(vi) minority interest in (income)/loss of consolidated Subsidiaries;

(vii) in each case on a consolidated basis and in accordance with IFRS;

"**Effective Date**" means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the Final Terms or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates;

"**Event of Default**" has the meaning assigned to such term in Condition 10 hereof;

"**Extraordinary Resolution**" has the meaning assigned to such term in the Trust Deed;

"**Fair Market Value**" means, with respect to any asset or property, the price which could be negotiated in an arm's length, market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined in good faith by the Board of Directors of the Guarantor, whose determination will be conclusive or, in the case of any sale of the Capital Stock of a Material Subsidiary or a Minority Company exceeding U.S.$200 million, in writing by an Independent Appraiser;

"**Group**" means the Guarantor and its Subsidiaries taken as a whole;

"**guarantee**" means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise); or

(ii) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

(iii) provided, however, that the term "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning. The term "guarantor" shall mean any Person guaranteeing any obligation;

"**Hedging Obligations**" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Hedging Agreement;

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re issued from time to time), as consistently applied, and any variation to such accounting principles and practices which is not material;

"**Immaterial Subsidiary**" means any Subsidiary of the Guarantor that is not a Material Subsidiary;

"**Incur**" means issue, assume, guarantee, incur or otherwise become liable for; *provided, however,* that any Indebtedness of a Person existing at the time such Person becomes a Material Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Material Subsidiary. The term "Incurrence" when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with Condition 4(d):

(i) amortisation of debt discount or the accretion of principal with respect to a non-interest bearing or other discount security;

(ii) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and

(iii) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption or the making of a mandatory offer to purchase such Indebtedness, will not be deemed to be the Incurrence of Indebtedness;

"**Indebtedness**" means, with respect to any Person on any date of determination (without duplication):

(i) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money;

(ii) the principal of and premium (if any) in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(iii) the principal component of all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments (including reimbursement obligations with respect thereto except to the extent such reimbursement obligation relates to a trade payable and such obligation is satisfied within 30 days of Incurrence);

(iv) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto;

(v) Capitalised Lease Obligations and all Attributable Indebtedness of such Person;

(vi) the principal component or liquidation preference of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

(vii) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided, however, that the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Persons;

(viii) the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person; and

(ix) to the extent not otherwise included in this definition, net obligations of such Person under Hedging Obligations (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

(x) The amount of Indebtedness of any Person at any date will be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date.

In addition, "Indebtedness" of any Person shall include Indebtedness described in the preceding paragraph that would not appear as a liability on the balance sheet of such Person if:

(i) such Indebtedness is the obligation of a partnership or Joint Venture that is not a Material Subsidiary;

(ii) such Person or a Material Subsidiary of such Person is a general partner of the Joint Venture (a "**General Partner**"); and

(iii) there is recourse, by contract or operation of law, with respect to the payment of such Indebtedness to property or assets of such Person or a Material Subsidiary of such Person; and then such Indebtedness shall be included in an amount not to exceed:

(A) the lesser of (i) the net assets of the General Partner and (ii) the amount of such obligations to the extent that there is recourse, by contract or operation of law, to the property or assets of such Person or a Material Subsidiary of such Person; or

(B) if less than the amount determined pursuant to clause (A) immediately above, the actual amount of such Indebtedness that is recourse to such Person or a Material Subsidiary of such Person, if the Indebtedness is evidenced in writing and is for a determinable amount and the related interest expense shall be included in Consolidated Interest Expense to the extent actually paid by the Guarantor or its Material Subsidiaries;

"**Indebtedness for Borrowed Money**" means any Indebtedness of any Person for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service and (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a "with recourse" basis) having the commercial effect of a borrowing;

"**Indebtedness Guarantee**" means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such Indebtedness, (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for repayment of such Indebtedness;

"**Independent Appraiser**" means any of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP, Ernst & Young LLP or such reputable investment banking, accountancy or appraisal firm of international standing selected by the competent management body of the Guarantor or relevant Material Subsidiary; *provided* it is not an Affiliate of the Guarantor or any Material Subsidiary;

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

"**Interest Amount**" means the amount of interest payable, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the Final Terms;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two London Business Days prior to the first day of such

Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET2 Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the Final Terms;

"**Interest Rate Agreements**" means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such Person is party or a beneficiary;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the Final Terms;

"**Lien**" means any mortgage, pledge, encumbrance, easement, restriction, covenant, right of way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

"**Material Adverse Effect**" means a material adverse effect on (a) the business, property, condition (financial or otherwise), operations or prospects of the Guarantor, its Material Subsidiaries, its Minority Companies, or the Group (taken as a whole), (b) the Issuer's ability to perform its obligations under the Notes or the Trust Deed, (c) the Guarantor's ability to perform its obligations as a guarantor under the Notes or (d) the validity, legality or enforceability of the Notes or any Agreement;

"**Material Subsidiary**" means any Subsidiary of the Guarantor that (a) becomes a directly held Subsidiary of either the Guarantor or a Material Subsidiary and is designated as a Material Subsidiary by the Board of Directors of the Guarantor, (b) has either (i) assets which constitute 5 per cent. or greater of the total assets of the Guarantor and its Subsidiaries on a consolidated basis or (ii) EBITDA which accounts for 5 per cent. or greater of EBITDA of the Guarantor and its Subsidiaries on a consolidated basis as of the date of the most recently delivered financial statements to the Trustee pursuant to Condition 4(e)(i) or 4(e)(ii) or (c) is the direct or indirect parent company of any Subsidiary or Company required to be designated a Material Subsidiary or Minority Company. The Board of Directors of the Guarantor may designate any Subsidiary of the Guarantor (including any newly acquired or newly formed Subsidiary) to be a Material Subsidiary. Any such designation by the Board of Directors of the Guarantor shall be evidenced to the Trustee by promptly providing to the Trustee a copy of the resolution of the Board of Directors of the Guarantor giving effect to such designation. Any Subsidiary of the Guarantor designated by the Board of Directors of the Guarantor as a Material Subsidiary shall not be capable of subsequently being undesignated as a Material Subsidiary. On the date hereof, the Material Subsidiaries shall include, but not be limited to, the Issuer, Exploration and Production KazMunaiGas JSC, KazTransGas JSC, KazTransOil JSC, Intergas Central Asia JSC, Trade House KazMunaiGaz JSC, KazMunizTeniz JSC, Coöperatieve KazMunaiGaz PKI U.A., KazRosGas and Rompetrol;

"**Minority Company**" means any Company of the Guarantor that (a) becomes a directly held Company of either the Guarantor or a Material Subsidiary and is designated as a Minority Company by the Board of Directors of the Guarantor, (b) has either (i) assets which constitute 5 per cent. or greater of the total assets of the Guarantor and its Subsidiaries on a consolidated basis or (ii) EBITDA which accounts for 5 per cent. or greater of EBITDA of the Guarantor and its Subsidiaries on a consolidated basis as of the date of the most recently delivered financial statements to the Trustee pursuant to Condition 4(e)(i) or 4(e)(ii) or (c) is the direct or indirect parent company of any Subsidiary or Company required to be designated a Material Subsidiary or Minority Company. The Board of Directors of the Guarantor may designate any Company of the Guarantor (including any newly acquired or newly formed Company) to be a Minority Company. Any such designation by the Board of Directors of the Guarantor shall be evidenced to the Trustee by promptly providing to the Trustee a copy of the resolution of the Board of Directors of the Guarantor giving effect to such designation. Any Company of the Guarantor designated by the Board of Directors of the Guarantor as a Minority Company shall not be capable of subsequently being undesignated a Minority Company. On the date hereof, the Minority Companies shall include, but not be limited to, TCO, Kashagan, B.V. and CPCK;

"**Net Cash Proceeds**" with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of lawyers' fees, accountants' fees, underwriters' or placement agents' fees,

discounts or commissions, and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof;

"**Officer**" means, with respect to any Person, any managing director, director, general director, the chairman of the board, the president, any vice president, principal executive officer, deputy general director, the chief financial officer, principal financial officer, principal accounting officer, the controller, the treasurer or the secretary of such Person or any general partner or other person holding a corresponding or similar position of responsibility;

"**Officers' Certificate**" means a certificate signed on behalf of the Issuer by two Officers of the Guarantor at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Guarantor;

"**Original Financial Statements**" means the audited stand alone financial statements and consolidated financial statements of the Guarantor as at and for the year ended 31 December 2007;

"**Page**" means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 ("Reuters") and Telerate ("Telerate")) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the Person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate;

"**Permitted Business**" means (a) oil and gas exploration, production, transportation, refining and processing, (b) electricity generation, (c) chemicals, (d) any wholesale or retail marketing relating to any of the foregoing and (e) any business reasonably related, ancillary or complementary thereto;

"**Permitted Liens**" means, without duplication:

(i) Liens existing as at the Issue Date of these Notes;

(ii) Liens granted in favour of the Guarantor or any Material Subsidiary;

(iii) Liens on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property; *provided* that any such Lien secures Indebtedness only under such lease;

(iv) Liens securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Guarantor or a Material Subsidiary or becomes a Material Subsidiary; *provided* that such Liens were not created in contemplation of such merger or consolidation or event and do not extend to any assets or property of the Guarantor already existing or any Material Subsidiary other than those of the surviving Person and its Subsidiaries or the Person acquired and its Subsidiaries;

(v) Liens already existing on assets or property acquired or to be acquired by the Guarantor or any Material Subsidiary; *provided* that such Liens were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property);

(vi) Liens granted upon or with regard to any property hereafter acquired or constructed in the ordinary course of business by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition and repairs related to such property; *provided* that the maximum amount of Indebtedness thereafter secured by such Lien does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property and related transactional expenses;

(vii) any Liens arising by operations of law;

(viii) Liens for *ad valorem*, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings and for which the Guarantor or any Material Subsidiary has set aside in its books of account appropriate reserves;

(ix) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Group and existing, arising or incurred in the ordinary course of business;

(x) (a) statutory landlords' Liens (so long as such Liens do not secure obligations constituting Indebtedness for borrowed money and such Liens are incurred in the ordinary course of business), and (b) Liens arising from any judgment, decree or other order which does not constitute an Event of Default under Condition 10(e);

(xi) a right of set off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(xii) Liens on Capital Stock of Immaterial Subsidiaries or on the assets and properties of Immaterial Subsidiaries securing Indebtedness, provided that, at the time that any such Immaterial Subsidiary is designated a Material Subsidiary, the Indebtedness of such Immaterial Subsidiary that is secured by such Liens shall be deemed, for the purposes of paragraph (xiii) below, to be Indebtedness of a Material Subsidiary Incurred at such time that such Immaterial Subsidiary is designated a Material Subsidiary;

(xiii) any Lien granted in favour of a Person providing Project Financing if the Lien is solely on the property, income, assets or revenue of the project for which the financing was incurred provided (i) such Lien is created solely for the purpose of securing Indebtedness incurred by the Guarantor or a Subsidiary of the Guarantor in compliance with Condition 4(d) and (ii) no such Lien shall extend to any other property, income assets or revenue of the Guarantor or any Material Subsidiary or their respective Subsidiaries.

(xiv) any Liens on the property, income or assets of any member of the Group securing Indebtedness to the extent that at the time of Incurrence of such Indebtedness, such Indebtedness together with the aggregate principal amount of other Indebtedness subject to any Lien granted in accordance with this paragraph (xiv) does not exceed in the aggregate 20 per cent. of Consolidated Guarantor Total Asset Value at any one time outstanding. For the avoidance of doubt, this paragraph (xiv) does not include any Lien created in accordance with paragraphs (i) to (xiii) above; and

(xv) any Liens arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Lien permitted by any of the above exceptions, provided that the Indebtedness thereafter secured by such Lien does not exceed the amount of the original Indebtedness and such Lien is not extended to cover any property not previously subject to such Lien;

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity;

"**Potential Event of Default**" means any event or circumstance which could with the giving of notice or the lapse of time become an Event of Default;

"**Preferred Stock**" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person;

"**Project Financing**" means any financing of all or part of the costs of the acquisition, construction or development of any asset or project if (i) the revenue derived from such asset or project are the principal source of repayment for the monies advanced and (ii) the person or persons providing such financing have been provided with a feasibility study prepared by competent independent experts on the basis of which it is reasonable to conclude that such project would generate sufficient operating income to service the indebtedness incurred in connection with such project;

"**Prospectus**" means the prospectus relating to the Notes dated on or about the date of this Agreement;

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the Final Terms;

"**Rated Security**" means the Notes and any Indebtedness of Guarantor or any Material Subsidiaries having an initial maturity of one year or more which is rated by a Rating Agency;

"**Rating Agency**" means Standard & Poors Rating Services, a division of the McGraw Hill Companies, Inc. ("**S&P**"), Moody's Investors Service Limited ("**Moody's**"), Fitch Ratings or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Guarantor, from time to time, with the prior written approval of the Trustee;

"**Reference Banks**" means the institutions specified as such in the Final Terms or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over the counter index options market) that is most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe);

"**Relevant Financial Centre**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the Final Terms or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London;

"**Relevant Rate**" means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date;

"**Relevant Time**" means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the Final Terms or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre or, if no such customary local time exists, 11.00 hours in the Relevant Financial Centre and, for the purpose of this definition, "local time" means, with respect to Europe as a Relevant Financial Centre, Brussels time;

"**Representative Amount**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the Final Terms or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

"**Restricted Percentage**" means (a) with respect to the Issuer, 100 per cent. of its issued and outstanding Capital Stock, (b) with respect to any other Material Subsidiary of which the Guarantor, directly or indirectly, owned 100 per cent. of its Capital Stock on the earlier of the Issue Date and the date such Person was designated a Material Subsidiary, 75 per cent. of total voting power of the capital stock of such Material Subsidiary, (c) with respect to any Material Subsidiary of which the Guarantor, directly or indirectly, owned less than 100 per cent. of its Capital Stock but more than 75 per cent. of its Capital Stock on the earlier of the Issue Date and the date such Person was designated a Material Subsidiary, 75 per cent. of total voting power of the capital stock of such Material Subsidiary and (d) with respect to any Material Subsidiary of which the Guarantor, directly or indirectly, owned 75 per cent. or less but more than 50 per cent. of its Capital Stock on the earlier of the Issue Date and the date such Person was designated a Material Subsidiary, 50 per cent. plus one share of total voting power of the capital stock of such Material Subsidiary;

"**Sale/Leaseback Transaction**" means an arrangement relating to property now owned or hereafter acquired whereby the Guarantor or a Material Subsidiary transfers such property to a Person and the Guarantor or a Material Subsidiary leases it from such Person;

"**Specified Currency**" means the currency specified as such in the Final Terms or, if none is specified, the currency in which the Notes are denominated;

"**Specified Duration**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the Final Terms or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 5(b)(ii);

"**Stated Maturity**" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory

redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof;

"**Subsidiary**" means in respect of any Person (including the Guarantor), any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by the Guarantor and/or any of its Subsidiaries and the Guarantor and/or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which the Guarantor or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract, if (in the case of each of (a) or (b) above) in accordance with IFRS such entity would be consolidated with the Guarantor for financial statement purposes;

"**TARGET2 System**" means the Trans European Automated Real Time Gross settlement Express Transfer (TARGET2) system or any successor thereto;

"**taxes**" means any taxes (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) which are now or hereafter imposed, levied, collected, withheld or assessed by the Netherlands or any taxing authority thereof or therein;

"**Temporary Cash Investments**" means any of the following:

(i) any investment in direct obligations of a member of the European Union, the United States or any agency thereof or obligations guaranteed by a member of the European Union or the United States or any agency thereof maturing within one year of the date of acquisition thereof;

(ii) any investment in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by a bank or trust issuer which is organised under the laws of a member of the European Union or the United States or any state thereof, and which bank or trust issuer has capital, surplus and undivided profits aggregating in excess of U.S.$500 million (or the foreign currency equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one Rating Agency;

(iii) any investment in repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraph (i) above entered into with a bank meeting the qualifications described in paragraph (ii) above;

(iv) any investment in commercial paper with a maturity of six months or less from the date of acquisition, issued by a corporation (other than an Affiliate of the Issuer) organised and in existence under the laws of a member of the European Union or the United States with a rating at the time as of which any investment therein is made of "P 1" (or higher) according to Moody's or "A l" (or higher) according to S&P;

(v) any investment in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of a member of the European Union or the United States, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody's; and

(vi) any investment in money market funds that invest substantially all their assets in securities of the types described in paragraphs+ (i) through (v) above;

"**U.S. Dollars**", "**U.S.$**" and "**U.S.$**" denote the lawful currency of the United States of America; and

"**Voting Stock**" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees (or Persons performing similar functions) thereof.

There will appear at the foot of the Terms and Conditions endorsed on each Certificate the name and specified office of the Agents as set out at the end of this Base Prospectus.

THE OIL AND GAS INDUSTRY IN KAZAKHSTAN

The information contained in this section of the Base Prospectus has been extracted from publicly available documents and other publications. There is not necessarily any uniformity of views among such sources as to the information provided therein. In the case of statistical information presented herein, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Accordingly, the Company and the Issuer each only accepts responsibility for accurately reproducing such extracts as they appear in this section of the Base Prospectus.

Introduction

The oil and gas sector is of strategic importance to the Government because it is the principal source of Kazakhstan's export earnings and reserves, fiscal revenue and future foreign direct investment inflows. As at 31 December 2008, the hydrocarbon industry accounted for 30 per cent. of the Government's revenue and 50 per cent. of its export earnings.

Kazakhstan was a major raw materials supplier to the former Soviet Union and has sizeable, largely unexploited endowments of oil, natural gas and minerals. As at 31 December 2008, the two significant crude oil producing countries in the Caspian region were Kazakhstan and Azerbaijan. It is expected that these countries will continue to lead the region in crude oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields, including Kashagan. Russia plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea. The Government's stated intention is to preserve Kazakhstan's position as a major destination of foreign direct investment inflows within the CIS.

Reserve Classifications

Kazakhstan has its own classification system of oil and gas reserves that is based on the system employed in the former Soviet Union and approved by an order of the MEMR, which is referred to in this Base Prospectus as the "Kazakhstan methodology". The Company calculates its reserves using the Kazakhstan methodology, which differs from accepted practices in most other parts of the world in that it does not base its estimates on economic viability of the recovery of oil reserves. Accordingly, under this methodology, stated reserves do not necessarily correspond to economically recoverable reserves and cannot be accurately reconciled with reserves calculations performed using different methodologies. See "*Presentation of Financial, Reserves and Certain Other Information—Certain Reserves Information*".

The Kazakhstan methodology classification system is based on the degree of development of the field reserves. All hydrocarbon accumulations in a field are grouped together. Once development commences in a field, all hydrocarbon accumulations in that field are included in the developed reserves. Each field has two subgroups: profitable and unprofitable reserves.

Profitable (or recoverable) reserves are reserves the extraction of which is economical using existing technologies and techniques. These reserves are determined on the basis of the recovery ratio. By the degree of exploration, reserves are divided into proved (A, B, C1) and preliminary estimated (not explored) (C2) reserves. Proved reserves are further sub-divided into reserves to be developed - A and B - and reserves to be explored - C1.

Reserves not currently identified as commercial are classified as "resources". All figures set out in this Base Prospectus are figures for category A, B and C1 only, which are referred to in this Base Prospectus as "**A+B+C1 reserves**". Resource estimates are not included in this Base Prospectus.

The following table sets forth a detailed discussion of each reserve classification used in the Kazakhstan methodology:

Category A.....................................	Category A reserves relate to the part of a deposit drilled in accordance with an approved development project for the oil or natural gas field. They represent reserves that have been analysed in sufficient detail to comprehensively define the type, shape and size of the deposit, the level of hydrocarbon saturation, the reservoir type, the nature of changes in the reservoir characteristics, the hydrocarbon saturation of the productive strata of the deposit, the content and characteristics of the hydrocarbons and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and oil balance, hydro and other features).

Category B.................................... Category B reserves relate to the part of a deposit drilled in accordance with either a trial industrial development project, in the case of a natural gas field, or an approved technological development scheme, in the case of an oil field. They represent reserves in which natural gas, gas condensate and oil content is determined on the basis of commercial flows from wells at various depths.

Category C1 .... Category C1 reserves are calculated on the results of both commercial flows from operational wells and geological exploratory work, which are analysed to determine the type, shape and size of the deposit and the structure of the hydrocarbon bearing reservoir. The reservoir type and characteristics, hydrocarbon saturation, liquid hydrocarbon displacement rate, level of hydrocarbon saturation of the productive strata, content and characteristics of the hydrocarbons under stratum and standard productivity, stratum pressure, temperature, hydrocarbon balance and hydro geological and other conditions are analyzed according to test data from drilled wells, core analyses and comparisons with neighbouring explored fields. Based on these analyses, preliminary data for trial industrial development, in the case of a natural gas field, or a technological development project, in the case of an oil field, is drawn up.

As a rough approximation, recoverable A and B reserves can be broadly compared to proved reserves and C1 reserves to proved/probable reserves in accordance with international methodology, although these categories do not necessarily consistently correspond to international methodologies. For example, the estimation of recoverable reserves under the Kazakhstan methodology is usually higher than under international methodologies such as the internationally accepted classifications and methodologies established by PRMS, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

Oil Reserves and Production

According to the BP Statistical Review of World Energy 2009 (the "**BP Report**"), the proven oil reserves of Kazakhstan are estimated at 5.3 billion tonnes and the proved natural gas reserves of Kazakhstan are 64.4 trillion cubic feet (1.82 tcm) or 3.2 per cent. and 1.0 per cent, respectively, of the world's total proven reserves.

With the consumption rates maintained at the current level (10.9 million tonnes in 2008 according to the BP Report), the oil reserves are estimated to suffice for 40 years.

Kazakhstan is the second largest oil producer in the CIS after Russia and has the Caspian region's largest recoverable crude oil reserves. Total production of oil and gas condensate in Kazakhstan in 2006, 2007 and 2008 amounted to 66.1 million tonnes, 68.4 million tonnes and 72.0 million tonnes, respectively, despite the decline in the global demand for crude oil due to the global economic crisis, which represents year-on-year increases of 5.6 per cent., 3.5 per cent. and 5.1 per cent.

Kazakhstan exports most of the oil and gas it produces. In 2007, Kazakhstan exported 60.8 million tonnes of oil, which accounted for 90 per cent. of Kazakhstan's total oil production. In 2008, Kazakhstan exported 63.1 million tonnes of oil, which accounted for 88 per cent. of Kazakhstan's total oil production.

The following table sets forth oil production levels (including associated gas) in Kazakhstan for the years indicated:

Oil Production

2005	2006	2007	2008	% change over 2007	2008 % share of global production
		(million tonnes per year)			
62.6	66.1	68.4	72.0	5.1	1.8

Source: BP Statistical Review of World Energy, 2009

As at the beginning of 2009, there were over 200 oil and gas fields registered in Kazakhstan. The most significant of these fields are the Tengiz Field, Kashagan Field and Karachaganak Field. For a detailed description of the Tengiz Field and Kashagan Field, in which the Company has a direct interest, see "*Business—Significant Production Fields of Other Joint Ventures and Associates—TCO*" and "*Business—Exploration Projects—NCPC*", respectively.

The Kazakhstan Government has stated that it expects production to increase to 90.0 million tonnes per year by 2010 and 150.0 million tonnes per year by 2015. Most of this growth is expected to come from the Tengiz, Karachaganak and Kashagan fields.

Karachaganak Field

The Karachaganak Field is being developed by Karachaganak Petroleum Operating B.V. ("**KPO**"), a joint venture among the BG Group, ENI, Chevron and Lukoil. Neither the Company nor the Government own any equity interest in the Karachaganak Field. Members of the international consortium developing the Karachaganak Field are party to a 40-year production sharing agreement with the Government that provides for investments of U.S.$16 billion. It is anticipated that the Government will be paid 80 per cent. of the shared income over the 40-year concession period.

The Karachaganak Field is a large gas-oil-condensate field located in North-western Kazakhstan, with an area of about 280 km^2. The field was discovered in 1979. The field holds an estimated 1.2 billion tonnes of liquid hydrocarbons and 1.3 tcm of gas. In 2009, 11.9 million tonnes of oil and condensate were produced at the Karachaganak Field, compared to 11.6 million tonnes in 2008 and 11.6 million tonnes in 2007. Additionally, the Karachaganak Field produced 14.5 bcm of gas in 2009 and 14.2 bcm and 14.2 bcm in 2008 and 2007, respectively.

In 2009, access to the CPC Pipeline and the UAS Pipeline allowed sales of certain amounts of processed liquids from the Karachaganak Field to be sold in international markets at international market prices with remaining amounts sold into Russian markets. During 2009, work continued on a fourth train that is designed to increase this export of processed liquids.

At the Karachaganak Field, average production in 2009 reached a record of 11.9 million tonnes per year of liquids and 14.5 bcm per year of gas.

Exploration

North Caspian Project

In December 1993, the Kazakhstan sector of the Caspian Sea was opened for international oil exploration. Seven international oil companies (AGIP S.p.A., British Gas Exploration and Production Limited, Mobil Oil Kazakhstan Inc., Shell Exploration B.V., Total EP Kazakhstan and BP Exploration Operating Company Limited and Statoil (in alliance)) and the state-owned company KazakhstanCaspyShelf were initially selected by the Government to form NCPC, the purpose of which is to develop the major offshore oil and gas fields, including the Kashagan Field, in the north part of the Kazakhstan sector of the Caspian Sea.

NCOC estimates that, according to Kazakhstan Methodology, Kashagan's A+B+C1 oil reserves were 760 million tonnes. See "*Business—Exploration and Production—Exploration Projects—NCPC*" for a more detailed discussion of NCPC and its operations.

Other Exploration

- In 2009, Kurmangazy Petroleum LLP drilled the Kurmangazy-2 well at the Kurmangazy block, located in the shallow-water area of the central northern Caspian Sea at a cost of U.S.$36 million. However, the well resulted in a dry hole.

- In November 2009, Caspi Meruerty Operating Company B.V. successfully completed an appraisal well at the Khazar prospect in its Pearls offshore block. The Khazar-2 oil discovery was drilled up to a depth of 2,032 metres in a water depth of nine metres and was estimated to cost U.S.$60,4 million. This is the first successful appraisal well drilled in the contract area.

- Other onshore exploration and appraisal activities were conducted with mixed success by smaller players.

Gas Reserves and Production

According to the BP Report, as at 31 December 2008, Kazakhstan's proven natural gas reserves are estimated at 1.9 tcm. Most of Kazakhstan's natural gas reserves are located in the west of the country near the Caspian Sea, with roughly 25 per cent. of proven reserves situated in the Karachaganak Field. Another important natural gas field, the Amangeldy Field, is situated in the south of the country, near Zhambul.

Natural gas in Kazakhstan is almost entirely "associated" gas, meaning it is produced with oil. For this reason, several fields including the Karachaganak Field re-inject significant quantities of gas into the ground to maintain crude wellhead

pressure for liquids extraction. In the long-term, when the liquids are exhausted, this gas can be recovered. In May 2005, the Government ordered all oil producing firms to reduce oil production to levels that would avoid natural gas flaring and, accordingly, flaring has declined steadily to date (See "*Environmental, Health and Safety Matters—Environmental Impact From Operations—Air Emissions*").

Natural gas production in Kazakhstan has increased significantly since 1999. In 1999, the Government passed a law requiring subsoil users (such as oil companies) to include natural gas utilisation projects in their development plans. As a result of this law, natural gas production has steadily increased and, by 2000, it had eclipsed its pre-independence production levels. According to the 15 year development strategy of the MEMR, Kazakhstan expects to increase its gas production to 52 bcm per year by 2010, and to 79 bcm per year by 2015. Increases in Kazakhstan's gas production are expected to come primarily from associated gas at the Tengiz, Karachaganak and Kashagan fields.

The following table sets forth gas production levels (including associated gas) in Kazakhstan for the years indicated:

Gas Production

2006	2007	2008	% change over 2007	2008 % share of global production
		(million tonnes per year)		
21.5	23.8	27.2	14.3	1.0

Source: BP Statistical Review of World Energy, 2009

TCO

TCO, which owns the single largest production field in Kazakhstan and is the Company's most significant joint venture as at the date of this Base Prospectus, is a joint venture between the Company, with a 20 per cent. interest, and either directly or through wholly-owned affiliates, Chevron, with a 50 per cent. interest, ExxonMobil Kazakhstan Ventures Inc., with a 25 per cent. interest, and LukArco, with a 5 per cent. interest. See "*Share Capital, Sole Shareholder and Related Party Transactions—Relationships Between the Company and TCO*" for a discussion of the agreements relating to the operation and internal governance of TCO.

TCO operates the Tengiz Field in Western Kazakhstan, which is among the largest fields under development in the world based on estimated A+B+C1 reserves, and TCO also operates the nearby Korolev Field. The Government has granted TCO exclusive rights within a 4,000 km^2 area adjacent to the Caspian Sea to develop these fields under a Subsoil Use Agreement that can be extended to 2033. See "*Business— Significant Production Fields of Other Joint Ventures and Associates—TCO*" and "*Business—Transportation—Transportation and Sale of Crude Oil—TCO*" for a more detailed discussion of TCO and its operations.

Refining Facilities

Oil refining in Kazakhstan is strictly regulated by the Government, through direct administration and through control of transportation tariffs by two national companies - the Company and Kazakhstan Temir Zholy (Kazakhstan Railways).

Kazakhstan has a significant or controlling interest in three major Kazakhstan oil refineries with total refining capacity of 105 million barrels per year. These refineries supply the northern region (at Pavlodar), western region (at Atyrau) and the southern region (at Shymkent). The Pavlodar Refinery is supplied mainly by an oil pipeline from Western Siberia because Russian reserves are well placed geographically to serve that refinery. The Atyrau Refinery, which has been under reconstruction, refines solely on domestic oil from northwest Kazakhstan. The Shymkent Refinery currently uses oil from fields at Kumkol, Aktyubinsk, and Makatinsk in Kazakhstan, although it is linked by pipeline to Russia. The Company controls the Atyrau Refinery and recently acquired a 49.72 per cent. interest in PetroKazakhstan Oil Products LLP, which owns the Shymkent Refinery. Furthermore, in August 2009, a 100.00 per cent. interest in Refinery Company RT, which owns all of the assets of the Pavlodar Refinery, together with a 58.00 per cent. interest in Pavlodar Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 42.00 per cent. interest in Pavlodar Refinery JSC being held by the State). Refinery Company RT leases the assets comprising the Pavlodar Refinery to Pavlodar Refinery JSC, which then operates the Pavlodar Refinery.

In 2008, the total actual refining production of the Atyrau Refinery, Shymkent Refinery and Pavlodar Refinery together was 12.3 million tonnes of crude oil. The total oil processing in Kazakhstan is expected to reach 18 million tonnes by 2012.

The Company announced plans in January 2009 to invest U.S.$4.1 billion to increase its oil refining capacity over the next six years by expanding all three of its refineries. The Company plans to invest U.S.$2.2 billion in the Atyrau Refinery, U.S.$550 million in the Shymkent Refinery and U.S.$1.3 billion in the Pavlodar Refinery.

Subsoil Use Agreements

The Subsoil Law provides that subsoil resources in Kazakhstan are owned by the Government. The Government grants Subsoil Use Agreements in the form of exploration, production or exploration and production agreements for fixed periods of time. Exploration may not be conducted without an exploration agreement. When commercial discoveries are made, the holder of an exploration agreement has an exclusive right to obtain a production contract through direct negotiations with the MEMR. Hydrocarbons may only be extracted and sold if the relevant producer has entered into a production agreement with the MEMR, except for limited production made for trial purposes. Production agreements may govern the production rights for more than one block.

The negotiation of a Subsoil Use Agreement is a complex process requiring the agreement of a number of governmental ministries, including the MEMR, and requires the preparation of economic models with financial expenditure commitments. In the event a Subsoil Use Agreement cannot be negotiated, an applicant or producer risks not obtaining rights to exploration and/or production for the block in question. In addition, the explorer or producer and a department of the Government, known as a research and design institute, must formulate a development plan for each field specifying detailed drilling and production targets once commercial discovery is made. The development plan may be periodically modified with the approval of the MEMR in order to reflect changing circumstances. Default by a producer under the terms of a Subsoil Use Agreement or development plan can result in the loss of a Subsoil Use Agreement and the relevant production rights.

Exploration agreements give the exclusive right to explore resources from fields in a defined area and are valid for up to six years from issuance. Production agreements give the subsoil users the exclusive right to extract resources from fields in a defined area and are valid for up to 25 years from issuance and up to 45 years from issuance for large and "unique" deposits. Generally, the term of a combined exploration and production contract is up to 31 years, or up to 51 years for large fields.

See "*Business—Exploration and Production—Subsoil Use Agreements*" for a discussion of the licences and contracts of the Company.

On 24 October 2007, additional amendments to the Subsoil Law were adopted. These amendments provide the Government with the right to initiate reviews of Subsoil Use Agreement terms and to unilaterally terminate Subsoil Use Agreements in respect of deposits of "strategic importance". See "*Regulation in Kazakhstan—State Pre-Emption and Regulation of Subsoil Use Rights*".

Fiscal regime

The 2009 Tax Code, which became effective as of 1 January 2009, introduces a number of significant changes to tax legislation in Kazakhstan, which is applicable to the oil and gas industry. See "*Managements Discussion and Analysis of Financial Performance and Results of Operation—Taxation*".

Exploration Licenses

The Government limited the awarding of new licences during the drafting of the 2009 Tax Code, which entered into force on 1 January 2009. The licences awarded were primarily for the exploration of offshore fields in the Caspian region.

- In May, an exploration contract (concession) for the Zhambyl block was signed with a KNOC-led consortium, which received a 27 per cent. interest in the project, with the remainder held by the Company.
- In July 2008, the Company was awarded a contract for the exploration of the Mertvyi Kultuk block located in the Mangistau area.
- In June 2009, ConocoPhillips and Mubadala signed an agreement with the Company for the development of N Block, with each participant holding a 24.5 per cent. interest in the project. See "*Business—N Block Project*".
- In October, the Government also agreed to accelerate negotiations with CNPC for the Darkhan block, located west of the Buzachi Peninsula. The Company, CNPC and CNOOC reached an agreement in August 2005 for joint development of the block, but to date, no further contract has been signed.
- In December 2008, the Company was awarded a 30-year exploration and production contract for the onshore Urikhtau field in the Aktobe region, which is expected to secure gas supplies for deliveries from western to southern Kazakhstan via the planned Beyneu-Bozoi-Samsonovka pipeline.

Foreign Investment in Oil and Gas

In 2008, foreign investors invested U.S.$11.5 billion in Kazakhstan's oil and natural gas sector compared to U.S.$11.5 billion and U.S.$7.29 billion in 2007 and 2006, respectively. International investment in the oil and gas sector in Kazakhstan has taken the form of joint ventures, including with the Company and its subsidiaries, as well as production sharing agreements and exploration/field concessions. Major projects in Kazakhstan include projects at the Tengiz, Karachaganak and Kashagan Fields.

Oil and Gas Exports

Overview

Oil is exported via the Caspian Sea, rail cars and pipelines. The following table sets forth the volumes of oil exported by the routes indicated in 2009:

Name of route	Volume of exported oil in 2009
	(million tonnes)
Tengiz - Novorossiysk (CPC Pipeline)	28.1
Atyrau—Samara	17.5
Aktau Sea Port	11.1
Atyrau—Alashankou	7.7

Source: Agency of Statistics of the Republic of Kazakhstan

Kazakhstan's land-locked geographic position means that the pipeline infrastructure through neighbouring countries has played an important role in the exploitation of Kazakhstan's hydrocarbon resources, allowing it to reach international markets.

Exports Routes for Kazakhstan Oil

The CPC Pipeline, which has been operational since 2001, represents a major export route for oil produced in Kazakhstan. It extends 1,510 km, originating in the Tengiz Field, running through Russia and terminating at the CPC marine terminal on the Black Sea near the Russian port of Novorossiysk. The CPC Pipeline is the first major pipeline in Russian territory not owned by the Russian operator Transneft. In May 2008, the Russian Ministry of Energy announced its approval to double the capacity of the CPC Pipeline. On 17 December 2008, the MEMR, the Russian Ministry of Energy and all other CPC shareholders (except LukArco B.V.) agreed to proceed with the expansion of the CPC Pipeline process and signed a memorandum on expansion, which was approved by the other shareholders in the first half of 2009. On 16 December 2009, the final agreement on expansion was approved. Under the terms of the CPC shareholders' agreement, the design of the CPC Pipeline will be increased from 33 million tonnes per year to 67 million tonnes per year, of which up to 52.5 million tonnes per year of oil and condensate will come from Kazakhstan. The expansion project will also comprise the construction of ten oil-transfer stations (two in Kazakhstan and eight in the Russian Federation), six tank farms next to Novorossiysk, a third berth unit at the CPC oil terminal and the replacement of 88 km of pipeline in Kazakhstan. Transneft will manage the expansion project in the Russian Federation, Chevron will manage the expansion at Novorossiysk port and the Company will manage the expansion in Kazakhstan. As a result of the CPC Pipeline expansion, the Company's preferential capacity rights will increase to 14.3 million tonnes from 5.76 million tonnes. The estimated capital expenditures for expanding the CPC pipeline capacity will be U.S.$4 billion, which is expected to be financed out of CPC's own cash flows from the proceeds of oil transportation services provided to the CPC shareholders pursuant to their preferential capacity rights and excess capacity rights on a ship-or-pay basis and, to the extent necessary, through external financings. The expansion is expected to be completed by 2015.

In November 2008, Kazakhstan began supplying oil from the Tengiz Field to the BTC Pipeline, according to the pipeline's operator BP. Azerbaijan and Kazakhstan have been discussing the possibility of exporting Kazakhstan crude through the BTC Pipeline since 2002 and a final agreement was signed on 16 June 2008.

In October 2008, the first Kazakhstan oil from the TCO project was shipped across the Caspian Sea and exported via the BTC Pipeline, marking the first delivery of non-Azeri oil via the pipeline since its commissioning in 2006. In the last two months of 2008, an average of 21.9 barrels per year of oil from the Tengiz Field were exported via the BTC Pipeline.

The 1,767 km BTC Pipeline delivers crude oil from Baku to a new marine terminal in the Turkish port of Ceyhan on the Mediterranean Sea and is the first direct pipeline link between the Caspian Sea and the Mediterranean Sea. The BTC Pipeline is designed to transport up to 50 million tonnes by 2010. In May 2005, construction of the pipeline was completed and the pipeline began operating in July 2006. The BTC Pipeline is expected to be largely dedicated to the

production from the Azeri Chirag Gunashli fields in the Azerbaijan sector of the Caspian Sea but, to the extent there is available capacity, the BTC Pipeline may be used to transport Kazakhstan crude oil shipped across the Caspian Sea to Baku by tanker, as a part of the trans-Caspian marine transportation system. Kazakhstan is expected to obtain access to the BTC Pipeline upon reaching an agreement with Azerbaijan on the principal terms of operation of the trans-Caspian marine transportation system.

The UAS Pipeline transports oil from fields in the Atyrau and Mangistau regions to Russia. The pipeline system runs for 1,232 km, from Uzen in southwest Kazakhstan to the Caspian port of Atyrau, before crossing into Russia and linking with Russia's Transneft system at Samara.

In December 2005, China and Kazakhstan the 962 km Atasu-Alashankou pipeline put into operation, forming part of the KC Pipeline. The initial capacity of the Atasu-Alashankou pipeline is 10 million tonnes per year, with a projected increase up to 20 million tonnes per year beginning in 2010. Other pipeline routes from Kazakhstan are being considered, such as routes through the Caucasus region to Turkey and routes through Iran and Afghanistan. See "*Business—Competition*".

In accordance with the Kazakhstan-Russia treaty dated 7 June 2006 on Oil Transit, the export volumes as at 31 December 2007 were set at 148 million barrels, excluding the CPC Project, of which upon the agreement between Transneft and the Company, 110 million barrels will be transported via the Atyrau-Samara segment of the UAS pipeline and 38 million barrels through the Makhachkala-Novorossiysk route. Kazakhstan has also been invited to participate in the development of other export routes, including Russia's Baltic Pipeline System, the Bourgas Alexandropolis Pipeline and the integration of the Druzhba and Adria Pipelines. Modernisation of the Atyrau Samara Pipeline, conducted in 2000, boosted its annual capacity from 7.3 billion barrels to 10.9 billion barrels. In June 2002, Kazakhstan and Russia signed a 15 year oil transit agreement under which Kazakhstan will export at least 127.75 million barrels of oil annually via the Russian pipeline system. As the KC Pipeline project is completed, absolute volumes though Atyrau Samara are expected to grow, but this pipeline will become relatively less significant.

Rail transportation was the primary export route for Kazakhstan crude production before the development of the UAS and CPC Pipelines. The rail infrastructure remains an alternative transportation option.

See "*Business—Transportation—Transportation of Crude Oil*" for a more detailed discussion of the Kazakhstan's oil pipeline infrastructure.

Export Routes for Kazakhstan Gas

Kazakhstan has two separate domestic natural gas distribution networks: one in the west that services the country's producing natural gas fields and one in the south that mainly delivers imported natural gas to the southern consuming regions, including Almaty.

The lack of internal pipelines connecting Kazakhstan's natural gas producing areas to the country's industrial belt (between Almaty and Shymkent) has hampered the development of natural gas resources in Kazakhstan. Since Kazakhstan natural gas is a potential competitor with Russian natural gas, several new natural gas export pipelines from the Caspian Sea region are in development or under consideration, potentially opening up new markets for Kazakhstan natural gas.

In August 2007, an agreement was reached between the Government and China on cooperation for the construction and operation of the Asia Gas Pipeline, which will extend from Turkmenistan through Uzbekistan to Khorgos in China, passing through Kazakhstan. The construction of the Asia Gas Pipeline is being completed in two phases. On 12 December 2009, the first phase of this project, comprising a pipeline with a throughput capacity of 10 bcm per year, was completed. The second phase, with a designed throughput capacity of 40 bcm per year is expected to be completed before the end of 2011.

In addition, the CAC Pipeline, which has two branches, is currently the main gas export pipeline from Central Asia. The two branches of the CAC Pipeline meet in the South-western Kazakhstan city of Beyneu before crossing into Russia at Alexandrov Gay and feeding into the Russian pipeline system. Therefore, Kazakhstan is a major transit route for gas from Turkmenistan to Russia and on to other markets across the CIS.

In the north, Kazakhstan is developing its ability to export its natural gas through Russia's natural gas pipeline system. Natural gas from the Karachaganak Field is currently sent north to Russia's Orenburg gas processing plant. Efforts are currently underway to expand that link and boost export capacity. Some of the gas being sent to Orenburg will then be routed for marketing in the Russian system and some will be sent back to Kazakhstan.

Southern Kazakhstan receives its natural gas supplies from Uzbekistan via the Tashkent-Bishkek Almaty-Pipeline. This pipeline runs through Uzbekistan before reaching Shymkent, crosses Kyrgyzstan, and terminates in Almaty. Southern Kazakhstan's dependence on imported natural gas from Uzbekistan was reduced as a result of development of the Amangeldy natural gas field.

See "*Business—Transportation—Transportation and Storage of Gas*" for a more detailed discussion of Kazakhstan's gas pipeline infrastructure.

Regional Oil and Gas Industry

While Russia dominates oil supply in the region, backed by large and under-exploited reserves, the Caspian states have an important role to play, with Kazakhstan and Azerbaijan becoming increasingly important. The growth rate in Russian oil supply has slowed since the beginning of the decade, while the Caspian region has continued to expand.

Regional Oil Consumption and Production

The following table sets forth key regional oil consumers:

Country	2006	2007	2008
		(*million tonnes per year*)	
Azerbaijan	4.8	4.5	3.3
Kazakhstan	**10.9**	**10.5**	**10.9**
Poland	24.8	25.6	24.9
Romania	10.5	11.0	10.6
Russia	130.1	129.6	130.4
Turkmenistan	4.9	5.1	5.5
Ukraine	15.3	15.6	15.5

Source: BP Statistical Review of World Energy, 2009

According to Business Monitor International ("**BMI**"), regional oil consumption was 257.4 million tonnes per year in 2008. Kazakhstan accounted for 4.21 per cent. of 2008 regional consumption.

The following table sets forth key regional oil producers:

Country	2006	2007	2008
		(*million tonnes per year*)	
Azerbaijan	31.4	41.7	44.7
Kazakhstan	**68.5**	**71.6**	**72.0**
Poland	1.0	0.8	0.8
Romania	5.0	5.0	4.7
Russia	469.2	479.3	488.5
Turkmenistan	8.9	9.5	10.2
Ukraine	4.0	4.0	3.8

Source: BP Statistical Review of World Energy, 2009

According to BMI, regional oil production was an estimated 622.4 million tonnes per year. Kazakhstan in 2008 accounted for an estimated 12.0 per cent. of regional oil supply.

Oil exports are growing steadily. In 2001, the region was exporting an average 200.8 million tonnes per year. This total had risen to an estimated 365.0 million tonnes per year in 2008.

Regional Refining Capacity

Refining capacity for the region was 432.2 million tonnes per year in 2001, rising gradually to an estimated 463.9 million tonnes per year in 2008.

Kazakhstan's share of regional refining capacity in 2008 was an estimated 4.42 per cent.

Regional Gas Consumption and Production

In terms of natural gas, the region in 2008 consumed an estimated 637 bcm and produced an estimated 783 bcm in 2008. Kazakhstan's share of gas consumption in 2008 was an estimated 3.4 per cent., while its share of production is put at 4.5 per cent.

Regulatory Bodies

Ministry of Oil and Gas

In 2002, the Government clarified the division of functions between the Company and petroleum-related State entities (Government Decree No.707 dated 29 June 2002). In 2002, the Government also adopted rules for the Company to represent the State's interests in subsoil use contracts by way of the Company's mandatory participation in petroleum projects (Government Decree No.708 dated June 29, 2002). The Company was empowered to act as the "authorised body" with regards to control, monitoring and regulation of petroleum operations under PSAs. The MEMR's supervisory authority over energy, ore mining and atomic industries has been transferred to the newly created Ministry of Industry and New Technologies of the Republic of Kazakhstan. The presidential edict of 12 March 2010 restructured several government ministries and, in particular created the MOG. It is expected that, pursuant to this edict, certain non-commercial or regulatory functions of the Company as an "authorised body" of the Government, including, among other things, representing the State under the PSAs for the North Caspian Project and the Karachaganak Field, will be transferred to the MOG. The legislation implementing this reform is expected to be adopted in the near future. The creation of the MOG and the related transfer of non-commercial and regulatory functions from the Company to the MOG are not expected to adversely affect the Company's pre-emptive rights to acquire interests in Subsoil Use Agreements or its reserves or other commercial interests.

REGULATION IN KAZAKHSTAN

Regulation of Mineral Rights in Kazakhstan

General

In Kazakhstan, all subsoil resources belong to the State. The MEMR (currently the competent authority) on behalf of the State grants exploration and production rights. Subsoil use rights are granted for a determinable period subject to possible extension before the expiration of the applicable contract and licence (if applicable and permitted). Subsoil use rights may be terminated by the MEMR if subsoil users do not satisfy their contractual obligations, which may include periodic payment of taxes to the Government and the satisfaction of mining, environmental, and health and safety requirements.

Prior to August 1999, subsoil use rights for hydrocarbons and mining sector operations were established by the grant of a licence and the execution of a Subsoil Use Agreement. In August 1999, the Government, in an attempt to simplify the procedure, abolished this two tier process. Subsoil use rights are now established only by means of a Subsoil Use Agreement, and no licence is required. Certain entities within the Company hold their subsoil use rights on the basis of the pre August 1999 "licence and contract" regime. See "*The Oil and Gas Industry in Kazakhstan—Subsoil Use Agreements*".

State Pre-Emption and Regulation of Subsoil Use Rights

The Subsoil Law and the 1999 Amendments

The current legal framework for the regulation of subsoil use rights in Kazakhstan was established with the adoption of the Law of the Republic of Kazakhstan No. 2828 "On subsoil and subsoil use" on 27 January 1996 (the "**Subsoil Law**"). Under the Subsoil Law, the subsoil and any mineral resources contained therein are owned by the State. In August 1999, the Subsoil Law was amended by Law No. 467 1 "Concerning the Introduction of Amendments and Additions to Several Legislative Acts on the Subsoil and Petroleum Operations in the Republic of Kazakhstan" (the "**1999 Amendments**"). The 1999 Amendments simplified the process of obtaining subsoil use rights by allowing the MEMR to grant these rights contractually, without first having to issue a licence (which was required under the previous regulatory framework). In practice, subsoil use rights are typically granted following a tender process. Generally, Subsoil Use Agreements contain stabilisation clauses providing that the tax regime established by the Subsoil Use Agreement will be applied through the duration of this contract, except when changed by mutual agreement of the parties to such contract.

The 2004-2005 Amendments to the Subsoil Law

The Subsoil Law was further amended by the Law No. 2 III on "Introduction of Amendments and Additions to Certain Legal Acts on Subsoil Use and Petroleum Operations in the Republic of Kazakhstan" dated 1 December 2004 and Law No. 79 3 on "Introduction of Amendments and Additions to Certain Legal Acts on Subsoil Use and Performance of Petroleum Operations in the Republic of Kazakhstan" dated 14 October 2005 (the "**2004-2005 Amendments**"). The 2004-2005 Amendments (in particular article 71 of the Subsoil Law) provide a pre-emption right to the State (through the Government) in connection with any transfer of subsoil use rights and/or any transfer of the shares or participation interests in a legal entity directly or indirectly controlling another legal entity with subsoil use rights, if the core business of the controlling entity is related to subsoil use in Kazakhstan ("**Government Pre-Emption Right**"). This gives the State a pre-emption right in respect of any such transfers on terms "no worse than those offered by other prospective purchasers". The Government Pre-Emption Right applies retroactively to all existing contracts, as well as prospectively to future contracts. The 2004-2005 Amendments do not contain detailed procedures that the Government must follow to exercise the Government Pre-Emption Right. As a result, the process remains unclear.

However, an inter-departmental commission was established by decree to consider the pre-emption right of the Government in situations when subsoil use rights or the shares or participation interests of any subsoil user are offered for sale and to make recommendations to the Government. The decree did not establish detailed guidelines for sellers to notify the commission about transactions that might trigger the Government's Pre-Emption Right or the deadline for the Government to exercise this right.

Other provisions in the 2004-2005 Amendments include a requirement that subsoil users purchase goods and services from Kazakhstan producers, provided such goods and services comply with the applicable national and/or international standards and a prohibition on the purchase of goods and services by subsoil users from foreign organisations where there

are comparable Kazakhstan goods and services available. This applies to all contracts, including the ones that have stabilisation clause.

The 2004-2005 Amendments also create a regulatory regime to enable subsoil users to pledge their subsoil use rights.

The 2007 Amendments to the Subsoil Law

In October 2007, Kazakhstan adopted new legislation amending the Subsoil Law (the "**2007 Amendments**"). The 2007 Amendments came into force on 3 November 2007. The revisions provide the Government with the right to initiate reviews of Subsoil Use Agreement terms and to introduce amendments and/or additions to Subsoil Use Agreements in circumstances where the activities of the subsoil user in deposits of "strategic importance" lead to material adverse effects to the economic interests of the State or jeopardise national security.

In addition, under the 2007 Amendments, the MEMR may terminate Subsoil Use Agreement unilaterally if (*inter alia*):

- within two months of receipt of the MEMR's notice of amendments and/or additions to the terms and conditions of the Subsoil Use Agreement, the subsoil user does not consent in writing to negotiate such amendments and/or additions to the terms and conditions of the contract or rejects such negotiations;

- within four months of receipt of the subsoil user's consent to negotiate amendments and/or additions to the terms and conditions of the contract, the parties fail to come to an agreement on such amendments and/or additions to the terms and conditions of the contract; and

- within six months following the date on which a decision on the restoration of the economic interests of the State was made, the parties do not sign the amendments and/or additions to the terms of the contract.

The MEMR also has the right, before adopting the decision to terminate the Subsoil Use Agreement to demand an immediate termination of the subsoil operations by notifying the subsoil user, after which the subsoil user is required to immediately carry out such demand. Upon the Government's initiative, the MEMR also has the right, under the 2007 Amendments, to unilaterally terminate a Subsoil Use Agreement where the subsoil user's operations in a deposit of "strategic importance" lead to material changes in the economic interests of the State which jeopardise national security.

The 2007 Amendments have retroactive effect in respect of previously concluded subsoil production contracts which are deemed to be of strategic importance. The Government has yet to issue a list of the subsoil deposits which it deems to be of "strategic importance".

New Subsoil Law

A new draft of the Law of the Republic of Kazakhstan "On Subsoil and Subsoil Use" (the "**New Subsoil Law**") is currently being debated by Parliament. A Russian language version of this draft was posted on the website of the MEMR on 24 October 2008, but it is not clear what form the New Subsoil Law will take after the parliamentary debates.

The key features of the New Subsoil Law are:

- Consolidation of the existing overlapping laws and regulations - the New Subsoil Law is intended to restate and consolidate the existing Petroleum Law and the Subsoil Law so that in the future a single law will govern all subsoil activities (oil and gas exploration and production, mining, etc.) in Kazakhstan, and

- Clarification of areas of uncertainty by adding more procedures.

Stabilisation and taxation

The New Subsoil Law limits the stabilisation right to the commercial as opposed to the overall position of subsoil users, although the New Subsoil Law contains the possibility of applying stabilisation through a separate law. It is unclear how this will be interpreted by the Government.

Taxes and customs stabilisation provisions are eliminated and the subsoil users are subject to the provisions of the 2009 Tax Code. Subsoil users would be subject to taxes and customs duties (such as crude oil export duties) which may fluctuate based on changes in Kazakhstan legislation.

Subsoil use contracts

Pursuant to the New Subsoil Law there will only be two types of contracts - exploration contracts and production contracts with respect to commercial oil and gas and mining activities. The New Subsoil Law excludes joint exploration and production contracts from the list of subsoil use contracts which may be entered into. In addition, production sharing agreements are not a specified form of permitted subsoil use contract (though production sharing agreements concluded before the enactment of the New Subsoil Law shall remain valid on the terms agreed at the time of their conclusion).

If a subsoil user makes a commercial discovery under an exploration contract, the New Subsoil Law grants a non-exclusive priority right to such subsoil user to negotiate a production contract within a certain period of time. If a production contract is not agreed, the subsoil user loses its priority right in relation to the discovery which, in turn, becomes subject to a public tender on the same terms as it was offered to the initial subsoil user. The initial subsoil user is entitled to have its exploration costs reimbursed by the tender winner.

Government pre-emptive and consent rights

Under the New Subsoil Law, the Government has two pre-emptive rights: (i) to purchase minerals at export prices 'not exceeding export prices of the subsoil user' and (ii) over transfers of subsoil use rights.

Like the current Subsoil Law, under the New Subsoil Law, transfer of subsoil use rights is subject to Government approval. The Government's consent would also be required in relation to: (i) the initial listing of securities and additional issuances related thereto of the subsoil user and (ii) for the pledge of a subsoil use right (in whole or in part) or a participatory interest (shares) in a subsoil user.

The Government's consent and pre-emptive right do not apply for (i) alienation of shares or derivatives of a legal entity which are circulated on a stock exchange, and (ii) transfer of full or part of interests in a subsoil user in favour of 100 per cent. subsidiaries or 100 per cent. affiliates.

In addition to the above, the law does not allow for the transfer of a subsoil use right within two years following the effective date of a subsoil use contract, except in circumstances of foreclosure of a pledge or reorganization of a subsoil user.

Finally, the transfer or pledge of pipelines or related participatory interests will require the approval of the Government and the Government would have a priority right to acquire such property.

Offshore operations

The New Subsoil Law provides that a national company (meaning the Company) must be given at least 50 per cent. interest in offshore subsoil use contracts.

Dispute resolution

The New Subsoil Law states that disputes in connection with a subsoil use contract should firstly be resolved by negotiations, and secondly, if the dispute continues, may be referred for resolution to a court in accordance with the laws of Kazakhstan. Unlike the current Subsoil Law, the New Subsoil Law does not expressly provide for international arbitration for resolution of cases involving foreign investors. The prevailing interpretation of this is that the method prescribed in the New Subsoil Law is the only dispute resolution regime that will be allowed. Hence, there will not be an option for international oil and gas companies to opt for international arbitration, and Kazakhstan courts would have exclusive competence in matters regarding subsoil use contracts.

Other considerations

Under the New Subsoil Law, the Government would have the right to initiate reviews of subsoil use agreement terms and to introduce amendments and/or additions to subsoil use agreements. These are similar to the provisions introduced into the current Subsoil Law by the 2007 Amendments.

Regulation of Production Sharing Rights Related to Offshore Oil Operations

The Law on Production Sharing Agreements

The Law of the Republic of Kazakhstan on Production Sharing Agreements was adopted on 8 July 2005 ("**PSA Law**") and abolished on 1 January 2009. There were no legislative acts introduced to replace the PSA Law.

The PSA Law was Kazakhstan's the only law dedicated exclusively to production sharing agreements, and applied to oil operations in Kazakhstan's sector of the Caspian Sea and the Aral Sea.

Under the PSA Law, the principal method of obtaining oil blocks was through open or closed tenders, unless otherwise prescribed in international treaties or contracts the Government is a party to. The Company was given the right of share participation as a contractor in the amount of not less than 50 per cent. in all new offshore production sharing agreements concluded by the Government. In addition the PSAs could be concluded by way of direct negotiations between the Company, as an authorised agent of the Government, and MEMR on the one side, and the investor, on the other side. Further, the PSA Law set forth the procedure and general terms of the production sharing agreement tenders. Basic tender terms included a requirement that offshore oil operators purchase goods and services from Kazakhstan producers, including but not limited to refining services, and obligations to develop technologies and infrastructure in Kazakhstan.

In accordance with the PSA Law, the production sharing agreements could only be for exploration and production or production, with a general term of up to 35 years and 25 years, respectively. The PSA Law also referred to "unique" deposits in respect of which the term of the production sharing agreement might have been extended up to 45 years, however "unique" was not defined by the law.

Pursuant to the PSA Law, a contractor was allowed to, fully or partially, transfer its rights and obligations under the production sharing agreement in the manner generally provided in the Petroleum Law, which required prior competent body approval (MEMR). While the PSA Law did not contain the Government Pre-Emption Right to acquire any interest in an existing production sharing agreement from a selling contractor, the Government could execute the Government Pre-Emption Right in accordance with the Subsoil Law.

Licensing of Refining, Pipeline Transportation, Storage and Subsoil Services

In Kazakhstan, oil refining, oil and gas pipeline transportation and storage are licensed activities as well as production of oil and gas. Subsoil services (such as drilling of oil and gas wells and other related services) are also subject to licensing.

On 9 August 2007, the new Law of the Republic of Kazakhstan "On Licensing" came into force (the "**Licensing Law**"). The Licensing Law does not require oil refineries to hold licences for production of petroleum products and instead requires oil refineries to obtain licences for exploitation of oil processing plants.

A licence is not transferable from an existing facility to another. The licence is granted for an unlimited period of time. The licence is granted by the relevant competent authority (currently, the MEMR) after submission of the required documentation and the payment of a fee.

A licence can be suspended or terminated in case a licensee fails to comply with qualification requirements, including but not limited to lack of qualified personnel or proper equipment.

The MEMR and Other Regulatory Authorities

General

The State plays a role in three areas of subsoil management. The Government is responsible for organising and managing state-owned reserves, outlining subsoil allotments, defining the list of commonly occurring minerals, defining the procedures for the conclusion of Subsoil Use Agreements, approving model contracts and appointing the "competent authority". In the event of war, natural calamities and other emergency situations, the Government has the right to requisition all or part of the mineral resources owned by a subsoil user with a subsequent compensation in-kind or in cash at world prices on the day of requisition. The Government (currently, the MEMR) has the power to execute and implement Subsoil Use Agreement. Local executive authorities have responsibility for, among other things, granting land to subsoil users, supervising the protection of the land and participating in negotiations with subsoil users for environmental and social protection.

In addition to regulation relating to subsoil management, there are a number of regulatory authorities that regulates other aspects of hydrocarbon extraction, transportation and refining.

The MEMR

The MEMR is the Ministry designated by the Government to enter into Subsoil Use Agreements. In addition, the Subsoil Law provides that the MEMR is responsible for:

- organising tenders for the granting of subsoil use rights for exploration and production of minerals;

- executing and registering Subsoil Use Agreements;

- monitoring compliance with the terms of Subsoil Use Agreements;

- issuing permits for the transfer of subsoil use rights (under article 14 of the Subsoil Law) and registration of transactions involving pledges of subsoil use rights; and

- suspending and terminating Subsoil Use Agreements in accordance with the procedures set forth in the Subsoil Law.

Other Regulatory Authorities

Other governmental ministries and authorities which regulate aspects of hydrocarbon extraction in Kazakhstan include:

- the MEP, which is responsible for environmental protection and preservation of mineral resources;

- the Ministry of Industry and New Technologies, which is expected to retain many of the functions of the former Ministry of Industry and Trade, including monitoring compliance with requirements that goods and services be procured through the tender process and from Kazakhstan producers if such goods and services meet Kazakhstan and international standards;

- the Ministry of Emergency Situations, which, among other things, supervises safety in mining operations;

- the Committee on Geology and Subsoil Use under MEMR, which, among other things, supervises mining operations;

- the Committee on State Control of Emergency Situations and Industry Safety (under the Ministry of Emergency Situations) (the "**CSCES**"), which among other things, supervises health and safety matters;

- the Construction Committee of the MIT, which exercises State control over the quality of construction and construction materials;

- various governmental authorities responsible for the approval of construction projects and the use of water and land resources;

- the Committee for State Sanitary and Epidemiological Supervision under the Ministry of Public Health, which is responsible for monitoring compliance with health standards;

- the Ministry of Labour and Social Protection of the Population (the "**MLSPP**"), which is responsible for investigating labour disputes and complaints from individual employees and which monitors compliance with the obligations of subsoil users to give preference in hiring, including to employ a certain minimum percentage of Kazakhstan nationals;

- the Committee for Technical Regulation and Metrology, which is responsible for testing used equipment;

- regional and municipal regulatory authorities, which are responsible for registering properties, pledges and mortgages; and

- national and regional tax authorities.

Recordkeeping

Under the Subsoil Law and the Environmental Code dated 9 January 2007 No. 212 (the "**Environmental Code**") a subsoil user is required to keep an adequate record of extracted minerals and reserves, including processing by-products and residual waste. The State monitors the records of extracted minerals and reserves. A subsoil user is also required to provide geological reports on its activities in the contract territory relating to exploration and use of the subsoil.

Social Contributions and Commitments

Contracts for subsoil use are required to identify the subsoil user's obligation to ensure equal conditions and fair pay for Kazakhstan personnel in comparison to foreign personnel, including personnel employed at the subcontractor level. A subsoil user is also obligated to give priority to hire Kazakhstan nationals to work and be trained.

In addition, Subsoil Use Agreements might contain other social commitments and contributions of subsoil users.

Environmental Compliance

The Company is subject to a variety of Kazakhstan's environmental laws, regulations and requirements that govern air emissions, water use and disposal, waste management, impacts on wildlife, as well as land use and reclamation.

Subsoil Use Agreements granted by the MEMR typically impose environmental obligations in addition to that required by the law. The penalties for failing to comply with these obligations can be substantial, including fines or even suspension or revocation of the Subsoil Use Agreement.

Under Kazakhstan law, companies are obligated to obtain permits (as described below) for the contamination of the environment and must observe all requirements set out in such permits.

Ecological Permits. The concept of an ecological permit (the "**EP**") was developed as a means for the Government to regulate pollution. An EP is a special permit that grants a subsoil user a temporary right to emit or disperse emissions into the atmosphere and the discharge of waste substances into surface and underground waters. EPs contain the conditions governing the use of the environment as well as payments associated with such use. The obligation to obtain an EP arises under Subsoil Use Agreements concluded with the MEMR. Companies using the environment (polluting, discharging waste, etc.) are required to obtain an EP. Depending on the quantity of pollutants emitted into the atmosphere, an EP is to be issued for up to 3 or 5 years either by a regional department of environmental protection or by the MEP. Fees for pollution of the environment are established by the local representative bodies (Maslikhat) within the limits stipulated by the Government.

Water Permits

The Water Code dated 9 July 2003 No. 481 (the "**Water Code**") implements the government policy in relation to the utilisation and protection of water resources. The Water Code sets out obligations for the use of water and discharge of certain materials into the water, on the basis of Water Use Permits (the "**WUP**"). WUP can be suspended or terminated if the terms as specified in the relevant WUP are breached. Such terms include amount of underground water, submitting statistical reports and monitoring reports, complying with requirements relating to water pollution during mining operations and regular checking of equipment. If any circumstances relating to its water use change a WUP holder is obliged to agree to such changes with the relevant governmental agencies, such as regional department of environmental protection, the regional sanitary and epidemiological service. The term of a WUP may be extended subject to compliance with requirements specified within the WUP.

Enforcement

Article 116 of the Environmental Code specifies which authorised bodies are responsible for monitoring environmental compliance and enforcing environmental requirements. These officials include the Chief State Ecological Inspector, the Deputy State Ecological Inspector and Senior State Ecological Inspectors representing the heads and deputy heads of departments and divisions of the MEP. In addition, regional environmental prosecutors have the authority to supervise environmental compliance and initiate judicial proceedings.

Article 117 of the Environmental Code authorises the relevant Government officials, in their enforcement of environmental protection measures, to:

- inspect facilities and take measurements and samples for analysis;
- request and receive documentation, results of analysis and other materials;
- initiate procedures relating to the (i) suspension of licences; (ii) termination of contracts for the use and taking of natural resources; and (iii) suspension and annulment of ecological and other permits in the event of violation;
- issue orders for individuals and legal entities to eliminate violations of Kazakhstan's environmental laws;

- file claims with courts with respect to violations of Kazakhstan laws; and
- file requests to terminate Subsoil Use Agreements for reported violations.

Environmental Insurance

Environmental insurance is an obligatory type of insurance envisaged by the Subsoil Law and by the Environmental Code and is regulated by the Law of the Republic of Kazakhstan "On Obligatory Environmental Insurance" dated 13 December 2005 No. 93.

The insurance agreement must be signed between a subsoil user and any insurer licensed to provide this type of insurance for the benefit of third parties whose life, health and property might be harmed by subsoil use activity. A subsoil user cannot carry out its activities without obtaining environmental insurance.

Statute of Limitations on Proceedings

The statute of limitation for bringing proceedings for breach of environmental requirements is governed by the general statute of limitation provisions under Article 178 of the Civil Code which provides for a three year limitation period. This limitation does not apply to criminal prosecutions in connection with breaches of environmental requirements.

Health and Safety Compliance

The Company's activities are subject to laws and regulations of Kazakhstan relating to safety and health matters and are regulated by various State bodies, including the MLSPP. Such laws and regulations include the Environmental Code, the Subsoil Law and the Labour Code dated 15 May 2007, No. 251. The Company's oil and gas operations within Kazakhstan are also governed by the CSCES with respect to industry specific health and safety requirements.

The laws and regulations require an employer to provide its employees with properly functioning and safe equipment, to train its employees on health and safety requirements, to adopt corporate health and safety regulations, to provide special uniform and shoe wear, special nutrition, to perform periodic medical examinations of its employees, to obtain periodic third party attestation for equipment and worksites, to provide adequate insurance to its employees, to maintain third party liability insurance and to comply with fire safety, sanitary and hygienic regulations.

Price Regulation

The Government can regulate the prices with respect to Company members that are Kazakhstan companies if such companies have the status of natural monopoly or hold a dominant position in the relevant market. KTO is a natural monopoly, and subject to price regulation.

S-K Rules, Subsoil Procurement and Transfers of Subsoil Use Rights

Procurement Regulations

Pursuant to the Law of the Republic of Kazakhstan On National Welfare Fund No. 134-IV, dated 13 February 2009, the Company is not subject to the general procurement rule (established by the Law of the Republic of Kazakhstan on State Procurement No. 303 III ZRK dated 21 July 2007) and conducts its procurements in accordance with the S-K Rules.

The S-K Rules are generally similar to the procurement rules and provide for mandatory procedures for the procurement of goods and services by Samruk-Kazyna and companies in which Samruk-Kazyna has a 50 per cent. or more direct or indirect ownership. The S-K Rules require such companies to conduct formal public tenders in order to procure most types of goods and services, subject to certain limited exceptions. The procurement of certain limited categories of goods and services, as well as goods and services provided by companies that are subject to the anti-monopoly laws of Kazakhstan, are conducted by way of direct trades without involving the tendering procedures. Samruk-Kazyna exercises overall supervision over compliance with the S-K Rules.

Transfer of the Subsoil Use Rights

Separately from the Government Pre-Emption Right (under article 71 of the Subsoil Law), transfer of the subsoil use rights by the subsoil user to a third party, disposal of an interest in the subsoil user and any pledge of the subsoil use rights may only be effectuated with the MEMR's prior consent (in accordance with the article 14 of the Subsoil Law). The MEMR's determination to grant or withhold consent is generally made within 45 days of filing an application.

Regulatory Function of the Company

As a "national company" within the meaning of the Petroleum Law, the Subsoil Law and Government Resolution No. 248 dated 25 February 2002, the Company has the right to conduct direct negotiations with the MEMR for subsoil contracts on a priority basis without being required to engage in a tender process. Accordingly, the Company occupies a privileged position in the Kazakhstan oil industry.

In addition, the Company, in its status as a "national company," works with the MEMR to develop State policies in the oil and gas industry and in the provision of efficient and rational development of oil and gas resources of Kazakhstan. Conversely, the Company may be exposed to potential claims and litigation from its role as a representative of natural interests and supervisor under certain Subsoil Use Agreements. In accordance with the Petroleum Law, the Company has been assigned the following functions:

- Participating in the development of strategy for production rates and for further increases of petroleum resources;

- Representing national interests in the contracts with contractors conducting petroleum operations by means of mandatory share participation in such contracts, in the manner defined by the Government of the Republic of Kazakhstan;

- Participating in the organisation of tenders for oil operations in Kazakhstan, including the Caspian and Aral Sea sectors;

- Preparing and implementing new projects connected with petroleum operations; and

- Monitoring and controlling the observance of Subsoil Use Agreements jointly with the relevant competent Government bodies; *provided* that the Company does not carry out controlling and supervising functions of such bodies.

- As per the resolution of the Government, obtaining not less than 50 per cent. participation in subsoil use contracts related to development of blocks which are tendered as investment projects.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisors as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

United States Federal Income Taxation

The following is a summary of the principal U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a holder thereof. This summary does not address the U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Final Terms will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note, as appropriate. This summary only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax exempt organisations, dealers or traders in securities or currencies, holders that will hold Notes through a partnership or other pass through entity, holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes, U.S. Holders (as defined below) that have a functional currency other than the U.S. Dollar, or certain former citizens and long-term residents of the United States. Moreover, this summary does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial issue price.

This summary is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein. Any special U.S. federal income tax considerations relevant to a particular issue of the Notes will be provided in the relevant Final Terms.

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes who for U.S. federal income tax purposes is (i) a citizen or resident of the United States; (ii) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States or any State thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

A Non-U.S. Holder is a beneficial owner of Notes that is neither a U.S. Holder nor a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes).

You should consult your own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of Notes.

Internal Revenue Service Circular 230 Disclosure

Pursuant to Internal Revenue Service Circular 230, investors are hereby informed that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the promotion or marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

U.S. Holders

Classification of the Notes

This summary is based upon the assumption that the Notes are characterised as indebtedness for U.S. federal income tax purposes. Prospective purchasers of the Notes should recognise, however, that there is some uncertainty regarding the appropriate characterisation of instruments such as the Notes, and no rulings have been or will be sought from the Internal Revenue Service ("**IRS**") with respect to the appropriate characterisation of the Notes for U.S. federal income tax purposes. It is possible that the IRS might contend that the Notes should be treated not as indebtedness of the Issuer but either as indebtedness of the Guarantor or as equity of the Issuer.

If the Notes are recharacterised as equity of the Issuer for U.S. federal income tax purposes, a U.S. Holder may be deemed to own stock in a passive foreign investment company ("**PFIC**"). In that case, a U.S. Holder could be subject to materially adverse U.S. federal income tax consequences, including (among other potentially materially adverse consequences) being required to pay an interest charge together with tax calculated at maximum ordinary rates on gain recognised on a disposition of a Note or on certain increased interest payments with respect to a Note. Prospective purchasers of the Notes should consult their own tax advisers about the consequences in the event the Notes are treated as indebtedness of the Guarantor or as equity of the Issuer for U.S. federal income tax purposes.

Interest

Except as set forth below, interest paid on a Note, whether payable in U.S. Dollars or a currency, composite currency or basket of currencies other than U.S. Dollars (a "**foreign currency**"), including any additional amounts, will be includible in a U.S. Holder's gross income as ordinary interest income in accordance with the U.S. Holder's usual method of tax accounting. In addition, interest on the Notes will generally be treated as foreign source income for U.S. federal income tax purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. For this purpose, interest on the Notes should generally constitute "passive category income" or, in the case of certain U.S. Holders, "general category income".

Foreign Currency Denominated Interest

Any interest paid in a foreign currency will be included in the gross income of a U.S. Holder in an amount equal to the U.S. Dollar value of the foreign currency, including the amount of any applicable withholding tax thereon, regardless of whether the foreign currency is converted into U.S. Dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S Dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. Dollar value of accrued interest income using the average rate of exchange for the accrual period or, at the U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period or the spot rate on the date of receipt, if that date is within five days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date of payment is received differs from the rate applicable to an accrual of that interest.

Additional rules for Notes that are denominated in more than one currency or that have one or more non-currency contingencies and are denominated in either one foreign currency or more than one currency are described below under Dual Currency Notes.

Original Issue Discount

U.S. Holders of Notes issued with original issue discount ("**OID**"), including zero coupon notes, will be subject to special tax accounting rules, as described in greater detail below. U.S. Holders of Notes issued with OID (including cash basis taxpayers) should be aware that, as described in greater detail below, they generally must include OID in income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income. However, U.S. Holders of such Notes generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent such payments do not constitute qualified stated interest (as defined below). Notes issued with OID will be referred to as "Original Issue Discount Notes". Notice will be given in the relevant Final Terms when the Issuer determines that a particular Note will be an Original Issue Discount Note.

The following discussion does not address the application of the Treasury Regulations addressing OID to, or address the U.S. federal income tax consequences of, an investment in contingent payment debt instruments. In the event the Issuer issues contingent payment debt instruments the relevant Final Terms will describe the principal U.S. federal income tax consequences thereof.

Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. Dollar are described under Foreign Currency Discount Notes below.

For U.S. federal income tax purposes, a Note (including a zero coupon note), other than a Note with a term of one year or less (a "**Short term Note**"), will be treated as issued with OID if the excess of the Note's stated redemption price at maturity over its issue price equals or exceeds a *de minimis* amount (0.25 per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of a Note that provides for payments other than qualified stated interest before maturity, its weighted average maturity)). The "issue price" of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, agent or wholesaler). The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice will be given in the relevant Final Terms if it is determined that a particular Note will bear interest that is not qualified stated interest. In the case of a Note issued with *de minimis* OID, a U.S. Holder of such Note will recognize capital gain with respect to any *de miminis* OID as stated principal payments on the Note are made. The Amount of such gain with respect to each principal payment will equal the product of the total amount of the Note's *de minimis* OID and a fraction, the numerator of which is the amount of the principal payment made and the denominator of which is the stated principal amount of the Note.

Certain of the Notes may be redeemed prior to their maturity at the Issuer's option and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the relevant Final Terms and should consult their own tax advisors with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the Notes.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. The "accrual period" for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "adjusted issue price" of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortisation of any acquisition or bond premium, as described below) and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of an Original Issue Discount Note that is a Floating Rate Note, both the "yield to maturity" and "qualified stated interest" will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Note is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the relevant Final Terms and should consult their own tax advisors regarding the U.S. federal income tax consequences of the holding and disposition of such Notes.

U.S. Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. U.S. Holders should consult their own tax advisors about this election.

Short Term Notes

In the case of Short term Notes, under the OID regulations, all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, U.S. Holders generally will be taxable on the discount in lieu of stated

interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short term Note, unless the U.S. Holder elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method U.S. Holders of a Short term Note are not required to include accrued discount in their income currently unless they elect to do so (but may be required to include any stated interest in income as it is received). U.S. Holders that report income for U.S. federal income tax purposes on the accrual method and certain other U.S. Holders are required to accrue discount on such Short term Notes (as ordinary income) on a straight line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder that is not required, and does not elect, to include discount in income currently, any gain realised on the sale, exchange or retirement of the Short term Note will generally be ordinary income to the extent of the discount accrued through the date of sale, exchange or retirement. In addition, a U.S. Holder that does not elect to include currently accrued discount in income may be required to defer deductions for a portion of the U.S. Holder's interest expense with respect to any indebtedness incurred or continued to purchase or carry such Notes.

Foreign Currency Discount Notes

OID for any accrual period on an Original Issue Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined for any accrual period in the foreign currency and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under "Foreign Currency Denominated Interest". Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder will recognise foreign currency gain or loss in an amount determined in the same manner as interest income received by a holder on the accrual basis, as described above in "-Foreign Currency Denominated Interest".

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note at a "premium" and will not be required to include any OID, if any, in income. A U.S. Holder generally may elect to amortise the premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in income under the U.S. Holder's regular accounting method. In the case of a Note that is denominated in, or determined by reference to, a foreign currency, bond premium will be computed in units of foreign currency, and amortisable bond premium will reduce interest income in units of the foreign currency. At the time amortised bond premium offsets interest income, exchange gain or loss (taxable as ordinary income or loss) is realised measured by the difference between exchange rates at that time and at the time of the acquisition of the Notes. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. Special rules limit the amortisation of premium in the case of convertible debt. Bond premium on a Note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognised on disposition of the Note.

Sale, Exchange or Retirement

A U.S. Holder's tax basis in a Note generally will be its U.S. Dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The U.S. Dollar cost of a Note purchased with a foreign currency generally will be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement (less any accrued but unpaid interest, which will be taxable as such) and the tax basis of the Note. The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. Dollar value of such amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, within the meaning of the applicable U.S. Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale.

Gain or loss recognised on the sale or retirement of a Note (other than gain or loss that is attributable to OID, or to changes in exchange rates, which will be treated as ordinary income or loss) will be capital gain or loss and will be long-term capital gain or loss if the Note was held for more than one year. Gain or loss recognised by a U.S. Holder on the sale or retirement of a Note that is attributable to changes in exchange rates will be treated as ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realised on the transaction. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income or loss.

Prospective investors should consult their tax advisors as to the foreign tax credit implications of such sale or retirement of Notes.

Sale, Exchange or Retirement of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. Dollar value at the time such interest is received or at the time of such sale or retirement. Foreign currency that is purchased generally will have a tax basis equal to the U.S. Dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. Dollars) will be ordinary income or loss, however, no foreign currency gain or loss should arise if the foreign currency is disposed of on the day it is received, even if the value changes before receipt and disposition.

Dual Currency Notes

U.S. Holders of Notes that are denominated in more than one currency or that have one or more non-currency contingencies and are denominated in either one foreign currency or more than one currency will be subject to special rules applicable to "Multi Currency Debt Securities". A Holder generally would be required to apply the "non-contingent bond method" in the Multi Currency Debt Security's denomination currency, which for this purpose would be the Multi Currency Debt Security's predominant currency as determined by the Issuer. A description of the principal U.S. federal income tax consideration relevant to holders of Dual Currency Notes, including specification of the predominant currency, will be set forth, if required, in the relevant Final Terms.

Index Notes and Notes with Contingent Payments

The tax consequences to a holder of an Index Linked Redemption Note, Index Linked Interest Note or a Note with contingent payments will depend on factors including the specific index or indices used to determine payments on such Note and the amount and time of any non-contingent payments on such Note. A description of the principal U.S. federal income tax considerations relevant to holders of such Note will be set forth, if required, in the relevant Final Terms.

Other Notes

A description of the principal U.S. federal income tax considerations relevant to holders of high interest Notes, low interest Notes, step up Notes, step down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set forth, if required, in the relevant Final Terms.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. U.S. Holders should consult their own tax advisors as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any non-U.S. currency received as interest or as proceeds from the sale or other disposition of the Notes.

Non U.S. Holders

Under U.S. federal income tax law currently in effect, subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," payments of interest (including OID) on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," any gain realised by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of Notes that

are U.S. persons. Information reporting generally will apply to payments of principal of, and interest on, an obligation, and to proceeds from the sale or redemption of, an obligation made within the United States, or by a U.S. payor or U.S. middleman, to a holder (other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a U.S. person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Note that is not a U.S. person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is 28 per cent. for the 2010 taxable year.

Backup withholding is not an additional tax. Holders generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

Recently Enacted Legislation Affecting Disclosure Obligations for U.S. Individuals

Legislation was enacted on March 18, 2010 that generally imposes new U.S. return disclosure obligations (and related penalties for failure to disclose) on U.S. individuals that hold certain specified foreign financial assets. Investors are urged to consult with their own tax advisors regarding the possible implications of this recently enacted legislation on their investment in the Notes.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes. Prospective purchasers of Notes should consult their own tax advisors concerning the tax consequences of their particular situations.

Kazakhstan Taxation

Under Kazakhstan law as presently in effect, payments of principal or interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no taxable presence in Kazakhstan (together, "**Non-Kazakhstan Holders**") will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. Interest payable by the Issuer to residents of Kazakhstan or to non-residents who maintain a permanent establishment in Kazakhstan (together, "**Kazakhstan Holders**"), other than to individuals, is subject to Kazakhstan income tax unless the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan.

In addition, gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income or profits tax. Any gains derived by Kazakhstan Holders in relation to Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan and sold through an open auction on such stock exchange are not subject to Kazakhstan income tax.

Payments of interest to Non-Kazakhstan Holders under the Guarantee will be subject to withholding tax at a rate of 15 per cent. unless reduced by an applicable double taxation treaty. Payments of interest under the Guarantee to Non-Kazakhstan Holders registered in countries with favourable tax regime (e.g., Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba, etc.) (the list of which is approved by the Government of the Republic of Kazakhstan) will be subject to withholding of Kazakhstan tax at a rate of 20 per cent. Payments of interest to Kazakhstan Holders under the Guarantee, other than to Kazakhstan investment funds and certain other entities, will be subject to withholding tax at a rate of 15 per cent. (10 per cent. for legal entities from 1 January 2014). The Guarantor will agree in the Trust Deed and the Guarantee to pay additional amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in Condition 8 (Taxation) of the Terms and Conditions of the Notes. Payments by the Guarantor to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding

system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The Netherlands Taxation

General

The following is a general summary of the Dutch tax consequences as at the date of this Base Prospectus in relation to payments made under Notes and in relation to the acquisition, holding or disposal of Notes. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder of a Note or a prospective holder and in view of its general nature, it should be treated with corresponding caution. Holders should consult their tax advisers with regard to the tax consequences of investing in the Notes. Except as otherwise indicated, this summary only addresses the Netherlands tax legislation as in effect at the date of this Base Prospectus and as interpreted in published case law until this date.

This summary does not describe the Netherlands tax considerations for holders, who have a substantial interest ("**aanmerkelijk belang**") in Issuer. In general, a holder of a Note is considered to have a substantial interest in Issuer, if he, alone or together with his partner (a statutorily defined term) or certain other related persons, directly or indirectly, has (i) an interest of 5 per cent. or more of the total issued capital of Issuer or of 5 per cent. or more of the issued capital of a certain class of shares of Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in Issuer.

Withholding Tax

All payments made by Issuer under the Notes can be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, provided that none of the payments under the Notes will depend on or will be deemed to depend on the profits or distribution of the profits by Issuer or an affiliated party.

Corporate Income Tax and Individual Income Tax

Residents of the Netherlands

If the holder of a Note is a resident or deemed to be a resident of the Netherlands for Dutch corporate income tax purposes, income derived from Notes held by it and gains realised upon the disposal of Notes held by it are subject to Dutch corporate income tax (2010 rates of 20.0 per cent. on profits up to €200,000; 25.5 per cent. on profits higher than €200,000).

If the holder of a Note is an individual, resident or deemed to be a resident of the Netherlands for Dutch income tax purposes (including the non-resident individual holder who has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of the Netherlands), the income derived from Notes held by it and the gains realised upon the disposal of Notes held by it are taxable at the progressive income tax rates (with a maximum of 52.0 per cent.), if:

(i) the holder has an enterprise or an interest in an enterprise, to which enterprise the Notes are attributable; or

(ii) the holder is considered to perform activities with respect to the Notes that exceed regular asset management ("**normaal vermogensbeheer**").

If the aforementioned conditions (i) or (ii) do not apply to the individual holder of a Note, such holder will be taxed annually on a notional income of 4.0 per cent. of the net average value of the Notes held by it at a flat rate of 30.0 per cent. (effective rate of 1.2 per cent.), regardless of whether any interest is received or any capital gains are actually realised. The individual holder of a Note will only be subject to the above income tax in so far as certain thresholds are exceeded.

Non-residents of the Netherlands

A holder of a Note who derives income from a Note or who realises a gain on the disposal or deemed disposal of a Note will not be subject to Dutch taxation on income or capital gains, provided that:

(i) such holder is neither resident nor deemed to be resident in the Netherlands nor, in case of an individual, has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of the Netherlands; and

(ii) such holder does not have an interest in an enterprise or deemed enterprise (statutorily defined term) which is, in whole or in part either effectively managed in the Netherlands or, carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise the Notes are attributable; and

(iii) in the event the holder is an individual, such holder does not carry out any other activities in the Netherlands that exceed regular asset management; and

(iv) such holder does not have an interest in an enterprise in the Netherlands other than by way of securities.

A holder of a Note will not become subject to taxation in the Netherlands by reason only of the execution, delivery and /or enforcement of the Notes or the performance by Issuer of its obligations under the Notes.

Gift, Estate or Inheritance Taxes

Dutch gift, estate or inheritance taxes will not be levied on the occasion of the acquisition of a Note by way of gift by, or on the death of, a holder of a Note, unless:

(i) the holder is, or is deemed to be, resident in the Netherlands; or

(ii) in the case of a gift of a Note by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands.

For purposes of Dutch gift and inheritance tax, an individual who holds Dutch nationality will be deemed to be resident in the Netherlands, if he/she has been resident in the Netherlands at any time during the 10 years preceding the date of the gift or his/her death.

For purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in the Netherlands, if he/she has been resident in the Netherlands at any time during the twelve months preceding the date of the gift.

Other Taxes and Duties

There is no Dutch registration tax, capital tax, stamp duty or any other similar tax or duty other than court fees and contributions for the registration with the Trade Register of the Chamber of Commerce, payable by a holder of a Note in the Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of the Netherlands) of the Notes or the performance of Issuer's obligations under the Notes. There is no Dutch value added tax payable in respect of payments in consideration for the issue of the Notes, in respect of the payment of interest or principal under the Notes or the transfer of the Notes.

Certain ERISA Considerations

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), imposes certain requirements on "employee benefit plans" (as defined in ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), prohibit certain transactions involving the assets of an ERISA Plan (Section 4975 of the Code also imposes prohibitions for certain plans that are not subject to Title I of ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts, (together with ERISA Plans and entities whose underlying assets include assets of ERISA Plans and/or plans subject to Section 4975 of the Code, ("**Plans**")) and certain persons (referred to as "parties in interest" or

“disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

Although the matter is not free from doubt, the purchase and holding of Notes by Plans could result in the underlying assets of the Issuer being deemed to constitute “plan assets” of such Plans for purposes of ERISA and Section 4975 of the Code and the activities of the Issuer becoming subject to the prohibited transaction restrictions set forth therein. Accordingly, each purchaser of the Notes or any beneficial interest therein will be deemed to represent and warrant that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein that (i) it is not a Plan and (ii) it will not sell or otherwise transfer any such Note or interest therein to any person without first obtaining the same representations and warranties from that person.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN ERISA IMPLICATIONS OF AN INVESTMENT IN THE NOTES AND DOES NOT PURPORT TO BE COMPLETE. PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN LEGAL, TAX, FINANCIAL AND OTHER ADVISORS PRIOR TO INVESTING IN THE NOTES TO REVIEW THESE IMPLICATIONS IN LIGHT OF SUCH INVESTOR’S PARTICULAR CIRCUMSTANCES.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co., as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the relevant Dealers (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all relevant Dealers have so certified (the "**distribution compliance period**"), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Transfer Restrictions*". Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See "*—Book Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*".

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Notes**"). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- ***Payments***. Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

- ***Notices***. So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of the Notes provided that for so long as the Notes are listed on the Regulated Market of the London Stock Exchange and the rules of the Regulated Market of the London Stock Exchange so require, notices

will also be published in a leading newspaper having general circulation in London (which is expected to be the Financial Times).

- ***Meetings***. The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.

- ***Trustee's Powers***. In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

- ***Cancellation***. Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

- ***Redemption at the Option of the Issuer***. Any Call Option provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.

- ***Redemption at the Option of Noteholders***. Any Put Option provided for in the Conditions may be exercised by the holder of the Global Note (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Conditions substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent (except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Note with the Registrar or any Transfer Agent at its specified office.

Exchange for Definitive Notes

Exchange

Registration of title to Notes initially represented by a Rule 144A Global Note in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless such depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Rule 144A Global Note or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary and the Registrar has received a notice from the registered holder of a Rule 144A Global Note requesting an exchange of a specified amount of the Rule 144A Global Note for Definitive Notes.

Registration of title to Notes initially represented by a Regulation S Global Note in a name other than the nominee of the common depositary for Euroclear and Clearstream, Luxembourg will only be permitted (i) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) following the failure to pay principal in respect of any Note at maturity or upon acceleration of any Note and the Registrar has received a notice from the registered holder (i.e. common depositary) of the relevant Regulation S Global Note requesting an exchange of the Regulation S Global Note for Definitive Notes.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Guarantor (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer, the Guarantor and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer, the Guarantor and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer or the Guarantor that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See "*—Book Entry Ownership — Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Exchange for Definitive Notes*", DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note representing Rule 144A Notes of any Series will have a CUSIP number, unless otherwise agreed, and will be deposited with a custodian for, and registered in the name of Cede & Co., as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer or the Guarantor in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Guarantor, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual beneficial owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf

of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading Between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading Between DTC Participants

Secondary market sales of book entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement system in same day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading Between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading Between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility

for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that the delivery of Notes will be made against payment therefor on the closing date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6 l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisors.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of a beneficial interest in the Rule 144A Global Note, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a QIB that is also a QP, (b) not a broker dealer which owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers, (c) not a participant directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes of the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(2) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Note in a principal amount that is not less than U.S.$100,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book entry depositaries.

(3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs each of which is also a QP, each of which is purchasing not less than U.S.$100,000 in principal amount of the Rule 144A Notes or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(4) It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.

(5) It understands that its purchase and holding of the Rule 144A Notes constitutes a representation and warranty by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein that (a) it is not a "benefit plan investor" as defined in Section 3(42) of ERISA, and (b) it will not sell or otherwise transfer any such Note or interest therein to any person without first obtaining the same representations and warranties from that person.

(6) It understands that the Rule 144A Notes (and any individual Note Certificates issued in respect thereof), unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A "**QIB**") THAT IS A QUALIFIED PURCHASER ("**QUALIFIED PURCHASER**") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE "**INVESTMENT COMPANY ACT**"), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QUALIFIED PURCHASER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.$100,000 PRINCIPAL AMOUNT OF NOTES OR (2) TO NON U.S. PERSONS IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE RESALE RESTRICTIONS REFERRED TO

ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

EACH BENEFICIAL OWNER HEREOF REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QUALIFIED PURCHASER; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS ALSO A QUALIFIED PURCHASER; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS RULE 144A NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.$100,000 IN PRINCIPAL AMOUNT OF RULE 144A NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES. THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A PERSON WHO IS NOT A QIB THAT IS ALSO A QUALIFIED PURCHASER, THE ISSUER MAY (A) REQUIRE IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON (I) WHO IS A QIB WHO IS ALSO A QUALIFIED PURCHASER AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) TO A NON U.S. PERSON PURCHASING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATION S OR (B) REQUIRE THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QUALIFIED PURCHASER. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN THAT AT THE TIME OF SUCH PURCHASE AND THROUGHOUT THE PERIOD IT HOLDS SUCH NOTE THAT (I) IT IS NOT AND WILL NOT BE A "**BENEFIT PLAN INVESTOR**" (AS DEFINED IN SECTION 3(42) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**")) AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH NOTE OR ANY INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME REPRESENTATIONS AND WARRANTIES FROM THAT PERSON.

THE ISSUER MAY COMPEL EACH BENEFICIAL HOLDER HEREOF TO CERTIFY PERIODICALLY THAT SUCH HOLDER IS A QIB AND A QUALIFIED PURCHASER.

(1) It acknowledges that the Issuer, the Guarantor, the Registrar, the Dealers and their affiliates, and others will rely upon the trust and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Guarantor and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts who are QIBs that are also QPs, it represents that it has sole investment discretion with respect to each such account, and that it has full power to make the above acknowledgements, representations and agreements on behalf of each such account.

(2) It understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

(3) Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States and each subsequent purchaser of Regulation S Notes in resales, throughout the period that it holds such Note, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIB each of which is also a QP, each of which is purchasing not less than U.S.$100,000 in principal amount of the Rule 144A Notes or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that the Regulation S Notes will be evidenced by a Regulation S Global Note. Before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

(4) It acknowledges that the Issuer, the Guarantor, the Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, the Guarantor, and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(5) It understands that its purchase and holding of the Regulation S Notes constitutes a representation and warranty by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein that (a) it is not and will not be a "benefit plan investor" as defined in Section 3(42) of ERISA, and (b) it will not sell or otherwise transfer any such Note or interest therein to any person without first obtaining the same representations and warranties from that person.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of the Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, HSBC Bank plc, J.P. Morgan Securities Ltd., The Royal Bank of Scotland plc and any other Dealers appointed under the terms of the Dealer Agreement (as defined below). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a dealer agreement dated 18 June 2008 as supplemented by a first supplemental dealer agreement dated 8 July 2009 and a second supplemental dealer agreement dated 15 April 2010, as may be further supplemented, amended or restated from time to time (the "**Dealer Agreement**") and made between the Issuer, the Guarantor, the Joint Arrangers and the Dealers. Any such agreement will, inter alia, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer and the Guarantor in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

The Joint Arrangers have entered into a consultancy agreement with Sky Bridge Finance Ltd. ("**Sky Bridge**") pursuant to which Sky Bridge will be paid an agreed fee by the Joint Arrangers for providing certain consultancy and advisory services to the Joint Arrangers in connection with the establishment of the Programme and the issue of Notes thereunder. The arrangement will terminate following the next issue of Notes by the Company under the Programme subsequent to the date of this Base Prospectus. Sky Bridge is not affiliated with any of the Joint Arrangers or their affiliates or any of their respective employees or with the Issuer, the Guarantor and/or any of their subsidiaries or affiliates.

In addition, each Dealer and their respective affiliates may have performed and may, in the future, perform various financial advisory, investment banking and commercial banking services for, and may arrange non-public market financing for, and enter into derivative transactions with, the Issuer, the Guarantor and/or any of their subsidiaries and affiliates.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree, that it will not offer, sell or deliver any Notes, (a) as part of their distribution at any time, or (b) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. The Dealer Agreement provides that the Dealers may directly or through their respective U.S. broker dealer affiliates only, arrange for the offer and resale of Notes within the United States only to QIBs that are QPs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Dealer has represented and agreed that:

(1) in relation to any Notes which have a maturity of less than a year (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to

expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Kazakhstan

Each Dealer has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan except in compliance with the laws of Kazakhstan.

The Netherlands

Zero Coupon Notes in bearer form and other Notes that qualify as savings certificates as defined in the Dutch Savings Certificates Act (Wet inzake spaarbewijzen) may only be transferred or accepted through the mediation of either the Issuer or a member of Euronext Amsterdam with due observance of the Dutch Savings Certificates Act and its implementing regulations (including registration requirements), provided that no such mediation is required in respect of (i) the initial issue of such Notes to the first holders thereof, (ii) any transfer and acceptance by individuals who do not act in the conduct of a profession or trade, and (iii) the issue and trading of Notes, if such Notes are physically issued outside the Netherlands and are not distributed in the Netherlands in the course of primary trading or immediately thereafter.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus and completed by the relevant Final Terms to the public in that Relevant Member State other than:

(1) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(2) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000; and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;

(3) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(4) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

General

These selling restrictions may be modified by the agreement of the Issuer, the Guarantor and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus or any other offering material or any set of Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material or any set of Final Terms and neither the Issuer, the Guarantor nor any other Dealer shall have responsibility therefor.

GENERAL INFORMATION

1. The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted for listing on the Official List and to trading on the Regulated Market will be admitted separately as and when issued, subject only to the issue of the Global Note representing the Notes of that Tranche. The listing of the Programme in respect of Notes to be issued under the Programme during the 12-month period from the date of this Base Prospectus is expected to be granted on or about 15 April 2010.

   However, Notes may be issued pursuant to the Programme which will not be listed on the London Stock Exchange or any other stock exchange outside of Kazakhstan or which will be listed on such stock exchange as the Issuer, the Guarantor and the relevant Dealer(s) may agree. The Issuer may apply for Notes issued under the Programme to be listed on the KASE.

2. The establishment of the Programme was authorised by a duly adopted resolution of the board of directors of the Issuer on 25 March 2008 and by a duly adopted resolution of the Board of Directors of the Guarantor on 4 March 2008. An increase in the size of the Programme was authorised by a duly adopted resolution of the board of directors of the Issuer on 24 June 2009 and by a duly adopted resolution of the Board of Directors of the Guarantor on 23 June 2009. A subsequent increase in the size of the Programme was authorised by a duly adopted resolution of the board of directors of the Issuer on 18 February 2010 and by a duly adopted resolution of the Board of Directors of the Guarantor on 14 April 2010. The Issuer and the Guarantor have obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the granting of guarantees in relation thereto.

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and/or DTC. The appropriate common code and the International Securities Identification Number and/or (where applicable) the CUSIP number in relation to the Notes of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

4. The issue price and the amount of the relevant Notes will be determined based on the prevailing market conditions. The Issuer does not intend to provide any post issuance information in relation to any issues of Notes.

5. Neither the Issuer, the Guarantor or the Company is involved in any governmental, litigation or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer, the Guarantor or the Company.

6. There has been no material adverse change in the prospects of the Guarantor and its consolidated subsidiaries, joint ventures and associates, taken as a whole, since 31 December 2009, nor has there been any significant change in the financial or trading position of the Guarantor and its consolidated subsidiaries, joint ventures and associates, taken as a whole, since 31 December 2009. There has been no material adverse change in the prospects of the Issuer, since 31 December 2008, nor has there been any significant change in the financial or trading position of the Issuer, since 31 December 2008.

7. The Company's independent auditors are Ernst & Young LLP, acting as auditors under the licence No. 0000003 dated 15 July 2005 issued by the Ministry of Finance of the Republic of Kazakhstan, and they are a member of the Chamber of Auditors of Kazakhstan, the professional body which oversees audit firms in Kazakhstan. The Company's audited financial statements for each of the financial years ended 31 December 2009 and 31 December 2008, prepared in accordance with IFRS, were audited by Ernst & Young LLP, which issued a report thereon without qualification. The business address of Ernst & Young LLP is Esentai Tower, 77/7, Al-Farabi Ave., Almaty 050060, Kazakhstan.

8. For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Paying Agent namely:

   (1) the constitutional documents of the Issuer and the Guarantor;

(2) the annual report and accounts of the Guarantor for the financial years ended 31 December 2009 and 2008 including, in each case, the audit report relating to such accounts;

(3) the most recently publicly available annual report and accounts of the Guarantor prepared in accordance with IFRS (published on an annual basis);

(4) the Agency Agreement;

(5) the Trust Deed (which contains the forms of the Notes in global and definitive form);

(6) the Procedures Memorandum;

(7) the Dealer Agreement;

(8) any Final Terms relating to Notes which are listed on any stock exchange; and

(9) a copy of this Base Prospectus together with any supplements to this Base Prospectus or any further base prospectus and any documents incorporated by reference therein.

APPENDIX I - GLOSSARY OF FREQUENTLY USED DEFINED TERMS

"**2009 Financial Statements**" means the Company's consolidated financial statements as at and for the year ended 31 December 2009;

"**A+B+C1 reserves**" means reserves of crude oil and gas classified as category A, B and C1 under Kazakhstan methodology. See "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*".

"**Agency Agreement**" means the agency agreement by and between KMG EP and KMG Trade House in relation to sales of crude oil by KMG EP (as annually renewed under the Kazakhstan state procurement legislation);

"**AGP**" means Asia Gas Pipeline LLP;

"**Anti-Monopoly Agency**" means the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies;

"**Asia Gas Pipeline**" means the Uzbekistan-China gas pipeline across Kazakhstan, which transmits gas from the other Central Asian Republics to major population centres in Southern Kazakhstan and to China;

"**Atyrau Refinery**" means the oil refinery at Atyrau, Western Kazakhstan, operated by Atyrau Oil Processing Factory LLP;

"**CAC Pipeline**" means the Central Asia Centre pipeline system, a sub-system of the Central Asia System;

"**CCEL**" means CITIC Canada Energy Limited;

"**CIS**" means the Commonwealth of Independent States

"**CNODC**" means China National Oil and Gas Exploration and Development Corporation; "CNPC" means China National Petroleum Corporation;

"**CNPC E&D**" means CPNC Exploration and Development Company Ltd;

"**Company**" means, as the context requires, the Guarantor itself, or, the Guarantor together with its subsidiaries and joint ventures or the Guarantor together with its subsidiaries, joint ventures and associates;

"**Concession Agreement**" means the agreement between ICA and the Government relating to the operation of the domestic and international gas transportation network in Kazakhstan dated 14 June 1997 as further amended;

"**Company's A+B+C1 reserves**" means the A+B+C1 reserves of crude oil and gas of the Company and its subsidiaries and the Company's and the Company's subsidiaries proportionate share in their respective joint venture's A+B+C1 reserves of crude oil and gas, collectively, but not including CCEL. See "*Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates*".

"**Company's production**" means the crude oil and gas production of the Company and its subsidiaries and the Company's and the Company's subsidiaries proportionate share in their respective joint venture's crude oil and gas production, collectively, but not including CCEL.

"**CPC**" means the Caspian Pipeline Consortium;

"**CPC Pipeline**" means the pipeline owned and operated by the CPC;

"**CPC Protocol**" means the protocol on restructuring signed April 1996 between the CPC members and a group of eight oil companies;

"**EMG**" means the EmbaMunaiGas production division of KMG EP;

"**EMG fields**" means the fields operated by EMG production division of KMG EP;

"**EUR**", **Euro**" or "**€**" means the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community;

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended;

"**GCA**" means Gaffney, Cline & Associates Ltd, an international oil and gas consultant;

"**GCA Report**" means the reserve report dated 21 January 2010 prepared by GCA;

"**Government**" means the government of Kazakhstan;

"**Government Pre-Emption Rights**" means the pre-emptive right of the Government to acquire subsoil use rights in connection with a transfer of subsoil use rights or the shares or participation interests in a legal entity directly or indirectly controlling another legal entity with subsoil use rights, if the core business of the controlling entity is related to subsoil use in Kazakhstan;

"**Guarantor**" means Joint Stock Company National Company KazMunayGas;

"**ICA**" means JSC Intergas Central Asia;

"**IFRS**" means International Financial Reporting Standards as promulgated by the International Accounting Standards Board;

"**IMF**" means the International Monetary Fund;

"**JSC Law**" means the Kazakhstan Law On Joint Stock Companies dated 13 May 2003, as amended from time to time;

"**Kazakhoi**l" means CJSC "National Oil and Gas Company Kazakhoil";

"**Kazakhoil Aktobe**" means Kazakhoil Aktobe LLP;

"**Kazakhstan**" means the Republic of Kazakhstan;

"**Kazakhstan methodology**" means the method by which the Company estimates its crude oil and natural gas reserves. See "*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*".

"**Kazakhstan Pipelines Ventures**" or "**KPV**" means Kazakhstan Pipelines Ventures LLC;

"**Kazgermunai**" means JV Kazgermunai LLP.;

"**KazMunayTeniz**" means JSC Offshore Oil Company KazMunayTeniz;

"**KazRosGas**" means JV KazRosGas LLP;

"**KC Pipeline**" means a pipeline network under construction that will connect Western Kazakhstan with the Chinese border;

"**KCP**" means JV Kazakhstan—China Pipeline LLP;

"**KMG**" means Joint Stock Company National Company KazMunayGas;

"**KMG EP**" means JSC KazMunaiGas Exploration Production;

"**KMG Kashagan Bridge Facility**" means the U.S.$1,050.0 million loan agreement among KMG Kashagan B.V., BNP Paribas, Citibank N.A. and Societe Generale dated 28 September 2007;

"**KMG Trade House**" means JSC Trade House KazMunaiGaz;

"**KNOC**" means the Korean National Oil Consortium;

"**KTG**" means JSC KazTransGas;

"**KTO**" means JSC KazTransOil;

"**KZT**" or "**Tenge**", means the official currency of Kazakhstan;

"**LIBOR**" means the London Inter Bank Offered Rate;

"**LPG**" means liquefied petroleum gas;

"**MEP**" means the Ministry of Environmental Protection of the Republic of Kazakhstan;

"**MEMR**" means the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan;

"**MMG**" means JSC MangistauMunaiGaz;

"**MunayTas**" means JSC MunayTas North West Pipeline Company JV;

"**NBK**" means the National Bank of Kazakhstan;

"**NC PSA**" means the North Caspian Production Sharing Agreement dated 18 November 1997 and a joint operating agreement dated 29 March 2005 among a consortium consisting of AGIP Caspian Sea B.V., ExxonMobil Kazakhstan Inc., Inpex North Caspian Sea Ltd, Phillips Petroleum Kazakhstan Ltd, Shell Kazakhstan Development B.V. and Total EP Kazakhstan;

"**NCPC**" means the North Caspian Project Consortium;

"**North Caspian Project**" means the project by NCPC to develop the North Caspian Sea, which include the Kashagan Field;

"**Note**" means notes of the Issuer unconditionally issued under the Programme and irrevocably guaranteed the Guarantor;

"**NSA**" means the National Statistical Agency of Kazakhstan;

"**OPEC**" means the Organisation of Petroleum Exporting Countries;

"**Parliament**" means the Parliament of Kazakhstan;

"**Pavlodar Refinery**" means the oil refinery in Pavlodar, Kazakhstan;

"**Petroleum Law**" means the Law of the Republic of Kazakhstan On Petroleum dated 28 June 1995 No. 2350, as amended;

"**Petromidia Refinery**" means the oil refinery in Navodari, Romania operated by Rompetrol Rafinare;

"**PKI**" means PetroKazakhstan Inc.;

"**PKKR**" means JSC PetroKazakhstan Kumkol Resources;

"**PKOP**" means PetroKazakhstan Oil Products LLP;

"**Platts**" means Platts, a division of The McGraw Hill Companies, Inc.;

"**PRMS Standards**" means the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers;

"**Programme**" means U.S.$7,500,000,000 Global Medium Term Note Programme whereby the Issuer may from time to time issue notes unconditionally and irrevocably guaranteed the Guarantor;

"**Relationship Agreement**" means the agreement by and between the Company and KMG EP dated 8 September 2006;

"**Rompetrol**" means The Rompetrol Group N.V.;

"**Samruk-Kazyna**" means JSC "Sovereign Wealth Fund" "Samruk-Kazyna";

"**SEC"** means the Securities and Exchange Commission of the United States of America;

"**Securities Act**" means the U.S. Securities Act of 1933, as amended;

"**Services Agreement**" means the agreement entered annually by and between the Company and KMG EP;

"**Shymkent Refinery**" means the oil refinery in Shymkent, Kazakhstan operated by PKOP;

"**Southern Pipeline Network**" means the pipeline network running through the southern region of Kazakhstan from the Uzbekistan/Kazakhstan border to Almaty in Kazakhstan;

"**State Procurement Law**" means The Law of the Republic of Kazakhstan on State Procurement No. 303 III ZRK dated 21 July 2007) adopted on 1 January 2008;

"**Subsoil Law**" means the Law of the Republic of Kazakhstan No. 2828 On Subsoil and Subsoil Use, as amended, which was adopted on 27 January 1996 and serves as the current legal framework for the regulation of subsoil use rights in Kazakhstan;

"**Subsoil Use Agreement**" means a production and exploration licence and/or subsoil use contract (after 1999 subsoil operations are based on contracts only), with respect to onshore activity, or a production sharing agreement, with respect to offshore activity;

"**TCO**" means JV Tengizchevroil LLP;

"**Tenge**" means the currency of the Republic of Kazakhstan;

"**Tengiz Expansion**" means SGI and SGP, collectively;

"**Tengiz Expansion Projects**" means SGI, SGP and FGP, collectively;

"**UAS pipeline**" means Uzen Atyrau Samara pipeline;

"**UMG**" means UzenMunaiGas production division of KMG EP;

"**UMG fields**" means the fields operated by UMG production division of KMG EP;

"**U.S.$** or **U.S. Dollar**" means the currency of the United States of America; and

"**Western Pipeline Network**" means the pipeline network in Western Kazakhstan that services Central Asia's producing natural gas fields.

APPENDIX II - GLOSSARY OF MEASUREMENT AND TECHNICAL TERMS

Certain Abbreviations and Related terms

%.. per cent.

bcm .... billion cubic metres

bopd .... barrels of oil per day

g .... gramme

km .... kilometre

km^2.. square kilometres

m .... metre

mcm .... million cubic metres

mm .... millimetres

mPa .... mega Pascal

Certain Terminology

2D seismic .... Geophysical data that depicts the subsurface strata in two dimensions.

3D seismic .... Geophysical data that depict the subsurface strata in three dimensions. 3D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2D seismic.

API gravity .... The industry standard method of expressing specific gravity of crude oils. Higher American Petroleum Institute ("**API**") gravities mean lower specific gravity and lighter oils.

Development well........................... A well drilled to obtain production from a proven oil or gas field. Development wells may be used either to extract hydrocarbons from a field or to inject water or gas into a reservoir in order to improve production.

Exploration well .... A well drilled to find hydrocarbons in an unproved area or to extend significantly a known oil or natural gas reservoir.

Formation .... A succession of sedimentary beds that were deposited under the same general geologic conditions.

Gas condensate .... The heavier hydrocarbon fractions in a natural gas reservoir that condense into a liquid as they are produced. They are used as a chemical feedstock or for blending into gasoline.

Hydrocarbons................................. Compounds formed from the elements hydrogen (H) and carbon (C) and existing in solid, liquid or gaseous forms.

Natural gas...................................... Hydrocarbons that are gaseous at one atmosphere of pressure at 20°C. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.

Quality bank .... An arrangement whereby oil companies that supply lower quality (heavy and sour) crude oil to a pipeline system pay more for the use of pipelines than those who supply higher quality crude oil. (Alternatively, suppliers of lower quality crude oil might directly compensate suppliers of higher quality crude oil for the deterioration in crude quality due to blending).

Reservoir.. A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water filled rock layers.

Seismic survey............................... A method by which an image of the earth's subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can he done in two or three dimensional form.

Vacuum distillation......................... Distillation under reduced pressure (less than atmospheric), which lowers the boiling temperature of the liquid being distilled This technique with its relatively low temperatures prevents cracking or decomposition of the charge stock.

Watercut .... The proportion of water produced, along with crude oil, from extracted reservoir liquids, usually expressed as a percentage.

Workover....................................... A maintenance or repair operation on a well after it has commenced production. Usually undertaken to maintain or increase production from the well.

INDEX TO FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

Audited Consolidated Financial Statements of JSC National Company "KazMunayGas" as at and for the Year Ended 31 December 2009 .... F-2

Independent Auditors' Report F-4

Consolidated Balance Sheet F-6

Consolidated Statement of Comprehensive Income F-8

Consolidated Cash flows Statement F-9

Consolidated Statement of Changes in Equity F-11

Notes to Consolidated Financial Statements F-12

Audited Consolidated Financial Statements of JSC National Company "KazMunayGas" as at and for the Year Ended 31 December 2008 .... F-64

Independent Auditors' Report F-66

Consolidated Balance Sheet F-67

Consolidated Statement of Comprehensive Income F-69

Consolidated Cash flows Statement F-70

Consolidated Statement of Changes in Equity F-72

Notes to Consolidated Financial Statements F-73

JSC "National Company "KazMunayGas"

Consolidated Financial Statements

Year ended December 31, 2009
with Independent Auditors' Report

CONTENTS

Page

Independent Auditors' Report

Consolidated Financial Statements
Consolidated Statement of Financial Position ---------- 1-2
Consolidated Statement of Comprehensive Income ---------- 3
Consolidated Statement of Cash Flows ---------- 4-5
Consolidated Statement of Changes in Equity ---------- 6-7
Notes to the Consolidated Financial Statements ---------- 8-74

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of JSC "National Company "KazMunayGas":

We have audited the accompanying consolidated financial statements of JSC "National Company "KazMunayGas" and its subsidiaries ("the Group"), 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.

A member firm of Ernst & Young Global Limited

Ernst & Young

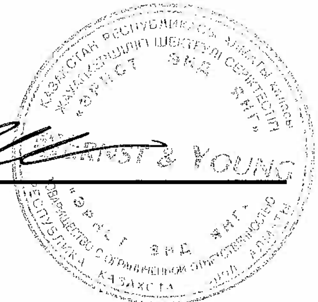
Opinion

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

Ernst and Young LLP

Gulmira Turmagambetova
Auditor

Auditor Qualification Certificate
No. 0000374 dated 21 February 1998



Evgeny Zhemaletdinov
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

25 March 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge		As at December 31,		
	Note	2009	2008 Restated*	2007 Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	7	**2,215,574,109**	1,797,313,755	1,377,836,911
Exploration and evaluation assets	8	**114,861,113**	81,653,205	45,729,063
Intangible assets	9	**259,455,337**	75,319,359	73,716,240
Long-term bank deposits	10	**18,464,389**	29,694,239	34,139,958
Investments in joint ventures and associates	11	**644,811,190**	525,187,158	520,245,599
Deferred income tax assets	31	**12,726,727**	4,149,908	2,315,512
VAT recoverable		**7,049,861**	3,718,369	5,360,935
Advances for non-current assets		**18,647,080**	14,041,878	9,875,060
Bonds receivable	16	**62,520,986**	–	–
Note receivable from a shareholder of a joint venture	19	**20,268,928**	18,862,018	18,480,085
Note receivable from associate	5	**16,075,399**	–	–
Loan to related party	33	**8,028,231**	–	–
Other non-current assets		**10,300,115**	7,153,299	5,051,802
		3,408,783,465	2,557,093,188	2,092,751,165
Current assets				
Inventories	12	**161,249,685**	99,580,320	98,880,181
VAT recoverable		**38,260,134**	40,305,715	36,000,362
Income taxes prepaid	31	**11,979,760**	7,790,729	8,203,953
Trade accounts receivable	13	**142,179,614**	111,796,282	173,509,421
Short-term financial assets	14	**715,704,597**	551,176,232	436,629,496
Note receivable from a shareholder of a joint venture	19	**1,082,100**	–	–
Dividends receivable from associate	11	**14,687,640**	–	–
Other current assets	13	**67,458,200**	47,156,030	41,967,376
Cash and cash equivalents	15	**564,191,152**	491,761,713	359,970,012
		1,716,792,882	1,349,567,021	1,155,160,801
Assets classified as held for sale		**378,378**	13,219	18,993,640
		1,717,171,260	1,349,580,240	1,174,154,441
TOTAL ASSETS		**5,125,954,725**	3,906,673,428	3,266,905,606

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge		As at December 31,		
	Note	2009	2008 Restated*	2007 Restated*
EQUITY AND LIABILITIES				
Equity				
Share capital	16	**159,647,488**	158,049,442	158,049,442
Additional paid-in capital	16	**2,248,079**	9,013,516	9,013,516
Other equity		**4,910,393**	1,385,035	1,465,300
Currency translation reserve	16	**182,852,727**	(27,798,964)	(30,804,398)
Retained earnings		**1,532,273,718**	1,468,030,832	1,201,823,179
Attributable to equity shareholder of the parent		**1,881,932,405**	1,608,679,861	1,339,547,039
Minority interest	16	**476,310,276**	421,294,451	350,130,443
Total equity		**2,358,242,681**	2,029,974,312	1,689,677,482
Non-current liabilities				
Borrowings	17	**1,384,933,040**	961,525,742	359,257,982
Payable for the acquisition of additional interest in North Caspian Project	18	**312,052,116**	239,500,799	–
Payable for acquisition of subsidiary	5	**8,405,223**	–	–
Provisions	20	**56,809,538**	54,536,134	61,517,411
Deferred income tax liabilities	31	**124,938,906**	70,827,293	99,379,525
Other non-current liabilities		**16,966,349**	21,113,925	17,009,133
		1,904,105,172	1,347,503,893	537,164,051
Current liabilities				
Borrowings	17	**452,741,110**	188,445,495	668,987,808
Provisions	20	**46,306,787**	40,247,587	40,305,445
Income taxes payable	31	**32,437,423**	57,588,075	63,022,886
Trade accounts payable	21	**156,470,367**	142,902,855	140,019,000
Other taxes payable	22	**83,986,571**	36,517,692	35,772,493
Put option liability	5	–	14,895,525	34,387,421
Derivatives		**240,707**	105,791	1,337,564
Other current liabilities	21	**91,423,907**	48,492,203	47,842,378
		863,606,872	529,195,223	1,031,674,995
Liabilities directly associated with the assets classified as held for sale		–	–	8,389,078
Total liabilities		**2,767,712,044**	1,876,699,116	1,577,228,124
TOTAL EQUITY AND LIABILITIES		**5,125,954,725**	3,906,673,428	3,266,905,606

** Certain numbers shown here do not correspond to the 2008 consolidated financial statements and reflect adjustments made as detailed in Note 3.*

The accounting policies and explanatory notes on pages 8 through 74 form an integral part of these consolidated financial statements.

Managing Director of Corporate Center

Bozzhanov T.D.

Chief Accountant

Valentinova N.S.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Note	For the years ended December 31, 2009	2008 Restated*
Revenue	23	**1,589,548,621**	1,885,605,915
Cost of sales	24	**(1,047,000,855)**	(1,199,360,316)
Gross profit		**542,547,766**	686,245,599
General and administrative expenses	25	**(120,112,802)**	(145,704,056)
Transportation and selling expenses	26	**(168,984,918)**	(153,731,979)
Impairment of goodwill	9	**(1,306,548)**	(23,553,133)
Impairment of property, plant and equipment	7	**(10,364,236)**	(6,614,613)
Gain / (loss) on disposal of property, plant and equipment, net		**18,147,528**	(724,969)
Gain on disposal of subsidiary	27	**5,787,667**	2,839,531
Other operating income		**12,416,564**	8,242,957
Other operating expenses		**(14,606,411)**	(6,394,436)
Operating profit		**263,524,610**	360,604,901
Net foreign exchange loss		**(8,180,332)**	(13,103,879)
Finance income	28	**84,867,177**	101,103,794
Finance costs	29	**(140,825,733)**	(108,358,234)
Unrealized (loss) / gain on crude oil derivative instrument		**(3,336,487)**	3,752,951
Share of income in joint ventures and associates	11,30	**171,738,112**	239,771,089
Profit before income tax		**367,787,347**	583,770,622
Income tax expenses	31	**(179,295,714)**	(200,287,189)
Profit for the year from continuing operations		**188,491,633**	383,483,433
Discontinued operation			
Profit after income tax for the year from discontinued operation	6	**2,127,620**	7,637,767
Profit for the year		**190,619,253**	391,121,200
Attributable to:			
Equity shareholder of the parent		**112,934,028**	298,291,244
Minority interest		**77,685,225**	92,829,956
		190,619,253	391,121,200
Other comprehensive income:			
Foreign currency translation		**225,506,181**	3,098,300
Realized loss on available-for sale financial investments reclassified to the profit for the period		–	435,886
Other comprehensive income for the period		**225,506,181**	3,534,186
Total comprehensive income for the period, net of tax		**416,125,434**	394,655,386
Attributable to:			
Equity holder of the parent		**323,585,719**	301,732,564
Minority interest		**92,539,715**	92,922,822
		416,125,434	394,655,386

* *Certain numbers shown here do not correspond to the 2008 consolidated financial statements and reflect adjustments made as detailed in Note 3.*

The accounting policies and explanatory notes on pages 8 through 74 form an integral part of these consolidated financial statements.

Managing Director of Corporate Center

Bozzhanov T.D.

Chief Accountant

Valentinova N.S.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Tenge	Note	For the years ended December 31, 2009	2008 Restated*
Cash flows from operating activities:			
Profit before corporate income tax from continuing operations		**367,787,347**	583,770,622
Profit before corporate income tax from discontinued operations	6	**3,001,876**	8,150,302
Profit before income tax		**370,789,223**	591,920,924
Adjustments for:			
Depreciation, depletion and amortization	24,25,26	**105,437,657**	100,711,945
Share of income in joint ventures and associates	30	**(171,738,112)**	(239,771,089)
Finance costs	29	**140,825,733**	110,234,987
Finance income	28	**(84,867,177)**	(101,103,794)
Impairment of property, plant and equipment	7	**10,364,236**	2,736,033
Impairment of goodwill	9	**1,306,548**	23,553,133
Unrealized loss / (gain) on crude oil derivative instrument		**3,336,487**	(3,752,951)
(Gain) / loss on disposal of property, plant and equipment, net		**(18,147,528)**	724,969
Gain on disposal of subsidiary	27	**(5,787,667)**	(2,839,531)
Provisions	20	**12,485,405**	9,050,579
Allowance for doubtful debts	25	**2,462,345**	15,104,105
Provision for obsolete inventory		**(1,978,391)**	2,528,492
Recognition of share based payments		**248,106**	1,314,775
Forfeiture of share based payments		**(164,690)**	–
Unrealized foreign exchange loss		**45,186,725**	3,495,394
Other non-cash operating expenses		**5,017,821**	–
Operating profit before working capital changes		**414,776,721**	513,907,971
Change in inventory		**(71,814,599)**	(23,178,552)
Change in VAT recoverable		**642,444**	(2,021,803)
Change in trade accounts receivable		**(37,375,254)**	54,618,746
Change in other current assets		**(24,786,429)**	(1,830,471)
Change in other taxes payable		**41,178,589**	202,926
Change in trade accounts payable		**4,794,784**	(12,264,892)
Change in other current liabilities		**49,640,953**	2,823,146
Cash generated from operations		**377,057,209**	532,257,071
Income taxes paid		**(177,220,368)**	(238,139,421)
Interest received		**79,085,953**	75,244,897
Interest paid		**(109,386,477)**	(83,820,703)
Cash payments for derivatives, net		**(1,585,454)**	(1,528,963)
Net cash flow from operating activities		**167,950,863**	284,012,881
Cash flows from investing activities:			
Placement of bank deposits, net		**(50,709,257)**	(114,214,101)
Acquisition of subsidiaries, net of cash acquired	5	**(193,716,542)**	(37,718,595)
Acquisition of minority interest		**(2,166,317)**	(2,671,077)
Settlement of liability under put and call option arising on business combination	5	**(15,043,000)**	–
Purchase of property, plant and equipment and intangible assets		**(371,120,375)**	(315,820,993)
Proceeds from sale of property, plant and equipment and intangible assets		**34,275,107**	23,953,253
Distributions received from joint ventures and associates	11	**139,493,404**	222,925,743
Cash of subsidiary where Group lost control	27	**(279,563)**	–
Cash of subsidiaries being disposed of	6	**(1,527,080)**	–
Loan repayments received from related party	19	**5,028,218**	2,036,327
Purchase of subsidiary's treasury shares		**(21,381,199)**	(521,318)
Proceeds from sale of investments		**–**	3,811,702
Cash of subsidiaries reclassified from assets held for sale		**–**	105,033
Net cash flow used in investing activities		**(477,146,604)**	(218,114,026)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge		For the years ended December 31,	
	Note	**2009**	2008 Restated*
Cash flows from financing activities:			
Proceeds from borrowings		**555,604,996**	745,826,943
Repayment of borrowings		**(197,979,803)**	(632,260,749)
Dividends paid to minority interest		**(19,949,064)**	(17,349,487)
Dividends paid to Parent company	16	**(29,268,027)**	(29,209,331)
Other distributions		**–**	(2,288,590)
Net cash flow from financing activities		**308,408,102**	64,718,786
Effects of exchange rate changes on cash and cash equivalents		**73,217,078**	1,174,060
Net increase in cash and cash equivalents		**72,429,439**	131,791,701
Cash and cash equivalents at the beginning of the year	15	**491,761,713**	359,970,012
Cash and cash equivalents at the end of the year	15	**564,191,152**	491,761,713

Significant non-cash transactions are disclosed in Note 32.

** Certain numbers shown here do not correspond to the 2008 consolidated financial statements and reflect adjustments made as detailed in Notes 3.*

The accounting policies and explanatory notes on pages 8 through 74 form an integral part of these consolidated financial statements

Managing Director of Corporate Center

Bozzhanov T.D.

Chief Accountant

Valentinova N.S.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Company							
In thousands of Tenge	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Minority interest	Total
Note	16	16		16			16	
As at December 31, 2007	**158,049,442**	**9,013,516**	**1,465,300**	**(30,756,757)**	**1,200,379,503**	**1,338,151,004**	**353,346,501**	**1,691,497,505**
Restatements (Note 3)	–	–	–	(47,641)	1,443,676	1,396,035	(3,216,058)	**(1,820,023)**
As at December 31, 2007 (Restated)*	**158,049,442**	**9,013,516**	**1,465,300**	**(30,804,398)**	**1,201,823,179**	**1,339,547,039**	**350,130,443**	**1,689,677,482**
Profit for the year (Restated)*	–	–	–	–	298,291,244	298,291,244	92,829,956	**391,121,200**
Other comprehensive income	–	–	435,886	3,005,434	–	3,441,320	92,866	**3,534,186**
Total comprehensive income for the year	–	–	435,886	3,005,434	298,291,244	301,732,564	92,922,822	**394,655,386**
Dividends (Note 16)	–	–	–	–	(29,209,331)	(29,209,331)	(17,349,487)	**(46,558,818)**
Recognition of share based payments at subsidiaries	–	–	1,314,775	–	–	1,314,775	–	**1,314,775**
Share options exercised at subsidiaries	–	–	(1,830,926)	–	880,251	(950,675)	701,195	**(249,480)**
Acquisition of treasury shares by subsidiary (Note 16)	–	–	–	–	–	–	(521,318)	**(521,318)**
Other distributions at subsidiaries	–	–	–	–	(2,288,590)	(2,288,590)	–	**(2,288,590)**
Change in ownership of subsidiaries – acquisition of minority interest in Rompetrol S.A.	–	–	–	–	(1,465,921)	(1,465,921)	(1,205,156)	**(2,671,077)**
Change in ownership of subsidiaries – disposal of subsidiary	–	–	–	–	–	–	(3,384,048)	**(3,384,048)**
As at December 31, 2008 (Restated)*	**158,049,442**	**9,013,516**	**1,385,035**	**(27,798,964)**	**1,468,030,832**	**1,608,679,861**	**421,294,451**	**2,029,974,312**

** Certain numbers shown here do not correspond to the 2008 consolidated financial statements and reflect adjustments made as detailed in Notes 3.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity holder of the Company							
In thousands of Tenge	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Minority interest	Total
As at December 31, 2008 (Restated)*	**158,049,442**	**9,013,516**	**1,385,035**	**(27,798,964)**	**1,468,030,832**	**1,608,679,861**	**421,294,451**	**2,029,974,312**
Profit for the year	–	–	–	–	112,934,028	112,934,028	77,685,225	**190,619,253**
Other comprehensive income	–	–	–	210,651,691	–	210,651,691	14,854,490	**225,506,181**
Total comprehensive income for the year	–	–	–	**210,651,691**	**112,934,028**	**323,585,719**	**92,539,715**	**416,125,434**
Charter contribution (Note 16)	1,598,046	–	–	–	–	1,598,046	–	**1,598,046**
Dividends (Note 16)	–	–	–	–	(29,268,027)	(29,268,027)	(19,949,064)	**(49,217,091)**
Distributions to the Parent (Notes 3,6,16)		(6,765,437)			(16,795,354)	(23,560,791)	–	**(23,560,791)**
Recognition of share based payments at subsidiaries	–	–	248,106	–	–	248,106	–	**248,106**
Forfeiture of share based payments at subsidiaries	–	–	(164,690)	–	–	(164,690)	–	**(164,690)**
Share options exercised at subsidiaries	–	–	5,638	–	203,266	208,904	–	**208,904**
Acquisition of treasury shares by subsidiary (Note 16)	–	–	–	–	(1,593,431)	(1,593,431)	(19,787,768)	**(21,381,199)**
Business combinations (Note 5)	–	–	3,436,304	–	–	3,436,304	3,141,663	**6,577,967**
Change in ownership of subsidiaries – acquisition of minority interest in subsidiaries of Rompetrol Group N.V. (Note 5)	–	–	–	–	(1,237,596)	(1,237,596)	(928,721)	**(2,166,317)**
As at December 31, 2009	**159,647,488**	**2,248,079**	**4,910,393**	**182,852,727**	**1,532,273,718**	**1,881,932,405**	**476,310,276**	**2,358,242,681**

** Certain numbers shown here do not correspond to the 2008 consolidated financial statements and reflect adjustments made as detailed in Notes 3.*

The accounting policies and explanatory notes on pages 8 through 74form an integral part of these consolidated financial statements

Managing Director of Corporate Center ______________________ *Bozzhanov T.D.*

Chief Accountant ______________________ *Valentinova N.S.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2009

1. GENERAL

JSC "National Company "KazMunayGas" (the "Company" or "KazMunayGas") is a wholly owned state oil and gas enterprise of the Republic of Kazakhstan, which was established on February 27, 2002 as a closed joint stock company pursuant to Decree No. 811 of the President of the Republic of Kazakhstan dated February 20, 2002 and the resolution of the Government of the Republic of Kazakhstan ("Government") No. 248, dated February 25, 2002. The Company was formed as a result of the merger of National Oil and Gas Company Kazakhoil CJSC ("Kazakhoil") and National Company Transport Nefti i Gaza CJSC ("TNG"). As the result of the merger, all assets and liabilities, including ownership interest in all entities owned by these companies, have been transferred to KazMunayGas. The Company was reregistered as a joint stock company in accordance with the legislation of the Republic of Kazakhstan in March 2004.

Starting from June 8, 2006, the sole shareholder of the Company is JSC "Kazakhstan Holding Company for State Assets Management "Samruk" ("Samruk"), which in October 2008 was merged with the Government owned Sustainable Development Fund "Kazyna" and formed JSC "Samruk-Kazyna National Welfare Fund" ("Samruk-Kazyna" or "Parent Company"). The Government is the sole shareholder of Samruk-Kazyna.

The Company has an interest in 33 operating companies (2008: 27; 2007: 27) (the "Group").

The Company has its registered office in the Republic of Kazakhstan, Astana, 22, Kabanbay Batyr Avenue.

The principal objective of the Group includes, but is not limited to, the following:

- participation in the Government activities relating to the oil and gas sector;
- representation of the state interests in subsoil use contracts through equity participation in those contracts; and
- corporate governance and monitoring of exploration, development, production, processing, transportation and sale of hydrocarbons and the designing, construction and maintenance of oil-and-gas pipeline and field infrastructure.

These consolidated financial statements of the Group were approved for issue by the Managing Director of Corporate Center and the Chief Accountant on March 25, 2010.

Operating Environment of the Group

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

The Kazakhstani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Kazakhstani banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

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

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the Notes to these consolidated financial statements. All values in these consolidated financial statements are rounded to the nearest thousand, except when otherwise indicated.

Statement of compliance

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

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

2. BASIS OF PREPARATION (continued)

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Group Companies

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

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

Exchange rates

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

The currency exchange rate of KASE as at December 31, 2009 was 148.36 Tenge to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in US dollars as at December 31, 2009 (2008: 120.79 Tenge to 1 US dollar). The currency exchange rate of KASE as at March 25, 2010 was 146.95 Tenge to 1 US dollar.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

New accounting developments

The accounting policies adopted are consistent with those of the previous financial year, except as discussed below.

As at 1 January 2009 the Group has adopted the following new and amended IFRS and IFRIC interpretations:

- IFRS 2 Share-based Payment (Revised): Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 7 Financial Instruments: Disclosures (Revised): Improvements of financial instruments disclosure, effective 1 January 2009
- IFRS 8 Operating Segments early adopted 1 January 2007
- IAS 1 Presentation of Financial Statements effective 1 January 2009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting developments (continued)

- IAS 23 Borrowing Costs early adopted 1 January 2007
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008

When the adoption of the standard or interpretation is deemed to have an impact on the consolidated financial statements or performance of the Group, its impact is described below:

IFRS 7 – Financial Instruments: Disclosures (Revised)

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 34. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 34.

IAS 1 – Revised 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 Group has elected to present one statement.

The Group made early adoptions of IAS 23 "Borrowing Costs" and IFRS 8 "Operating Segments" as of January 1, 2007. The effect of early adoption of IAS 23 "Borrowing Costs" is disclosed in Note 7. The early adoption of IFRS 8 "Operating Segments" resulted in modified disclosure on segment reporting (Note 37).

IFRS and Interpretations issued but not yet effective

The Group did not apply the following IFRS and Interpretations that were issued, but not yet effective:

- IFRS 2 *Share-based Payment: Company Cash-settled Share-based Payment Transactions* effective 1 January 2010.
- IFRS 3 *Business Combinations* (Revised) and IAS 27 *Consolidated and Separate Financial Statements* (Amended) effective for annual periods starting on or after 1 July 2009 including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39.
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective for annual periods starting on or after 1 July 2009.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective for annual periods starting on or after 1 July 2009.
- IFRIC 18 *Transfers of Assets from Customers* effective for annual periods starting on or after 1 July 2009.
- IFRIC 19 *Repayment of financial liabilities by equity instruments* effective for annual periods starting on or after 1 July 2010.
- IFRS 9 Financial Instruments
- IAS 24 Related Party Disclosures – amendment
- IAS 27 Consolidated and Separate Financial Statements - amendment

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting developments (continued)

IFRS and Interpretations issued but not yet effective (continued)

- IAS 32 Classifications of rights issues
- IAS 39 Eligible hedged items

The management believes that adoption of these Standards and Interpretations in future periods will not significantly affect the consolidated financial statements of the Group.

Improvements to IFRSs

In May 2008 and April 2009 the Board 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 and performance of the Group.

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 Group does not have assets or liabilities classified as held for trading hence the improvement did not have any impact on the financial position and performance of the Group.

IAS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 18 Revenue: The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

- Has primary responsibility for providing the goods or service
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

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 Group.

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

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

- IFRS 2 Share–based Payment
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 19 Employee Benefits

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Improvements to IFRSs (continued)

- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 31 Interest in Joint Ventures
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 40 Investment Properties
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

Restatements due to change in accounting policy and pooling of interest in KazMortTransFlot JSC

In 2009 the Group changed its accounting policy with respect to the accounting for its interests in joint ventures from the proportionate consolidation method to the equity method of accounting. Management of the Group believes that the equity method of accounting for interest in joint ventures provides reliable and more relevant information and is consistent with the policy of the Parent Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restatements due to change in accounting policy and pooling of interest in KazMortTransFlot JSC (continued)

This change in accounting policy has been accounted for retrospectively, and, as a result, the related comparative consolidated statement of financial position as of December 31 2008 and the consolidated statements of comprehensive income for the year then ended has been restated. The effect of the change on comparative data is tabulated below. The effect of restatement of consolidated statement of financial position as of December 31, 2007 is also presented as required by IAS 1.

Effect on financial position as of December 31:	2008	2007
Decrease in property, plant and equipment	(851,440,801)	(711,892,917)
Decrease in intangible assets	(1,475,597)	(4,343,141)
Decrease in long-term bank deposits	(364,593)	(35,576)
Decrease in deferred income tax assets	(2,262,672)	(4,223,013)
Decrease in VAT recoverable	(10,522,124)	(6,050,232)
Decrease in advances for non-current assets	(25,407,072)	(1,558,226)
Increase in note receivable from joint venture	9,431,009	9,240,971
Decrease in other non-current assets	(1,392,562)	(792,193)
Decrease in non–current assets	**(883,434,412)**	**(719,654,327)**
Decrease in inventories	(19,501,574)	(13,555,546)
Decrease in VAT recoverable	(15,789,317)	(10,598,547)
Decrease in income taxes prepaid	(8,121,137)	(3,142,755)
Decrease in trade accounts receivable	(20,049,582)	(47,270,955)
Decrease in short-term financial assets	(14,155,393)	(14,429,120)
Decrease in other current assets	(35,192,564)	(37,200,394)
Decrease in cash and cash equivalents	(75,803,610)	(26,908,688)
Decrease in current assets	**(188,613,177)**	**(153,106,005)**
Decrease in assets classified as held for sale	(888,805)	(1,839,262)
Decrease in total assets	**(1,072,936,394)**	**(874,599,594)**
Decrease in borrowings	(307,220,194)	(160,749,747)
Decrease in loan payable to the shareholder of a joint venture	(89,054,612)	(96,083,536)
Decrease in provisions	(20,771,912)	(8,136,612)
Decrease in deferred income tax liabilities	(84,090,150)	(155,074,606)
Decrease in other non-current liabilities	(1,879,086)	(1,810,830)
Decrease in non-current liabilities	**(503,015,954)**	**(421,855,331)**
Decrease in borrowings	(27,239,116)	(25,702,082)
Decrease in provisions	(1,095,838)	(3,061,173)
Decrease in income taxes payable	(9,104,419)	(10,513,757)
Decrease in trade accounts payable	(44,670,555)	(15,316,884)
Decrease in other taxes payable	(20,760,878)	(13,476,930)
Decrease in payable to the shareholder of a joint venture	(74,397,258)	(13,043,435)
Decrease in other current liabilities	(1,358,372)	(4,217,532)
Decrease in current liabilities	**(178,626,436)**	**(85,331,793)**
Decrease in liabilities directly associated with the assets classified as held for sale	–	(1,992,217)
Decrease in total liabilities	**(681,642,390)**	**(509,179,341)**
Net change	(391,294,004)	(365,420,253)
Increase in investments in joint ventures and associates	398,166,455	363,600,230
Increase / (decrease) in net assets	**6,872,451**	**(1,820,023)**
Attributable to:		
Equity shareholder of the parent	**7,543,722**	1,396,035
Minority interest	**(671,271)**	(3,216,058)
	6,872,451	(1,820,023)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restatements due to change in accounting policy and pooling of interest in KazMortTransFlot JSC (continued)

Increase in net assets is attributable to derecognition of previously recognized accumulated losses of joint ventures in the amount of 5,151,294 thousand Tenge as of December 31, 2008 (2007: 166,405 thousand Tenge). In addition, on January 21, 2009 the Group signed an agreement with Samruk-Kazyna for the exchange of 100% of the shares of Atyrau International Airport JSC for the remaining 50% of the shares of KazMorTransFlot JSC. The exchange transaction was completed on July 2, 2009. As a result of this exchange, the Group became the sole shareholder of KazMorTransFlot JSC. Since the transaction was effected with Samruk-Kazyna, it was accounted for under pooling of interest method following the Group accounting policy on accounting for acquisition of business from parties under common control. The effect on net assets resulting from the acquisition of KazMorTransFlot JSC was an increase 2,392,428 thousand Tenge as of December 31, 2008 (2007: 1,229,630 thousand Tenge). The disposal of net assets of Atyrau International Airport JSC in amount of 1,803,354 thousand Tenge was charged to the retained earnings as a distribution as of the date of exchange transaction.

In addition to the restatement noted above, certain reclassifications have been made to the consolidated statement of financial position to conform to the current year presentation. The most significant reclassifications are described below:

In thousands of Tenge	**Amount**
Consolidated statement of financial position as of December 31, 2007:	
Reclassification of current provisions from other current liabilities	5,571,928
Reclassification of exploration and evaluation assets from property, plant and equipment to a separate line in the consolidated statement of financial position	45,729,063
Consolidated statement of financial position as of December 31, 2008:	
Reclassification of exploration and evaluation assets from property, plant and equipment to a separate line in the consolidated statement of financial position	81,653,205

Effect on performance for the year ended December 31, 2008 attributable to:	
Effect of change in accounting policy	4,715,439
Effect of pooling of interest in KazMorTransFlot JSC	895,524
Increase in profit for the period	**5,610,963**

The effect of the restatement related to the change in accounting policy and the application of pooling of interest on the Group's performance for the year ended December 31, 2008 is tabulated below:

Effect on performance for the year ended December 31, 2008	
Decrease in revenue	(584,995,524)
Decrease in cost of sales	133,269,536
Decrease in general and administrative expenses	39,956,026
Decrease in transportation and selling expenses	62,197,628
Decrease in impairment of property, plant and equipment	6,169,842
Decrease in loss on disposal of property, plant and equipment, net	495,861
Changes in other operating income and expenses, net	1,836,426
Decrease in net foreign exchange loss	1,627,295
Decrease in finance income	(1,947,527)
Decrease in finance costs	76,342,973
Increase in share of income in joint ventures and associates	217,396,331
Decrease in income tax expenses	53,262,096
Increase in profit for the period	**5,610,963**

In addition to the restatement noted above, certain reclassifications have been made to the 2008 consolidated statement of comprehensive income to conform to the current year presentation. In 2009, the Group reviewed the presentation of revenue and expenses in the consolidated statement of comprehensive income and presented realized and unrealized gains on derivatives on a net basis and with reclassification from revenue to cost of sales. The impact on the comparative 2008 figures was a decrease of revenues and cost of sales by 23,165,730 thousand Tenge for realized gains, and 3,845,548 thousand Tenge for unrealized gains.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restatements due to change in accounting policy and pooling of interest in KazMortTransFlot JSC (continued)

In addition the Group recorded certain reclassifications to 2008 consolidated statement of comprehensive income with respect to performance results of discontinued operation disclosed in Note 6.

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries (Note 35).

Subsidiaries

Subsidiaries are all entities over which the Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholder's equity.

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Disposals of minority interest are accounted for using entity method, whereby the Group recognizes such disposals as transactions with shareholders, no gain or loss is recognized in the consolidated statement of comprehensive income, nor is there any adjustment to goodwill.

Investment in joint ventures and associates

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

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

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

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

The financial statements of the joint venture / 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 Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

Investment in joint ventures and associates (continued)

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

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

Non-current assets classified as held for sale and discontinued operations

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

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, incomes and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit after taxes, even when the Group retains a minority interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

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

Business combinations

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

Business combinations achieved in stages are accounted as separate steps. Any additional acquired share of interest does not affect previously recognized goodwill.

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

Acquisition of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interest method.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

Acquisition of subsidiaries from parties under common control (continued)

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

Oil and natural gas exploration and development expenditure

Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

License and property acquisition costs

Exploration and production licenses and related property acquisition costs are capitalized within intangible assets. Each property under exploration 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 carrying amount of the exploration license and related property acquisition costs is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves') and internal approval of development, the carrying amount of the license and related property acquisition costs held on a field-by-field basis is aggregated with exploration expenditure and transferred to oil and gas properties.

Exploration and evaluation costs

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with an exploration well are capitalized as exploration and evaluation intangible or tangible assets, according to the nature of the costs, until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment 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 are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognised.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

Oil and gas properties and other property, plant and equipment

Oil and gas properties and other property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment ("DD&A").

The initial cost of an asset comprises its purchase price or construction cost, borrowing cost for long-term construction project, if recognition criteria is met, any costs directly attributable to bringing the asset into operation and the initial estimate of any 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 gas properties are depreciated using a unit-of-production method, whereas tangible assets are depreciated over proved developed reserves and intangible assets – over proved reserves. Certain oil and gas properties 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and gas properties and other property, plant and equipment (continued)

Property, plant and equipment other than oil and gas properties principally comprise buildings and machinery and equipment which are depreciated on a straight-line basis over the expected remaining useful average lives as follows:

Refinery assets	4-100 years
Pipelines	10-30 years
Buildings and improvements	8-100 years
Machinery and equipment	3-30 years
Vehicles	5-10 years
Other	4-20 years

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 profit or loss in the period the item is derecognized.

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, computer software and goodwill. 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.

Intangible assets, except for goodwill, are amortized on a straight-line basis over the expected remaining useful live. 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.

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income.

Asset retirement obligation (decommissioning)

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

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

(a) changes in the provision are added to, or deducted from, the cost of the related asset in the current period;

(b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of comprehensive income; and

(c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in finance costs.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income. The losses arising from impairment are recognised in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in finance costs and removed from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and managements intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in current period expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through the current year income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the period expenses, the impairment loss is reversed through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realizable value on a first-in first-out ("FIFO") basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil and refined products is the cost of production, including the appropriate proportion of DD&A and overheads based on normal capacity. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale.

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.

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.

Convertible debt instruments acquired through business combinations

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

Put-options arising on business combination

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in profit or loss.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Trade and other payables

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Employee benefits

Pension Scheme

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit plan.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

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

Rendering of services

Revenue from rendering of services, such as transportation services, is recognized when the services have been performed.

Agency revenues from sale of royalty in-kind

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

Expense recognition

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

Derivative financial instruments

The trading subsidiary of the Group enters into contracts to purchase and sell crude oil and oil products at future delivery dates. These contracts expose the subsidiary primarily to commodity risks of changes in fair value of crude oil and related oil products.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

The trading subsidiary of the Group uses financial instruments (primarily futures, options and swaps) to hedge its risks associated with fair value fluctuation relating to certain firm commitments and forecasted transactions. The use of financial derivatives is governed by subsidiary's policies approved by the subsidiary's board of directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognized in profit or loss as they arise.

Income taxes

Income tax for the year comprises current income tax, excess profit tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income.

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 Group 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.

Deferred tax is calculated with respect to both corporate income tax (CIT) and EPT. Deferred EPT is calculated on temporary differences for assets allocated to contracts for subsoil use at the expected rate of EPT to be paid under the contract.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability 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; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Equity

Share capital

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as an additional paid-in capital.

Minority interest

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

Share based payments

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity (continued)

Dividends

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

Subsequent events

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Oil and gas reserves

Oil and gas reserves are a material factor in the Group's computation of DD&A. The Group estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under SPE methodology, the Group uses long-term planning prices. 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 Group has included in proved reserves only those quantities that are expected to be produced during the initial license period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group's license periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Assets retirement obligations

Under the terms of certain contracts, legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Group's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been 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 Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Group reviews site restoration provisions at each 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 Group's estimate can be affected by changes in asset removal technologies, costs and industry practice. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in statement of financial position across the Group companies at December 31, 2009 were in the ranges from 2.0% to 5.0% and from 6.3% to 12% respectively (2008: from 2.0% to 5.5% and from 6.0% to 12%; 2007: from 2.0% to 6.0% and from 7.0% to 11%). Movements in the provision for asset retirement obligations are disclosed in Note 20.

Environmental remediation

The Group also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan. Pursuant to a memorandum of understanding ("MOU") signed by Exploration and Production KazMunayGas JSC, a subsidiary of KazMunayGas, with the Ministry of the Environment in July 2005, the Group agreed to take responsibility for remediation of certain soil contamination and oil waste disposal which resulted from oil extraction dating back to the commencement of production. As at the date of these financial statements the scope and timing of the remediation plan has not been formally agreed with the Government. Accordingly, the liability has not been discounted. Because the original terms of the liability have not yet been established and management reasonably expects to execute the remediation plan, agreed with the relevant authorities, over a period of up to ten years, the Group has classified this obligation as non-current except for the portion of costs expected to be incurred in 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 36. Movements in the provision for environmental remediation obligations are disclosed in Note 20.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Taxation

Taxable income is computed in accordance with the tax legislation enacted as of January 1, 2009. The Group 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 tax code of Kazakhstan as of December 31, 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 31.

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil agreements, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for tax risks disclosed in Note 20 relates mainly to the Group's application of Kazakhstan transfer pricing legislation to export sales of crude oil. Further uncertainties related to taxation are detailed in Note 36.

Deferred tax assets

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets as at December 31, 2009 was 12,726,727 thousand Tenge (2008: 4,149,908 thousand Tenge; 2007: 2,315,512 thousand Tenge). Further details are contained in Note 31.

Impairment of property, plant and equipment and goodwill

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

The determination of impairment of property, plant and equipment and goodwill involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate an impairment exists.

The recoverable amount is typically determined using a discounted cash flow method which incorporates reasonable assumptions specific to the Group. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or group of assets) requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values.

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of property, plant and equipment and goodwill (continued)

In 2009 the Group recognized an impairment of property, plant and equipment for 10,364,236 thousand Tenge (2008: 6,530,095 thousand Tenge) and impairment of goodwill for 1,306,548 thousand Tenge (2008: 23,553,133 thousand Tenge) in the consolidated statement of comprehensive income (Notes 7 and 9).

Fair value of financial instruments

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

Operating lease commitments – company as lessee

The Group has entered into mainline gas distribution network lease agreement, office space and car leases. The Group has determined that the lessor retains all the significant risks and rewards of ownership of mainline gas distribution network, office spaces and cars and so accounts for them as operating leases in the consolidated financial statements.

Useful lives of property, plant and equipment

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

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

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. In 2009, the Group acquired interests (Note 5) in "Refinery Company RT" LLP, "MangistauMunayGas" JSC, Kazakhstan Pipeline Ventures and Caspian Pipeline ventures, and as of December 31, 2009, the Group has not completed the estimation of fair values of the identifiable assets and liabilities of the acquired business, and hence, recorded this acquisition at its provisional amounts. Completion of the fair value determination in 2010 may result in significant adjustments to the reported amounts of identifiable assets, liabilities and contingent liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITIONS

Acquisition of Kazakhstan Petrochemical Industries JSC ("KPI")

On February 26, 2009 the Group acquired 50% of the shares of KPI for 4,840,000 thousand Tenge. KPI is engaged in a development of a plant to produce petrochemical products (mainly, bitumen) and does not currently have production activities. Before the acquisition, the Group held 50% of the shares in KPI, which was accounted for under the equity method of accounting. The original investment was acquired for 3,967,153 thousand Tenge and was fully impaired as of the acquisition date in 2009. Accordingly, from the date of the acquisition, the Group obtained control over KPI and it became a fully owned subsidiary of the Group. The acquisition of KPI was accounted for using the purchase method of accounting.

The fair values of the identifiable assets, liabilities and contingent liabilities acquired in KPI as at the date of acquisition were:

In thousands of Tenge	Fair values recognized on acquisition	Carrying values
Property, plant and equipment	10,259,473	10,259,473
Intangible assets	9,122	9,122
Inventories	150,327	150,327
Trade accounts receivable	414,152	414,152
Other current assets	63,394	63,394
Cash and cash equivalents	2,576	2,576
Total assets	**10,899,044**	**10,899,044**
Deferred tax liabilities	1,830,148	1,830,148
Short-term borrowings	110,000	110,000
Trade accounts payable	2,131,970	2,131,970
Other taxes payable	209,360	209,360
Other current liabilities	182,009	182,009
Total liabilities	**4,463,487**	**4,463,487**
Net assets	**6,435,557**	**6,435,557**
Total net assets acquired (50%)	**3,217,778**	
Goodwill arising on acquisition (Note 9)	1,622,222	
Total acquisition cost	**4,840,000**	
Less: cash acquired with the subsidiary	(2,728)	
Net cash outflow	**4,837,272**	

Total acquisition cost comprises cash consideration of 4,840,000 thousand Tenge.

If the acquisition had taken place at the beginning of the year, the net profit and revenue from continuing operations of the Group would not have been changed significantly. From the date of acquisition, net loss of KPI attributable to the Group of 2,864,517 thousand Tenge was included in the consolidated statement of comprehensive income.

The goodwill recognized on acquisition is attributable to profits to be derived from the further development of petrochemical industry in Kazakhstan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITIONS (continued)

Acquisition of Kazakhstan Pipeline Ventures ("KPV") and Caspian Pipeline Ventures ("CPV")

On April 14, 2009 the Group signed an agreement for the acquisition of the 49.9% interests in KPV and CPV from Amoco Kazakhstan Inc. (a subsidiary of BP Corporation North America Inc.) and note receivable of Amoco Kazakhstan Inc. from CPV for a total consideration of US$ 250 million (equivalent to 37,707,500 thousand Tenge). KPV is a holding company with a 1.75% interest in Caspian Pipeline Consortium ("CPC"). Before the acquisition, the Group had a direct 19% interest in CPC (Note 11), which was accounted as an investment in associate. CPV is an intermediary company established for financing purposes. Both companies were established with the purpose of financing of CPC activities by the Group and Amoco Kazakhstan Inc. The financing of operations of CPC was funded by Amoco Kazakhstan Inc. by providing cash to CPV, which was transferred to KPV and further to CPC. Before the acquisitions, the Group held 50.1% interests in KPV and CPV. However, due to the financing arrangements between the Group, CPC, KPV and CPV, the Group did not have right to the assets or obligations for the liabilities of KPV and CPV, other than 50% of 1.75% of share in CPC held by KPV.

The acquisition of 49.9% interests in KPV and CPV and the settlement of a note payable by CPV to Amoco Kazakhstan Inc. was accounted for as an acquisition of assets and associated liabilities.

Total acquisition cost of US$ 250 million is payable in three tranches. Accordingly, total consideration was discounted to fair value of US$ 228,679 thousand (equivalent to 34,480,632 thousand Tenge). The note receivable from CPC is denominated in US Dollars and bears interest at 6% per annum. As of December 31, 2009, the carrying value of note receivable from CPC was 16,075,399 thousand Tenge.

The total consideration of 34,480,632 thousand Tenge was allocated between the assets acquired and associated liabilities assumed as follows:

In thousands of Tenge	Provisional fair values recognized on acquisitions
Investment in CPC	16,670,760
Note receivable from associate (CPC)	16,339,112
Other current assets	754
Cash and cash equivalents	6,674,830
Total assets	**39,685,456**
Taxes payable	860,636
Other current liabilities	4,344,188
Total liabilities	**5,204,824**
Net assets acquired	**34,480,632**

There is a step acquisition of an associate within the acquisition of assets and liabilities of KPV and CPV, which resulted in an increase in the interest of CPC up to 20.75%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITIONS (continued)

Acquisition of Kazakhstan Pipeline Ventures ("KPV") and Caspian Pipeline Ventures ("CPV") (continued)

Cash outflow on acquisition:

In thousands of Tenge	
Net cash acquired	6,674,830
Cash to be paid (on discounted basis)	(34,480,632)
Deferred cash payment for note receivable of Amoco Kazakhstan Inc. (on a discounted basis)	11,532,052
Deferred cash payment for interests in KPV and CPV (on a discounted basis)	7,991,275
Net cash outflow	(8,282,475)

The carrying value of the deferred cash payment for the interests in KPV and CPV was 8,405,223 thousand Tenge as of December 31, 2009.

Settlement of liability under put and call option arising on business combination

As part of the acquisition of the "Rompetrol Group N.V. ("TRG") in 2007 the Group also obtained a call and put option to acquire the remaining 25% of TRG. The Group applied the accounting for the business combination on the basis that the underlying shares subject to the put option had been acquired. On June 24, 2009 the Group settled the liability under a put and call option for cash consideration of 15,043,000 thousand Tenge. The net excess of 147,475 thousand Tenge was recorded within finance income.

Acquisition of "Refinery Company RT" LLP

On August 4, 2009, the Group acquired a 100% interest in "Refinery Company RT" LLP ("Refinery"). Refinery owns 58% of the charter capital of JSC "Pavlodar Oil Chemistry" ("PNHZ"). PNHZ is an oil refinery plant located in Kazakhstan. The remaining 42% of the charter capital of Pavlodar Oil Chemistry is owned by the Committee of a State Property and Privatization of Ministry of Finance of the Republic of Kazakhstan, which is owned by the Government.

The acquisition of Refinery was accounted for using the purchase method of accounting. As at December 31, 2009, the Group has not been able to complete a fair value exercise of its share in identifiable assets, liabilities and contingent liabilities acquired. The acquisition was accounted for using provisional fair values as of the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITIONS (continued)

Acquisition of "Refinery Company RT" LLP (continued)

The provisional fair values of the identifiable assets and liabilities and contingent liabilities of Refinery and the historical IFRS carrying value at the date of acquisition were:

In thousands of Tenge	Provisional fair values recognized on acquisition	Carrying value
Property, plant and equipment	16,811,529	16,811,529
Intangible assets	25,398	25,398
Deferred income tax assets	82,830	82,830
Long-term VAT recoverable	1,984,110	1,984,110
Other long-term assets	2,184,322	2,184,322
Trade accounts receivable	330,800	330,800
Inventories	3,795,474	3,795,474
Income tax prepaid	124,156	124,156
Other current assets	270,665	270,665
Cash and cash equivalents	363,205	363,205
Total Assets	**25,972,489**	**25,972,489**
Trade payables	249,483	249,483
Advances received	2,767,773	2,767,773
Other taxes payable	302,765	302,765
Other current liabilities	547,312	547,312
Provisions	57,811	57,811
Total Liabilities	**3,925,144**	**3,925,144**
Net assets	**22,047,345**	
Less: minority interests in subsidiary of Refinery	(3,141,663)	
Acquired interest in net assets	**18,905,682**	
Provisional value of goodwill arising from acquisition (Note 9)	162,054,318	
Total acquisition cost	**180,960,000**	

Total acquisition cost comprises cash consideration of 180,960,000 thousand Tenge.

Cash outflow on acquisition:

In thousands of Tenge	
Net cash acquired with the subsidiary	363,205
Cash paid	(180,960,000)
Net cash outflow	**(180,596,795)**

Net profit of the Group for 2009 includes net losses attributable to Refinery's operations from the date of acquisition to December 31, 2009 of 442,142 thousand Tenge. If the combination had taken place at the beginning of the year the Group's revenue would have been 1,595,809,702 thousand Tenge. Refinery's contribution to an annual net profit of the Group would have been a net loss at 2,613,857 thousand Tenge.

Acquisition of "MangistauMunayGas" JSC ("MMG")

On November 25, 2009, Mangistau Investments B.V. ("MIBV"), a 50% joint venture of the Group, acquired 100% of the shares of MMG for 2,606,462 thousand US Dollar (equivalent to 387,711,223 thousand Tenge). MMG is engaged in crude oil production in Western Kazakhstan. The acquisition was fully financed by a 3 billion US Dollar (equivalent to 446,250,000 thousand Tenge as of acquisition date) facility agreement concluded by MIBV with Export Import Bank of China, which is pledged with 100% of the MMG shares acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITIONS (continued)

Acquisition of "MangistauMunayGas" JSC ("MMG") (continued)

The 50% interest in MIBV is accounted for under equity method in the consolidated financial statements of the Group. The acquisition of MMG was accounted under purchase method in the consolidated financial statements of MIBV.

As at December 31, 2009, MIBV has not completed a fair value exercise of in the identifiable assets, liabilities and contingent liabilities acquired. The acquisition was accounted for using provisional fair values as of the date of acquisition.

Net profit of MIBV for 2009 includes MMG net profit from the date of acquisition to December 31, 2009 of 12,433,260 thousand Tenge, which is in its turn reported within 50% share income from MIBV in the consolidated statement of comprehensive income of the Group. The carrying value of investment in MIBV was 6,472,650 thousand Tenge as of December 31, 2009.

Acquisition of minority interests in subsidiaries of Rompetrol Group N.V. ("TRG")

During 2009, the Group increased its ownership in the following subsidiaries:

- 1.01% in Rompetrol SA taking its ownership to 100%;
- 1.08% in Rompetrol Rafinare SA, taking its ownership to 76.39%;
- 30% in Rompetrol Ukraine LLC taking its ownership to 100%;
- 2% in Rompetrol Georgia LLC taking its ownership to 97%.

The total amount of cash consideration paid was 2,166,317 thousand Tenge. The book value of the net assets acquired at the acquisition date was 928,721 thousand Tenge. The difference of 1,237,596 thousand Tenge between the consideration and the book value of the net assets acquired has been charged to retained earnings.

Acquisitions made in 2008

Acquisition of Batumi Industrial Holdings Limited ("BIHL")

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITIONS (continued)

Acquisitions made in 2008 (continued)

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

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

In thousands of Tenge	Fair values recognized on acquisition *	Currying value*
Property, plant and equipment	29,272,537	22,298,635
Inventories	521,910	521,910
Trade accounts receivable	3,199,193	3,199,193
Other taxes recoverable	700,611	700,611
Cash and cash equivalents	1,343,155	1,343,155
Total assets	**35,037,406**	**28,063,504**
Loans and borrowings	2,855,558	2,855,558
Deferred income tax liabilities	780,276	780,276
Other non–current liabilities	1,155,884	1,155,884
Accounts payable	687,120	687,120
Taxes payable	542,273	542,273
Current financial liabilities	1,646,188	1,646,188
Total liabilities	**7,667,299**	**7,667,299**
Acquired share in net assets	**27,370,107**	
Less: investments in BCPL	(8,012,800)	
Total acquisition cost	**19,357,307**	
Goodwill arising from acquisition (Note 9)	19,704,443	
Consideration paid in cash	**39,061,750**	
Less: net cash acquired with the subsidiary	(1,343,155)	
Net outflow of cash	**37,718,595**	

* *figures were restated due to the change in accounting policy with respect to accounting for shares in joint ventures (Note 3)*

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

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

6. DISCONTINUED OPERATIONS

On July 14, 2009, the Group announced the decision of its Board of Directors to exchange its 100% share in AZC for 102,246 common shares of Samruk-Energo JSC. The transfer of AZC was completed on July 24, 2009. As at December 31, 2009 and 2008, AZC was classified as discontinued operations.

The results of AZC for the seven months ended July 24, 2009 and for the year ended December 31, 2008 are as follows:

	2009	2008
Revenue	**23,348,668**	40,143,628
Expenses	**(18,263,803)**	(30,116,573)
Gross profit	**5,084,865**	10,027,055
Finance costs	**(2,082,989)**	(1,876,753)
Profit before tax from a discontinued operation	**3,001,876**	8,150,302
Income tax expense	**(874,256)**	(512,535)
Profit for the year from a discontinued operation	**2,127,620**	7,637,767

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. DISCONTINUED OPERATIONS (continued)

The major classes of assets and liabilities of AZC at July 24, 2009, the date of exchange are as follows:

Assets	July 24, 2009
Property, plant and equipment	41,531,594
Intangible assets	94,352
Trade and other receivables	4,865,077
Inventory	5,301,346
Cash and short-term deposits	1,527,080
Total assets	**53,319,449**
Liabilities	
Trade and other payables	(28,503,472)
Interest-bearing loans and borrowings	(14,858,208)
Deferred tax liability	(3,192,332)
Total liabilities	**(46,554,012)**
Net assets directly associated with discontinued operation	**6,765,437**

The disposal of AZC represents a transaction with the Group's shareholder and the result of this transaction amounting 6,765,437 thousand Tenge was charged to equity as a distribution to the shareholder.

The net cash flows incurred by AZC for the seven months ended July 24, 2009 and for the year ended December 31, 2008 were as follows:

	2009	2008
Operating	**1,843,128**	1,350,768
Investing	**(772,805)**	(7,655,670)
Financing	**(35,630)**	5,918,870
Net cash inflow / (outflow)	**1,034,693**	(386,032)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improve-ments	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Net book value as at January 1, 2008 (restated)	**448,439,366**	**194,021,435**	**297,552,614**	**170,468,364**	**143,479,951**	**27,126,578**	**12,182,637**	**84,565,966**	**1,377,836,911**
Foreign currency translation	2,088,490	(345,892)	924,380	63,638	(37,668)	(1,595)	47,728	120,705	**2,859,786**
Additions	69,115,979	1,215,571	56,374	5,682,838	5,244,761	5,425,219	7,107,313	146,126,606	**239,974,661**
Acquisition of additional interest in NCP	263,476,480	–	–	–	–	–	–	–	**263,476,480**
Acquisitions through business combinations	1,059,580	503,995	–	7,566,230	5,185,609	1,182,480	13,594,674	27,288	**29,119,856**
Disposals	(5,783,988)	(89,487)	(5,875,156)	(12,478,299)	(1,687,467)	(3,953,875)	(3,639,036)	(2,425,930)	**(35,933,238)**
Depreciation charge	(27,373,127)	(11,641,618)	(15,180,174)	(9,608,438)	(19,797,773)	(4,797,795)	(4,907,224)	–	**(93,306,149)**
Accumulated depreciation on disposals	1,537,433	19,820	3,569,200	550,136	736,026	526,119	552,251	–	**7,490,985**
Impairment provision	(124,087)	(215,610)	–	(4,870,391)	(511,027)	(30,544)	(586,089)	(276,865)	**(6,614,613)**
Reversal of impairment provision	–	–	–	280,711	555,661	153,012	38,149	2,851,047	**3,878,580**
Transfers from assets classified as held for sale	95,535	–	–	7,887,147	687,814	27,244	355,416	–	**9,053,156**
Transfer to intangible assets	–	–	–	–	–	–	–	(522,660)	**(522,660)**
Transfers and reclassifications	35,629,462	22,522,881	10,769,407	33,609,900	44,917,840	3,967,056	3,518,991	(154,935,537)	–
Net book value as at December 31, 2008 (restated)	**788,161,123**	**205,991,095**	**291,816,645**	**199,151,836**	**178,773,727**	**29,623,899**	**28,264,810**	**75,530,620**	**1,797,313,755**
Foreign currency translation	129,160,337	756,254	54,334,125	17,964,621	7,119,450	1,570,722	2,439,861	7,321,684	**220,667,054**
Additions	193,302,294	5,150,388	537,324	2,139,931	4,301,194	12,554,206	3,792,481	133,672,089	**355,449,907**
Acquisitions through business combinations (Note 5)	–	–	15,588,900	4,452,882	5,713,302	5,448	29,657	1,280,813	**27,071,002**
Disposals	(6,387,834)	(250,561)	(555,891)	(7,456,876)	(4,072,928)	(1,010,558)	(3,976,648)	(3,243,382)	**(26,954,678)**
Depreciation charge	(26,641,019)	(10,226,794)	(20,468,399)	(11,135,078)	(22,674,891)	(4,872,070)	(6,023,465)	–	**(102,041,716)**
Accumulated depreciation on disposals	2,915,617	14,221	331,776	1,354,001	1,564,216	358,072	886,156	–	**7,424,059**
(Impairment provision) / reversal of impairment provision	(456,205)	(266,756)	–	(6,836,630)	(1,561,518)	(319,706)	(1,313,154)	389,733	**(10,364,236)**
Discontinued operation (Note 6)	–	–	–	(12,336,522)	(17,066,745)	(692,745)	(252,721)	(11,182,861)	**(41,531,594)**
Loss of control over subsidiary (Note 27)	–	(4,614,980)	–	(173,691)	(233,178)	(154,443)	(173,179)	(1,103,010)	**(6,452,481)**
Transfers to intangible assets	(4,840,881)	–	–	–	–	(4,361)	(82,133)	(79,588)	**(5,006,963)**
Transfers and reclassifications	34,035,883	13,130,325	28,467,216	15,252,205	26,058,142	2,467,329	8,470,185	(127,881,285)	–
Net book value as at December 31, 2009	**1,109,249,315**	**209,683,192**	**370,051,696**	**202,376,679**	**177,920,771**	**39,525,793**	**32,061,850**	**74,704,813**	**2,215,574,109**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improve-ments	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
At cost	1,260,166,214	248,452,257	420,253,282	243,516,042	239,282,902	55,567,560	49,429,506	77,235,060	**2,593,902,823**
Accumulated depreciation and impairment	(150,916,899)	(38,769,065)	(50,201,586)	(41,139,363)	(61,362,131)	(16,041,767)	(17,367,656)	(2,530,247)	**(378,328,714)**
Net book value as at December 31, 2009	**1,109,249,315**	**209,683,192**	**370,051,696**	**202,376,679**	**177,920,771**	**39,525,793**	**32,061,850**	**74,704,813**	**2,215,574,109**
At cost	943,066,807	181,981,558	316,225,205	227,549,246	246,307,808	50,492,235	56,985,576	78,450,600	**2,101,059,035**
Accumulated depreciation and impairment	(154,905,684)	24,009,537	(24,408,560)	(28,397,410)	(67,534,081)	(20,868,336)	(28,720,766)	(2,919,980)	**(303,745,280)**
Net book value as at December 31, 2008 (restated)	**788,161,123**	**205,991,095**	**291,816,645**	**199,151,836**	**178,773,727**	**29,623,899**	**28,264,810**	**75,530,620**	**1,797,313,755**

In 2009, the Group capitalized borrowing costs at the average capitalization rate of 2.44% in the amount of 765,272 thousand Tenge related to construction of new assets that started in 2007 (2008: 1,210,990 thousand Tenge).

As at December 31, 2009, items of property, plant and equipment with the net book value of 22,818,489 thousand Tenge (2008: 74,022,780 thousand Tenge) are pledged as collateral to secure borrowings granted to the Group (Note 17).

Impairment of property, plant and equipment

In 2009 the Group recognized net impairment provision of 10,364,236 thousand Tenge, which is mainly attributable to impairment of property, plant and equipment of Trade House KazMunayGas JSC ("TH KMG", 100% subsidiary of the Group) for a total of 9,017,379 thousand Tenge.

As at December 31, 2009 TH KMG performed the impairment test of the property, plant and equipment engaged in the retail sales activity in Kazakhstan and a recreational center Akbulak located in the Almaty region which resulted in a recognition of an impairment loss of 5,176,008 thousand Tenge and 1,753,260 thousand Tenge, respectively. The recoverable amounts were based on value in use and were determined at the level of the cash generating units. The cash-generating units consisted of the assets engaged in the retail sales activity and Akbulak recreational facilities, respectively. In determining value in use for the cash generating units, the cash flows were discounted at a rate of 22.4% on a pre-tax basis (2008: 24.9%).

In addition in 2009 TH KMG recognized an impairment of 2,088,111 thousand Tenge relating to a land in Dyneff France (a wholly-owned subsidiary of TRG), based on a reassessment of the land carrying value related to a depot site that is scheduled for decommissioning in 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. EXPLORATION AND EVALUATION ASSETS

In thousands of Tenge	Tangible	Intangible	Total
Net book value as at January 1, 2008 (restated)	**40,762,715**	**4,966,348**	**45,729,063**
Foreign currency translation	229,260	–	**229,260**
Additions	16,324,942	2,393,824	**18,718,766**
Acquisition of additional interest in North Caspian Project	17,340,405	–	**17,340,405**
Disposals	–	(364,289)	**(364,289)**
Net book value as at December 31, 2008 (restated)	**74,657,322**	**6,995,883**	**81,653,205**
Foreign currency translation	12,981,701	–	**12,981,701**
Additions	18,857,337	3,534,999	**22,392,336**
Disposals	–	(2,166,129)	**(2,166,129)**
Net book value as at December 31, 2009	**106,496,360**	**8,364,753**	**114,861,113**

9. INTANGIBLE ASSETS

In thousands of Tenge	Goodwill	Marketing related intangible assets	Software	Other	Total
Net book value as at January 1, 2008 (restated)	**32,669,137**	**22,367,055**	**7,914,124**	**10,765,924**	**73,716,240**
Foreign currency translation	699,139	61,003	4,297	46,582	**811,021**
Additions	–	–	2,651,587	5,032,974	**7,684,561**
Acquisitions through business combinations (Note 5)	19,704,443	–	1,166	–	**19,705,609**
Disposals	–	–	(97,394)	(209,457)	**(306,851)**
Amortization charge	–	(145,657)	(2,026,695)	(4,073,277)	**(6,245,629)**
Accumulated amortization on disposals	–	–	78,802	150	**78,952**
Impairment provision	(23,553,133)	–	–	–	**(23,553,133)**
Transfers from assets classified as held for sale	–	–	–	2,905,929	**2,905,929**
Transfer from construction in progress	–	–	309,036	213,624	**522,660**
Net book value as at December 31, 2008 (restated)	**29,519,586**	**22,282,401**	**8,834,923**	**14,682,449**	**75,319,359**
Foreign currency translation	7,113,221	5,095,286	228,546	3,329,094	**15,766,147**
Additions	–	27,455	2,180,190	4,984,454	**7,192,099**
Acquisitions through business combinations (Note 5)	163,676,540	–	24,081	10,439	**163,711,060**
Disposals	–	–	(123,847)	(254,793)	**(378,640)**
Amortization charge	–	(196,870)	(2,931,793)	(2,737,335)	**(5,865,998)**
Accumulated amortization on disposals	–	–	82,629	22,618	**105,247**
Discontinued operation (Note 6)	–	–	(76,898)	(17,454)	**(94,352)**
Impairment provision	(1,306,548)	–	–	–	**(1,306,548)**
Transfer from construction in progress	–	–	260,430	4,746,533	**5,006,963**
Transfers and adjustments	–	–	1,735,102	(1,735,102)	–
Net book value as at December 31, 2009	**199,002,799**	**27,208,272**	**10,213,363**	**23,030,903**	**259,455,337**
At cost	230,583,160	27,562,884	18,218,168	38,699,376	**315,063,588**
Accumulated amortization and impairment	(31,580,361)	(354,612)	(8,004,805)	(15,668,473)	**(55,608,251)**
Net book value as at December 31, 2009	**199,002,799**	**27,208,272**	**10,213,363**	**23,030,903**	**259,455,337**
At cost	54,775,578	22,440,143	14,069,710	27,649,487	**118,934,918**
Accumulated amortization and impairment	(25,255,992)	(157,742)	(5,234,787)	(12,967,038)	**(43,615,559)**
Net book value as at December 31, 2008 (restated)	**29,519,586**	**22,282,401**	**8,834,923**	**14,682,449**	**75,319,359**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INTANGIBLE ASSETS (continued)

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

Cash-generating unit	2009	2008
Refining	**16,798,358**	13,674,425
Downstream Romania	**6,229,551**	5,071,063
Dyneff	**3,907,646**	3,180,955
Other	**4,897,226**	4,123,480
Total TRG	**31,832,781**	26,049,923
Batumi Oil Terminal and Batumi Sea Port	**2,370,792**	2,151,310
Kazakhstan Petrochemical Industries	**1,622,222**	–
Group of cash-generating units acquired in Refinery	**162,054,318**	–
Other	**1,122,686**	1,318,353
Total goodwill	**199,002,799**	**29,519,586**

The impairment losses recognised in the income statement are as follows:

Cash-generating unit	2009	2008
Petrochemicals	**–**	3,470,000
Refining	**–**	2,530,000
Batumi Oil Terminal and Batumi Sea Port	**1,306,548**	17,553,133
	1,306,548	23,553,133

Refining

The recoverable amount of Refining unit has been determined based on the fair value less costs to sell using discounted cash flows from financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 11.5% (2008: 11.2%) and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 10%.

Downstream Romania

The recoverable amount of Downstream Romania unit has also been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period and same assumptions as for Refining unit.

Dyneff

The recoverable amount of Dyneff unit has been determined based on the fair value less costs to sell using discounted cash flows from financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 8.8% (2008: 7.8%) and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.3%.

Batumi Oil Terminal and Batumi Sea Port

Based on the tests, impairment of 1,306,548 thousand Tenge has been recognized on Batumi Oil Terminal and Batumi Sea Port in 2009 (2008: 17,553,133 thousand Tenge). The recoverable amount of Batumi Oil Terminal and Batumi Sea Port units has been determined based on the value-in-use using discounted cash flows from financial projections approved by senior management covering a ten-year period. The discount rate applied to cash flow projections is 19.11%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INTANGIBLE ASSETS (continued)

Key assumptions used in fair value less costs to sell calculations

The key assumptions used in the fair value less costs to sell calculations for the above-mentioned are:

- Gross margin;
- Discount rates;
- Growth rate used to extrapolate cash flows beyond the budget period.

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

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

Growth rate estimates - Rates are based on published industry research.

Sensitivity to changes in assumptions

With regard to the assessment of the fair value less costs to sell for cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, other than as disclosed below:

Refining, Downstream Romania, Dyneff and Batumi Oil Terminal and Batumi Sea Port

As of December 31, 2009, the estimated recoverable amount of Refining, Downstream Romania, Dyneff and Batumi Oil Terminal and Batumi Sea Port units approached their carrying values and, consequently, any adverse change in a key assumption could have caused an impairment loss to be recognised for these units.

10. LONG-TERM BANK DEPOSITS

In thousands of Tenge	**2009**	2008 (restated)	2007 (restated)
Denominated in US Dollar	**10,748,186**	26,546,657	29,264,896
Denominated in KZT	**7,716,203**	3,147,582	4,875,062
	18,464,389	29,694,239	34,139,958

As of December 31, 2009, long-term bank deposits include 17,777,035 thousand Tenge placed with BTA Bank JSC and Halyk Savings Bank of Kazakhstan JSC, which are considered as related parties to the Group (Note 33) (2008: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. LONG-TERM BANK DEPOSITS (continued)

As at December 31, 2009, the weighted average interest rate for long-term bank deposits was 7.3% (2008: 5.0%; 2007: 4.8%).

In thousands of Tenge	**2009**	2008 (restated)	2007 (restated)
Maturities between 1 and 2 years	**17,613,422**	4,385,534	3,465,562
Maturities over 2 years	**850,967**	25,308,705	30,674,396
	18,464,389	29,694,239	34,139,958

Long-term bank deposits as at December 31, 2009 include US dollar denominated cash collateral pledge of 75,255 thousand Tenge (2008: 23,944,355 thousand Tenge; 2007: 31,365,059 thousand Tenge). Cash pledges are mainly represented by collateral under the funds borrowed for acquisition of 33% interest in PetroKazakhstan Inc. ("PKI") (Note 11).

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	2009		2008 (restated)		2007 (restated)	
In thousands of Tenge	Book value	Ownership share	Book value	Ownership share	Book value	Ownership share
Joint Ventures:						
TengizchevrOil LLP	**227,760,165**	**20.00%**	196,670,976	20.00%	184,314,299	20.00%
KazGerMunay LLP	**104,718,029**	**50.00%**	102,455,376	50.00%	97,818,779	50.00%
KazRosGas JSC	**91,609,714**	**50.00%**	40,707,238	50.00%	21,564,276	50.00%
Kazakhoil-Aktobe LLP	**37,231,244**	**50.00%**	34,776,919	50.00%	32,453,848	50.00%
Valsera Holdings B.V.	**17,576,499**	**50.00%**	17,610,654	50.00%	19,281,636	50.00%
Mangistau Investments B.V.	**6,472,650**	**50.00%**	–	50.00%	–	50.00%
MunayTas JSC	**5,262,464**	**50.00%**	5,651,054	50.00%	2,852,054	50.00%
Kazakhstan-China Pipeline JSC	**–**	**50.00%**	3,289,056	50.00%	3,318,413	50.00%
Batumi Capital Partners Limited	**–**	**–**	–	–	7,535,685	50.00%
Other	**12,276,428**		9,338,624		7,026,733	
Associates:						
PetroKazakhstan Inc.	**118,988,662**	**33.00%**	109,797,608	33.00%	134,791,662	33.00%
Caspian Pipeline Consortium	**16,285,435**	**20.75%**	–	19.00%	–	19.00%
Other	**6,629,900**		4,889,653		9,288,214	
	644,811,190		525,187,158		520,245,599	

33% interest in PetroKazakhstan Inc. ("PKI") is pledged as collateral for a loan, which was obtained for its acquisition. However, the share pledge may not be exercised within the first 7 years of the financing from the acquisition date (July 4, 2006) (Note 17).

During 2009 the Group recognized its share of income from joint ventures and associates in the amount of 171,738,112 thousand Tenge (2008: 239,771,089 thousand Tenge), which resulted in an increase in carrying value of investments. Dividends received from joint ventures and associates in 2009 totaled 139,493,404 thousand Tenge (2008: 222,925,743 thousand Tenge) and resulted in a respective decrease in the carrying value of investments. The remaining change in investments in joint ventures and associates is attributable to the foreign currency translation adjustment and acquisition of 0.875% interest in CPC through acquisition of KPV (Note 5).

In addition, on December 4, 2009 PKI declared another US dollar 300 million dividend, which was unpaid as of December 31, 2009. KMG's share in dividends receivable was US dollar 99 million, equivalent to 14,687,640 thousand Tenge as of December 31, 2009 (2008: nil).

Also, the Group holds 50% interest in CITIC Canada Energy Limited ("CCEL", joint venture). Net assets of CCEL equal to nil as it is contractually obliged to distribute all income to its participants, therefore, classifying all distributable income as a liability in CCEL financial statements (Note 19).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

As of December 31, 2009, the Group's share in unrecognized losses of joint ventures and associates equaled to 95,250,404 thousand Tenge (2008: 41,663,032 thousand Tenge; 2007: 34,939,170 thousand Tenge).

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

In thousands of Tenge	**2009**	2008 (restated)	2007 (restated)
Aggregated assets and liabilities of joint ventures and associates as at December 31			
Current assets	**419,557,031**	236,312,679	199,011,123
Non-current assets	**1,119,627,710**	810,378,979	762,569,563
Current liabilities	**(200,515,374)**	(138,914,376)	(111,037,248)
Non-current liabilities	**(693,858,177)**	(382,590,124)	(330,297,839)
Net assets	**644,811,190**	525,187,158	520,245,599

In thousands of Tenge	**2009**	2008 (restated)
Aggregated revenue and net profit of joint ventures and associates for the year		
Revenue	**742,142,448**	752,859,658
Net Profit	**171,738,112**	239,771,089

12. INVENTORIES

In thousands of Tenge	**2009**	2008 (restated)	2007 (restated)
Refined products	**57,658,745**	34,154,836	48,273,774
Materials and supplies	**50,170,779**	40,563,369	28,864,131
Gas products	**30,786,537**	15,754,787	7,310,255
Crude oil	**29,255,899**	17,707,994	19,576,946
Less: write-down to net realizable value	**(6,622,275)**	(8,600,666)	(5,144,925)
	161,249,685	99,580,320	98,880,181

13. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

In thousands of Tenge	**2009**	2008 (restated)	2007 (restated)
Prepaid and deferred expenses	**40,096,091**	15,689,207	18,677,298
Taxes recoverable	**4,431,015**	1,638,981	566,338
Other current assets	**28,523,350**	30,833,216	26,789,825
Less: allowance for doubtful accounts	**(5,592,256)**	(1,005,374)	(4,066,085)
Total other current assets	**67,458,200**	47,156,030	41,967,376
Trade accounts receivable	**152,006,430**	126,534,846	180,080,058
Less: allowance for doubtful accounts	**(9,826,816)**	(14,738,564)	(6,570,637)
Trade accounts receivable	**142,179,614**	111,796,282	173,509,421
	209,637,814	158,952,312	215,476,797

As at December 31, 2009, 2008 and 2007 trade accounts receivable, prepaid and deferred expenses, and other current assets were non-interest bearing.

As at December 31, 2009 the Group has pledged trade accounts receivable of approximately 15,933,804 thousand Tenge (2008: 9,299,290 thousand Tenge) (Note 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

In thousands of Tenge	Individually impaired
As at January 1, 2008 (restated)	**10,636,722**
Charge for the year (Note 25)	12,157,083
Receivables written off	(5,321,984)
Recovered (Note 25)	(1,727,883)
As at December 31, 2008 (restated)	**15,743,938**
Charge for the year (Note 25)	4,322,213
Receivables written off	(864,444)
Discontinued operation (Note 6)	(2,802,475)
Loss of control over subsidiary (Note 27)	(830,915)
Foreign currency translation	1,710,623
Recovered (Note 25)	(1,859,868)
As at December 31, 2009	**15,419,072**

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

			Past due but not impaired				
In thousands of Tenge	Total	Neither past due nor impaired	<30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
2008 (restated)	111,796,282	82,344,849	18,267,948	5,394,458	1,655,706	1,527,014	2,606,307
2009	**142,179,614**	**97,755,581**	**25,081,053**	**4,718,176**	**2,175,573**	**2,908,519**	**9,540,712**

14. SHORT-TERM FINANCIAL ASSETS

In thousands of Tenge	2009	2008 (restated)	2007 (restated)
Short-term bank deposits	**712,449,462**	538,919,323	427,110,850
Loans to related parties	**7,930,040**	9,116,332	6,577,135
Investments available-for-sale	**–**	11,097,038	6,277,414
Less: allowance for doubtful loans to related parties	**(4,674,905)**	(7,956,461)	(3,335,903)
	715,704,597	551,176,232	436,629,496

In thousands of Tenge	2009	2008 (restated)	2007 (restated)
Short-term financial assets in US Dollars	**563,319,346**	388,793,376	232,799,131
Short-term financial assets in Tenge	**125,356,573**	162,037,379	203,584,473
Short-term financial assets in other foreign currencies	**27,028,678**	345,477	245,892
	715,704,597	551,176,232	436,629,496

As of December 31, 2009, short-term bank deposits include 257,126,894 thousand Tenge placed with BTA Bank JSC and Halyk Savings Bank of Kazakhstan JSC, which are considered as related parties to the Group (Note 33) (2008: 319,393,197 thousand Tenge).

As at December 31, 2009, the weighted average interest rate for short-term bank deposits was 8.2% (2008: 6.8%; 2007: 8.6%).

As at December 31, 2009 the short-term US dollar denominated 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 loan interest and principal obtained for acquisition of 33% interest in PKI (Note 11).

Loans to related parties are stated at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. SHORT-TERM FINANCIAL ASSETS (continued)

Movements in the allowance for doubtful loans to related parties were as follows:

In thousands of Tenge	Individually impaired
As at January 1, 2008 (restated)	**3,335,903**
Charge for the year (Note 25)	4,674,905
Loans written off	(54,347)
As at December 31, 2008 (restated)	**7,956,461**
Discontinued operation (Note 6)	(3,281,556)
As at December 31, 2009	**4,674,905**

15. CASH AND CASH EQUIVALENTS

In thousands of Tenge	2009	2008 (restated)	2007 (restated)
Time deposits with banks – US Dollars	**181,164,362**	318,996,992	201,619,273
Current accounts with banks – US Dollars	**168,773,694**	37,653,623	25,743,960
Time deposits with banks – Tenge	**95,266,288**	86,623,836	116,606,535
Current accounts with banks – Tenge	**90,040,843**	28,605,258	10,402,576
Current accounts with banks – other currencies	**20,322,989**	5,753,322	2,872,424
Time deposits with banks – other currencies	**6,924,413**	13,250,932	2,037,784
Cash-on-hand	**1,698,563**	877,750	687,460
	564,191,152	491,761,713	359,970,012

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. As at December 31, 2009, the weighted average interest rate for time deposits with banks was 5.0% (2008: 4.6%; 2007: 7.6%).

As of December 31, 2009, cash and cash equivalents include 288,163,835 thousand Tenge placed with BTA Bank JSC and Halyk Savings Bank of Kazakhstan JSC, which are considered as related parties to the Group (Note 33) (2008: 133,417,653 thousand Tenge).

16. EQUITY

Share capital

Total number of outstanding, issued and paid shares comprises:

In thousands of Tenge	Number of shares authorized	Number of shares fully paid	Share capital
As at December 31, 2007	**316,098,884**	**316,098,884**	**158,049,442**
Issued	–	–	–
As at December 31, 2008	**316,098,884**	**316,098,884**	**158,049,442**
Issued	4,042,365	3,196,092	1,598,046
As at December 31, 2009	**320,141,249**	**319,294,976**	**159,647,488**

As at December 31, 2008 all shares were authorized, issued and fully paid. In 2009 KMG authorized and issued 4,042,365 shares with a par value of 500 Tenge per common stock for a total amount of 2,021,183 thousand Tenge.The unpaid capital as of December 31, 2009 comprised 423,138 thousand Tenge.

The contribution was made in the form of investments in Chemical Science Institute named after A.B. Bekturov JSC and Institute of Organic Catalysis named after D.V.Sokolsky JSC with the fair value of 1,312,412 thousands tenge and 262,352 thousands tenge, respectively. The remaining contribution was made in the form of other property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. EQUITY (continued)

Additional paid-in capital

In July, 2009, the Group exchanged 100% shares of AZC for 102,246 common shares of Samruk-Energo JSC (Note 6). The result of this transaction amounting 6,765,437 thousand Tenge was charged to equity as a distribution to the Parent since the transaction was made with the Group's shareholder.

Currency translation reserves

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

Distributions to shareholder

Transaction with Parent Company

In July 2009 the Company issued bonds on KASE, which were acquired by Samruk – Kazyna, for a total amount of 190 billion Tenge. The bonds bear interest rate of 5% per annum and mature in 35 years. On the same day Samruk-Kazyna issued bonds on KASE acquired by the Company for the total amount of 190 billion Tenge bearing interest at 4% per annum and maturing in 35 years. Both bonds receivable and bonds payable were discounted at 12.5% interest, which approximated the market interest rate applicable to the Company and the Parent as of the date of the transaction. The resulting difference of 14,992,000 thousand Tenge between discount on bonds payable totaling 112,593,515 thousand Tenge and the discount on bonds receivable totaling 127,585,515 thousand Tenge was accounted for as distribution to the Parent.

Dividends

In 2009 KMG accrued and paid dividends to its shareholder of 92.59 Tenge per share totaling to 29,268,027 thousand Tenge (2008: 92.41 Tenge per share totaling to 29,209,331 thousand Tenge).

Minority interest

In thousands of Tenge	**2009**	2008 (restated)	2007 (restated)
Exploration and Production KazMunayGas JSC	**399,867,006**	355,681,135	271,828,698
Subsidiaries of Trade House KazMunayGas JSC	**75,862,949**	65,186,774	77,159,789
Other	**580,321**	426,542	1,141,956
	476,310,276	421,294,451	350,130,443

In 2009 Exploration and Production KazMunayGas JSC increased its treasury stock due to share repurchase program (1,499,180 common shares repurchased) for 21,381,199 thousand Tenge (2008: 55,748 common shares for 521,318 thousand Tenge). The difference between the amount paid and carrying value of minority interest derecognized of 1,593,431 thousand Tenge was recognized in retained earnings.

17. BORROWINGS

In thousands of Tenge	**2009**	2008 (restated)	2007 (restated)
Fixed interest rate borrowings	**1,223,976,364**	522,808,100	582,192,532
Weighted average interest rates	**9.69%**	8.40%	6.33%
Variable interest rate borrowings	**613,697,786**	627,163,137	446,053,258
Weighted average interest rates	**3.27%**	4.56%	7.09%
	1,837,674,150	1,149,971,237	1,028,245,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. BORROWINGS (continued)

In thousands of Tenge	**2009**	2008 (restated)	2007 (restated)
US dollar-denominated borrowings	**1,401,536,319**	1,065,340,407	927,813,723
Tenge-denominated borrowings	**386,449,500**	14,653,253	2,714,918
Euro-denominated borrowings	**26,632,828**	44,376,253	60,152,120
Other currency-denominated borrowings	**23,055,503**	25,601,324	37,565,029
	1,837,674,150	1,149,971,237	1,028,245,790

In thousands of Tenge	**2009**	2008 (restated)	2007 (restated)
Current portion	**452,741,110**	188,445,495	668,987,808
Non-current portion	**1,384,933,040**	961,525,742	359,257,982
	1,837,674,150	1,149,971,237	1,028,245,790

The bonds receivable from Samruk-Kazyna (Note 16) are pledged to the National Bank of the Republic of Kazakhstan ("NBRK") under a REPO transaction, whereas the Group received 180.5 billion Tenge from NBRK for a term of four months bearing interest at 8.5% per annum. Interest on bonds payable to Samruk-Kazyna is accrued semiannually starting from 2009. Interest on loan payable to NBRK is accrued on the monthly basis starting from 2009.

As of December 31, 2009, the Group's borrowings were pledged with 22,818,489 thousand Tenge property, plant and equipment, (2008: 74,022,780 thousand Tenge), 75,255 thousand Tenge long-term bank deposits (2008: 23,944,355 thousand Tenge), 131,904,472 thousand Tenge investment in PKI (2008: 109,797,608 thousand Tenge), 15,933,804 thousand Tenge trade accounts receivable (2008: 9,299,290 thousand Tenge) and 9,840,620 thousand Tenge short-term bank deposits (2008: nil).

18. PAYABLE FOR THE ACQUISITION OF ADDITIONAL INTEREST IN NORTH CASPIAN PROJECT

On October 31, 2008, all participants of NCP signed an agreement according to which all project participants except for KMG Kashagan B.V. agreed to partially sell their interest in the project on proportional basis in order to increase the interest of KMG Kashagan B.V. in NCP from 8.33% to 16.81% retrospectively from January 1, 2008 (Notes 7 and 8). The acquisition cost consisted of 1.78 billion US Dollar plus annual compound interest at LIBOR + 3%. The given debt obligation is pledged by the 8.48% interest acquired. As of December 31, 2009, the carrying value of pledged assets (property, plant and equipment, and exploration and evaluation assets) was 447,381,805 thousand Tenge (2008: 271,556,900 thousand Tenge).

19. SETTLEMENTS WITH THE SHAREHOLDER OF A JOINT VENTURE

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

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 the Group 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 Group's share of the original purchase price funded by CITIC plus accrued interest. The Group has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Group recognizes in its consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. SETTLEMENTS WITH THE SHAREHOLDER OF A JOINT VENTURE (continued)

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 Group 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.

20. PROVISIONS

In thousands of Tenge	Asset retirement obligations	Provision for environmental liability	Provision for taxes	Other	Total
Provision as at December 31, 2007 (restated)	**25,590,051**	**34,681,103**	**20,992,157**	**20,559,545**	**101,822,856**
Foreign currency translation	75,732	69,208	–	66	**145,006**
Change in estimate	(11,229,046)	–	–	–	**(11,229,046)**
Unwinding of discount	1,914,791	–	–	–	**1,914,791**
Provision for the year	7,549,447	–	7,673,793	4,258,213	**19,481,453**
Unused amounts reversed	–	(529,177)	(2,149,174)	(203,076)	**(2,881,427)**
Use of provision	(603,397)	(3,063,907)	(289,610)	(10,512,998)	**(14,469,912)**
Provision as at December 31, 2008 (restated)	**23,297,578**	**31,157,227**	**26,227,166**	**14,101,750**	**94,783,721**
Foreign currency translation	1,358,581	2,167,407	91,991	354,754	**3,972,733**
Change in estimate	(3,886,013)	940,891	162,451	970,536	**(1,812,135)**
Unwinding of discount	1,864,736	8,457	–	122,000	**1,995,193**
Provision for the year	5,320,355	9,231	17,018,727	6,212,347	**28,560,660**
Unused amounts reversed	(1,706,484)	–	(10,713,351)	(408,943)	**(12,828,778)**
Additions through business combination (Note 5)	–	57,811	–	–	**57,811**
Use of provision	(1,084,326)	(3,506,648)	(1,248,600)	(5,773,306)	**(11,612,880)**
Provision as at December 31, 2009	**25,164,427**	**30,834,376**	**31,538,384**	**15,579,138**	**103,116,325**

Provisions for asset retirement obligations are capitalized to property, plant and equipment within additions of respective years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. PROVISIONS (continued)

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

In thousands of Tenge	Asset retirement obligations	Provision for environmental liability	Provision for taxes	Other	Total
As at December 31, 2009					
Current portion	999,735	6,678,269	28,848,511	9,780,272	**46,306,787**
Long-term portion	24,164,692	24,156,107	2,689,873	5,798,866	**56,809,538**
Provision as at December 31, 2009	**25,164,427**	**30,834,376**	**31,538,384**	**15,579,138**	**103,116,325**
As at December 31, 2008					
Current portion	1,120,014	6,386,534	25,743,945	6,997,094	**40,247,587**
Long-term portion	22,177,564	24,770,693	483,221	7,104,656	**54,536,134**
Provision as at December 31, 2008 (restated)	**23,297,578**	**31,157,227**	**26,227,166**	**14,101,750**	**94,783,721**
As at December 31, 2007					
Current portion	1,427,890	2,813,003	19,500,658	16,563,894	**40,305,445**
Long-term portion	24,162,161	31,868,100	1,491,499	3,995,651	**61,517,411**
Provision as at December 31, 2007 (restated)	**25,590,051**	**34,681,103**	**20,992,157**	**20,559,545**	**101,822,856**

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

21. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

In thousands of Tenge	2009	2008 (restated)	2007 (restated)
Advances received	**58,021,587**	11,898,102	19,671,675
Due to employees	**11,989,441**	13,741,326	14,459,819
Other	**21,412,879**	22,852,775	13,710,884
Total other current liabilities	**91,423,907**	48,492,203	47,842,378
Trade accounts payable	**156,470,367**	142,902,855	140,019,000
	247,894,274	191,395,058	187,861,378

As at December 31, 2009 and 2008, trade accounts payable and other current liabilities were not interest bearing.

22. OTHER TAXES PAYABLE

In thousands of Tenge	2009	2008 (restated)	2007 (restated)
Rent tax on exporting crude oil	**20,941,235**	–	–
Excise tax	**16,366,721**	11,427,406	10,560,099
Mineral extraction tax	**15,277,760**	–	–
Special fund on petroleum products	**11,525,958**	8,236,264	9,278,720
VAT	**8,924,377**	8,856,686	8,801,144
Other	**10,950,520**	7,997,336	7,132,530
	83,986,571	36,517,692	35,772,493

Rent tax on exporting crude oil and mineral extraction tax are the new taxes for the Group introduced by changed tax code, which came into effect as of January 1, 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. REVENUE

In thousands of Tenge	**2009**	2008 (restated)
Sales of refined products	**1,045,224,923**	1,107,132,183
Sales of crude oil	**429,098,384**	658,085,086
Transportation fee	**250,000,000**	197,140,053
Sales of gas products	**63,999,189**	61,703,584
Other revenue	**74,436,443**	81,187,109
Less: sales taxes and commercial discounts	**(273,210,318)**	(219,642,100)
	1,589,548,621	1,885,605,915

Revenues are generated from the Group's principal operations, which essentially represent upstream production of hydrocarbons and transportation of oil and gas within Kazakhstan, and marketing of oil and gas products.

24. COST OF SALES

In thousands of Tenge	**2009**	2008 (restated)
Materials and supplies	**697,928,202**	900,345,303
Payroll	**97,004,419**	80,257,716
Depreciation, depletion and amortization	**81,375,992**	76,721,531
Mineral extraction tax	**55,072,185**	–
Repair and maintenance	**34,126,334**	35,016,750
Electricity	**15,357,015**	13,507,691
Other taxes	**5,575,387**	6,935,418
Royalty	**–**	28,364,477
Other	**60,561,321**	58,211,430
	1,047,000,855	1,199,360,316

As a result of introduction of new tax code effective from January 1, 2009 (Note 4), royalties are no longer applicable to the Group's operations. The same tax code introduced the mineral extraction tax applicable to the Group's operations.

25. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	**2009**	2008 (restated)
Payroll expenses	**43,445,926**	46,979,660
Consulting services	**19,514,503**	9,686,564
Depreciation and amortization	**13,468,610**	13,251,291
Taxes	**11,041,693**	6,295,907
Charitable donations	**6,569,361**	5,047,718
Allowance for doubtful debts (Notes 13 and 14)	**2,462,345**	14,154,020
Other	**23,610,364**	50,288,896
	120,112,802	145,704,056

26. TRANSPORTATION AND SELLING EXPENSES

In thousands of Tenge	**2009**	2008 (restated)
Transportation	**66,453,906**	47,679,449
Rent tax	**58,673,500**	–
Payroll expenses	**13,813,555**	11,307,836
Depreciation and amortization	**10,593,055**	8,397,208
Customs duty	**–**	68,796,006
Other	**19,450,902**	17,551,480
	168,984,918	153,731,979

Custom export duties on crude oil were introduced by Kazakhstani Government in 2008. Following the provisions of the new tax code effective from January 1, 2009, customs duties are not imposed to the rent tax payers under the same tax code.

27. GAIN ON DISPOSAL OF SUBSIDIARY

In accordance with the decision of Kutaisy city court dated March 16, 2009 the Group lost control over its subsidiary KTG-Tbilisi as a result of transfer of the latter to the special governance of the Georgian National Energy and Water Regulating Committee. Thus, the Group lost its right to determine financial and operational activities of KTG-Tbilisi, thus losing control of the subsidiary and the rights to the economic benefits associated with control. This subsidiary was deconsolidated as of March 16, 2009, the date of loss of control.

The major classes of assets and liabilities of KTG-Tbilisi as of March 16, 2009 were as follows:

In thousands of Tenge	**March 16, 2009**
Property, plant and equipment	6,452,481
Intangible assets	16,764
Inventory	196,572
Trade receivables	4,065,394
Taxes recoverable	580,217
Cash and cash equivalents	279,563
Total assets	**11,590,991**
Interest bearing loans and borrowings	(9,220,121)
Loans from related parties	(8,530,375)
Deferred corporate income tax liability	(658,013)
Trade and other payables	(7,650,051)
Other current liabilities	(1,127,500)
Total liabilities	**(27,186,060)**
Net liabilities	**(15,594,069)**
Less: foreign currency translation reserve	2,389,402
Less: provision for subsidiary liability guaranteed by the Group	7,418,000
Gain on loss of control over subsidiary	**(5,787,667)**

In December 2009, the Group signed a sub-participation agreement with Credit Suisse. According to the sub-participation agreement, the Group extinguished its obligation with respect to the liabilities of KTG-Tbilisi by acquiring the rights to the loan of KTG-Tbilisi from Credit Suisse for 7,418,000 thousand Tenge. This right was impaired as provision by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. GAIN ON DISPOSAL OF SUBSIDIARY (continued)

The results of KTG-Tbilisi for the two and a half months ended March 16, 2009 were as follows:

In thousands of Tenge	**2009**
Revenue	**4,107,697**
Cost of sales	**(3,649,288)**
Administrative expenses	**(262,015)**
Selling expenses	**(942,912)**
Other expense	**(493,555)**
Loss before income tax	**(1,240,073)**
Income tax expenses	**(25,667)**
Loss for the period	**(1,265,740)**

KTG-Tbilisi's accumulated amount of foreign currency translation reserve amounting to 2,389,402 thousand Tenge was included in the loss of control over subsidiary.

In September 2008 TRG's remaining interest in Straulesti Project Development was disposed of as a result of the sale of the entire participation in subsidiary SC Astra Investitii Imobiliare SRL for 7,819,500 thousand Tenge to DPS Investments Ltd., a Cyprus based company. The resulting gain of 2,839,531 thousand Tenge has been recognized in the consolidated statement of comprehensive income.

28. FINANCE INCOME

In thousands of Tenge	**2009**	2008 (restated)
Interest income on bank deposits and bonds	**81,599,140**	68,508,325
Revaluation of put option liability	**–**	24,616,953
Other	**3,268,037**	7,978,516
	84,867,177	101,103,794

Revaluation of put option liability in 2008 is a difference between fair values of put option liability (Note 5) as of the date of acquisition of TRG and December 31, 2008.

29. FINANCE COSTS

In thousands of Tenge	**2009**	2008 (restated)
Interest on loans and debt securities issued	**121,964,543**	91,544,892
Unwinding of discount on asset retirement obligations	**1,995,193**	1,914,791
Unwinding of discount on put option liability	**–**	5,125,057
Other	**16,865,997**	9,773,494
	140,825,733	108,358,234

30. SHARE OF INCOME IN JOINT VENTURES AND ASSOCIATES

In thousands of Tenge	**2009**	2008 (restated)
TengizchevrOil LLP	**111,024,753**	145,347,057
KazRosGas LLP	**44,475,814**	21,012,331
PetroKazakhstan Inc.	**9,221,421**	22,470,653
Kazakhoil-Aktobe LLP	**2,454,323**	2,323,071
KazGerMunay LLP	**1,553,769**	44,648,843
Other	**3,008,032**	3,969,134
	171,738,112	239,771,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSE

Income taxes prepaid as at December 31, 2009 of 11,979,760 thousand Tenge (2008: 7,790,729 thousand Tenge; 2007: 8,203,953 thousand Tenge) represent corporate income tax.

Income taxes payable as at December 31 comprised:

In thousands of Tenge	**2009**	2008 (restated)	2007 (restated)
Excess Profit Tax	**19,245,506**	55,977,064	51,460,579
Corporate Income Tax	**13,191,917**	1,611,011	11,562,307
Income tax payable	**32,437,423**	57,588,075	63,022,886

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

In thousands of Tenge	**2009**	2008 (restated)
Current Income tax:		
Corporate income tax	**88,283,388**	151,712,516
Excess profit tax	**30,914,304**	60,534,506
Withholding tax on dividends received	**27,444,776**	20,358,277
Deferred Income Tax:		
Corporate income tax	**1,128,942**	(28,899,981)
Excess profit tax	**(106,070)**	(3,207,621)
Withholding tax on dividends	**31,630,374**	(210,508)
Income Tax Expense	**179,295,714**	200,287,189

According to the 2006 amendments to the tax legislation, which were effective starting from the fiscal years beginning on January 1, 2007, dividends received from Kazakhstan taxpayers were exempt from withholding tax withheld at the source of payment. Therefore, in 2006 the Group reversed the deferred tax liability on undistributed profits of subsidiaries registered in Republic of Kazakhstan, which were provided for in prior years. However, during 2007-2009 the Group was receiving dividends from Tengizchevroil LLP (20% joint venture of the Group, Kazakhstan tax payer) net of withholding tax since there is an uncertainty whether the withholding tax exemption is applicable for stable tax regime of Tengizchevroil LLP. The Group was claiming to cancel withholding of the tax on those dividends, but has not achieved it as of December 31, 2009. Therefore, the Management of the Group recognized the deferred withholding tax on undistributed dividends of Tengizchevroil LLP since it believes that the best estimate is that the Group will continue to receive dividends net of withholding tax in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSE (continued)

In December 2008 the Government of Republic of Kazakhstan approved amendments to the tax code effective January 1, 2009, in accordance to which the statutory income tax rates were changed to 20% in 2009, 17.5% in 2010 and 15% from 2011 onwards. The Group's calculations of deferred tax and income tax expense as of December 31, 2008 and for the year then ended reflect these changes in the tax law.

In November 2009, the Government of Republic of Kazakhstan approved further amendments to the tax code effective January 1, 2009, in accordance to which the statutory income tax rates are further changed to 20% in 2009-2012, 17.5% in 2013 and 15% in 2014 and onwards. The mechanism for calculating EPT was also changed in 2009. The Group's calculations of deferred tax and income tax expense as of December 31, 2009 and for the year then ended reflect these changes in the tax law. A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate (20% in 2009 and 30% in 2008) to income tax expense was as follows for the years ended December 31:

In thousands of Tenge	**2009**	2008 (restated)
Profit before corporate income tax from continued operations	**367,787,347**	583,770,622
Profit before corporate income tax from discontinued operations	**3,001,876**	8,150,302
Statutory tax rate	**20%**	30%
Income tax expense on accounting profit	**74,157,845**	177,576,277
Tax effect of permanent differences		
Excess profit tax	**30,808,234**	57,326,885
Withholding tax on dividends	**59,075,150**	20,147,769
Tax effect of items which are not deductible or assessable for taxation purposes	**8,015,222**	40,929,647
Effect of different corporate income tax rates	**(3,723,562)**	(6,528,101)
Effect of change in income tax rates	**(521,177)**	(83,495,396)
Change in unrecognized deferred tax assets	**12,358,258**	(5,157,357)
Corporate income tax expense reported in the consolidated statement of comprehensive income	**180,169,970**	200,799,724
Income tax expense from discontinued operations	**(874,256)**	(512,535)
Income tax expense from continued operations	**179,295,714**	200,287,189

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSE (continued)

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

In thousands of Tenge	2009 Corporate Income Tax	2009 Excess Profit Tax	2009 With-holding Tax	2009 Total	2008 Corporate Income Tax (restated)	2008 Excess Profit Tax (restated)	2008 With-holding Tax (restated)	2008 Total (restated)	2007 Corporate Income Tax (restated)	2007 Excess Profit Tax (restated)	2007 With-holding Tax (restated)	2007 Total (restated)
Deferred tax assets												
Property, plant and equipment	4,289,067	–	–	4,289,067	1,913,445	–	–	1,913,445	8,392,149	–	–	8,392,149
Tax loss carryforwards	11,508,406	–	–	11,508,406	163,243	–	–	163,243	1,592,603	–	–	1,592,603
Employee related accruals	2,150,854	228,693	–	2,379,547	3,171,827	25,285	–	3,197,112	1,213,091	–	–	1,213,091
Impairment of financial assets	418,160	–	–	418,160	1,825,328	–	–	1,825,328	806,895	–	–	806,895
Environmental liability	2,307,409	–	–	2,307,409	1,046,519	11,563	–	1,058,082	1,418,368	–	–	1,418,368
Other	13,405,861	2,672,608	–	16,078,469	6,215,960	94,667	–	6,310,627	9,362,610	4,424,247	–	13,786,857
Less: unrecognized deferred tax assets	(14,956,699)	–	–	(14,956,699)	(2,598,441)	–	–	(2,598,441)	(7,755,798)	–	–	(7,755,798)
Less: deferred tax assets offset with deferred tax liabilities	(8,226,041)	(1,071,591)	–	(9,297,632)	(7,587,973)	(131,515)	–	(7,719,488)	(12,714,406)	(4,424,247)	–	(17,138,653)
Deferred tax assets	10,897,017	1,829,710	–	12,726,727	4,149,908	–	–	4,149,908	2,315,512	–	–	2,315,512
Deferred tax liabilities												
Property, plant and equipment	92,112,117	2,787,348	–	94,899,465	61,191,362	131,515	–	61,322,877	140,699,676	34,254,570	–	174,954,246
Undistributed earnings of subsidiaries	2,389,786	–	34,164,025	36,553,811	132,024	–	2,106,116	2,238,140	(39,375,168)	(27,562,618)	2,310,121	(64,627,665)
Other	2,775,379	7,883	–	2,783,262	14,985,764	–	–	14,985,764	5,260,329	931,268	–	6,191,597
Less: deferred tax assets offset with deferred tax liabilities	(8,226,041)	(1,071,591)	–	(9,297,632)	(7,587,973)	(131,515)	–	(7,719,488)	(12,714,406)	(4,424,247)	–	(17,138,653)
Deferred tax liabilities	89,051,241	1,723,640	34,164,025	124,938,906	68,721,177	–	2,106,116	70,827,293	93,870,431	3,198,973	2,310,121	99,379,525
Net deferred tax liabilities / (assets)	78,154,224	(106,070)	34,164,025	112,212,179	64,571,269	–	2,106,116	66,677,385	91,554,919	3,198,973	2,310,121	97,064,013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSE (continued)

The deferred taxes on property, plant and equipment represent differences between tax and book base of property, plant and equipment due to different depreciation rates in tax and accounting books, fair value adjustments on acquisitions, impairment and capitalization of asset retirement obligations.

Deferred corporate income tax and excess profit tax are determined with reference to individual subsoil contracts. Deferred corporate income tax is also determined for activities outside of the scope of subsoil contracts. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset arising mainly from tax losses carry forward amounted to 10,684,951 thousand Tenge as of December 31, 2009 (2008: nil).

Tax losses carryforwards as of December 31, 2009 in the Republic of Kazakhstan expire for tax purposes 10 years from the date they are incurred. Consequently, the majority of the tax losses carryforwards of the Group as of December 31, 2009 expire for tax purposes in 2019.

The movements in the deferred tax liability were as follows:

In thousands of Tenge	**2009 Corporate Income Tax**	**2009 Excess Profit Tax**	**2009 Withholding Tax**	**2009 Total**	2008 Corporate Income Tax (restated)	2008 Excess Profit Tax (restated)	2008 Withholding Tax (restated)	2008 Total (restated)
Net deferred tax liability / (asset) as at January 1,	**64,571,269**	**–**	**2,106,116**	**66,677,385**	91,554,919	3,198,973	2,310,121	97,064,013
Foreign currency translation	**10,947,074**	**–**	**427,535**	**11,374,609**	114,876	8,648	6,503	130,027
Discontinued operation	**(2,933,936)**	**–**	**–**	**(2,933,936)**	–	–	–	–
Loss of control over subsidiary	**(658,013)**	**–**	**–**	**(658,013)**	–	–	–	–
Additions through business combinations (Note 5)	**5,098,888**	**–**	**–**	**5,098,888**	1,801,455	–	–	1,801,455
Charge to consolidated statement of comprehensive income	**1,128,942**	**(106,070)**	**31,630,374**	**32,653,246**	(28,899,981)	(3,207,621)	(210,508)	(32,318,110)
Net deferred tax liability / (asset) as at December 31,	**78,154,224**	**(106,070)**	**34,164,025**	**112,212,179**	64,571,269	–	2,106,116	66,677,385

32. SIGNIFICANT NON-CASH TRANSACTIONS

During 2009 the Group settled in crude oil 10,830,585 thousand Tenge due under the terms of a pre-export financing agreement (2008: 17,862,800 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. RELATED PARTY DISCLOSURES

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following table provides the total amount of transactions, which have been entered into with related parties during 2009 and 2008 and the related balances as at December 31, 2009, 2008 and 2007, respectively:

In thousands of Tenge		Due from related parties	Due to related parties	Cash and deposits placed with related parties	Borrowings payable to related parties
Samruk-Kazyna entities	**2009**	**3,783,328**	**652,724**	**563,067,764**	**128,017,415**
	2008	9,426,825	572,746	452,810,850	12,445,854
	2007	3,034,596	176,972	–	–
Other state-controlled entities	**2009**	**785,946**	**423,056**	**–**	**–**
	2008	–	7,274,673	–	–
	2007	–	–	–	–
Associates	**2009**	**–**	**1,205,228**	**–**	**–**
	2008	457,198	3,280,178	–	–
	2007	–	–	–	–
Other related parties	**2009**	**8,028,231**	**–**	**–**	**–**
	2008	–	16,098,641	–	–
	2007	–	–	–	–
Joint ventures in which the Group is a venturer	**2009**	**29,233,823**	**40,749,677**	**–**	**–**
	2008	7,979,707	5,987,771	–	–
	2007	7,135,216	9,095,519	–	–

In thousands of Tenge		Sales to related parties	Purchases from related parties	Interest earned from related parties	Interest incurred to related parties
Samruk-Kazyna entities	**2009**	**8,597,668**	**19,141,376**	**27,626,412**	**3,173,832**
	2008	6,319,999	20,391,556	–	–
Other state-controlled entities	**2009**	**1,106,860**	**12,651,588**	–	**–**
	2008	827,958	9,289,979	–	–
Associates	**2009**	**9,158,154**	**291,208**	**–**	**–**
	2008	14,767,826	404,734	–	–
Other related parties	**2009**	**–**	**4,315,000**	–	**–**
	2008	–	–	–	–
Joint ventures in which the Group is a venturer	**2009**	**23,719,479**	**78,717,544**	–	**–**
	2008	3,889,553	49,461,653	–	–

Transactions with (purchases from) Samruk-Kazyna, other state-controlled entities and joint ventures are mainly represented by transactions of the Group with Kazakhstan Temir Zholy JSC (railway services), Kazakhtelecom JSC (communication services), Kazatomprom JSC (energy services), KEGOK JSC (utilities), Kazpost JSC (postage services) and Samruk-Energo JSC. In addition, the Group sells oil and gas products and renders oil and gas transportation services to Samruk-Kazyna entities, associates and joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. RELATED PARTY DISCLOSURES (continued)

As of December 31, 2009, the Group had outstanding balances of interest free loans issued to related parties for a total of 11,283,366 thousand Tenge (long-term and short-term portions, net of allowance for doubtful accounts) (2008:1,159,871 thousand Tenge). The interest free loans are mainly represented by a 8,028,231 thousand Tenge long-term loan provided by the Group to KTG–Tbilisi, which was deconsolidated in 2009 due to lost control over its operations (Note 27), which resulted in a recognized receivable in the consolidated statement of financial position as of December 31, 2009. These loans were initially recorded at fair value resulting in certain discounts at the date of issuance. Subsequently, those loans are accounted for at amortized cost.

In October 2008, after establishment of Samruk-Kazyna, Halyk Savings Bank of Kazakhstan JSC is considered to be related party as it is controlled by a member of key management personnel of the Group and Samruk-Kazyna. On February 2, 2009 the Government, represented by joint stock company Samruk-Kazyna, became a controlling shareholder of Alliance Bank JSC and BTA Bank JSC with 76 and 78 percent of total shares, respectively. From the above dates, the Group treats those banks as a related parties for financial accounting and reporting purposes. Group funds placed with those banks include cash, short-term and long-term deposits as disclosed in Notes 10, 14 and 15.

As of December 31, 2009 the outstanding principal amount of loan payable to Development Bank of Kazakhstan JSC (owned by Samruk-Kazyna) totaled 118,184,954 thousands Tenge (2008: nil).

In addition to related party transactions tabulated above, as detailed in Note 16, in July 2009 the Company issued bonds on KASE, which were acquired by Samruk – Kazyna, for the total amount of 190 billion Tenge. The bonds bear a nominal interest rate of 5% per annum and mature in 35 years. On the same day Samruk-Kazyna issued bonds on KASE acquired by the Company for the total amount of 190 billion Tenge bearing a nominal interest at 4% per annum and maturing in 35 years. Both bonds receivable and bonds payable were discounted at 12.5% interest, which approximated the market interest rate applicable to the Company as of the date of the transaction. The resulting difference of 14,992,000 thousand Tenge between discount on bonds payable totaling 112,593,515 thousand Tenge and the discount on bonds receivable totaling 127,585,515 thousand Tenge was accounted for as distribution to the Shareholder. Interest accrued on bonds receivable and bonds payable totaled 4,697,222 thousand Tenge and 3,757,778 thousand Tenge, respectively, for the year ended December 31, 2009. The amortization of the discount on the bonds receivable and bonds payable totaled 106,500 thousand Tenge and 93,978 thousand Tenge, respectively, for the year ended December 31, 2009.

Total compensation to key management personnel included in general and administrative expenses in the accompanying consolidated statement of comprehensive income amounted to 2,155,192 thousand Tenge and 2,242,301 thousand Tenge for the years ended December 31, 2009 and 2008, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

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

Currency risk

As a result of significant borrowings and accounts payable denominated in the US Dollars, the Group's consolidated statement of financial position can be affected significantly by movement in the US Dollar / Tenge exchange rates. The Group also has transactional currency exposures. Such exposure arises from revenues in the US Dollars. Approximately 80% of the Group's revenue is denominated in the US Dollars, whilst 40% of cost of sales is denominated in Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

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 Group's profit before income tax and equity (due to changes in the fair value of monetary assets and liabilities). The sensitivity of possible changes in exchange rates for other currencies are not considered due to its insignificance to the consolidated results of Group's operations. There is no significant impact on the Group's equity.

In thousands of Tenge	Increase / decrease in US dollar rate	Effect on profit before tax
2009	**+10%**	**(143,261,535)**
	-15%	**214,892,306**
2008	+25%	(115,981,377)
	+40%	(185,548,470)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates.

The Group's policy is to manage its interest rate cost using a mix of fixed and variable rate borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings) and equity. There is no significant impact on the Group's equity.

In thousands of Tenge	Increase / decrease in basis points	Effect on profit before tax
2009		
LIBOR	**+10**	**178,062**
	-25	**(421,919)**
2008		
LIBOR	+50	(2,749,991)
	-50	2,749,991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Market risk

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

Credit risk

The Group trades only with recognized, creditworthy parties. It is the Group'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 Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 13. There are no significant concentrations of credit risk within the Group.

With respect to credit risks arising on other financial assets of the Group, which comprise cash and cash equivalents, available for sale financial investments and loan notes, the Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The table below shows the balances of major subsidiaries' cash and cash equivalents, short-term and long-term deposits (Notes 10, 14 and 15) held in banks at the reporting date using the Standard and Poor's credit ratings.

		Rating[1]			
Banks	**Location**	**2009**	2008	**2009**	2008
Halyk Savings Bank of Kazakhstan	Kazakhstan	B+ (negative)	BB+ (negative)	**383,564,814**	289,409,751
Kazkommertsbank	Kazakhstan	B (negative)	BB (negative)	**377,917,674**	404,266,180
BTA Bank	Kazakhstan	D	BB (negative)	**177,169,186**	163,401,099
Citibank	Kazakhstan	A (stable)	–	**63,568,354**	101,247
ATF Bank[2]	Kazakhstan	Rating recalled	Rating recalled	**52,593,773**	47,144,222
RBS Kazakhstan	Kazakhstan	A	A+	**48,323,216**	10,265,124
HSBC	Kazakhstan	AA (negative)	AA-	**31,405,238**	27,948,577
SberBank of Russia	Russia	Not available	Not available	**15,573,342**	1,681,125
BankCenterCredit	Kazakhstan	B/Stable	BB-	**10,420,406**	8,643,603
Deutsche Bank	Germany	A+ (stable)	–	**4,590,631**	–
KazInvestBank	Kazakhstan	B- (negative)	–	**3,902,924**	–
Credit Suisse	British Virgin Islands	A+	A+	**3,089,894**	3,439,832
ING Bank	The Netherlands	A+	AA	**1,501,120**	341,780
Kaspi Bank	Kazakhstan	B (Negative)	B+	**471,168**	4,234
Other banks				**8,285,510**	29,142,008
Other subsidiaries				**111,029,190**	73,708,743
Cash on hand				**1,698,563**	877,750
				1,295,105,003	1,060,375,275

As the result of the current lack of liquidity caused by the ongoing global financial crisis the Group may not be able to withdraw significant cash without causing severe disruption in the banks. As of December 31, 2009 the Group had cash held on current accounts and short term deposits with different maturities in JSC BTA Bank in the total amount stated in the table above. BTA Bank requires restructuring of its liabilities in order to continue as a going concern.

[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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2009 and 2008 based on contractual undiscounted payments.

In thousands of Tenge	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after 5 years	Total
As at December 31, 2009						
Borrowings	24,624,387	41,750,001	321,603,601	1,507,722,094	928,038,458	**2,823,738,541**
Payable for the acquisition of additional interest in North Caspian Project and Payable for acquisition of subsidiary	–	–	–	373,916,276	–	**373,916,276**
Trade accounts payable	105,107,730	46,138,605	3,729,684	1,494,348	–	**156,470,367**
Other current liabilities	30,918,550	25,548,390	32,484,975	1,015,716	1,456,276	**91,423,907**
	160,650,667	**113,436,996**	**357,818,260**	**1,884,148,434**	**929,494,734**	**3,445,549,091**
As at December 31, 2008 (restated)						
Borrowings	17,029,304	80,148,593	185,628,386	1,198,201,836	264,135,238	**1,745,143,357**
Payable for the acquisition of additional interest in North Caspian Project and Payable for acquisition of subsidiary	–	–	–	–	304,744,376	**304,744,376**
Trade accounts payable	37,360,625	103,999,199	1,518,071	24,960	–	**142,902,855**
Put option liability	–	–	14,895,525	–	–	**14,895,525**
Other current liabilities	17,111,090	16,195,643	3,014,892	12,170,578	–	**48,492,203**
	71,501,019	**200,343,435**	**205,056,874**	**1,210,397,374**	**568,879,614**	**2,256,178,316**

Capital management

The Group manages its capital to ensure that Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 17 and equity, comprising issued capital, additional paid in capital, other reserves and retained earnings as disclosed in Note 16.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target net debt to net capitalization ratio of no more than 50%.

The ratio at the year end was as follows:

In thousands of Tenge	2009	2008 (restated)
Borrowings	**1,837,674,150**	1,149,971,237
Payable for the acquisition of additional interest in North Caspian Project and Payable for acquisition of subsidiary	**320,457,339**	239,500,799
Put option liability	**–**	14,895,525
Other liabilities composing net debt	**6,590,029**	6,593,287
Debt	**2,164,721,518**	1,410,960,848
Less: Cash and cash equivalents	**564,191,152**	491,761,713
Net debt	**1,600,530,366**	919,199,135
Net capitalization	**3,482,462,771**	2,527,878,996
Net debt to net capitalization	**46%**	36%

Fair values of financial instruments

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

In thousands of Tenge	Carrying amount		Fair value	
	2009	2008 (restated)	2009	2008 (restated)
Financial assets				
Cash and cash equivalents	**564,191,152**	491,761,713	**564,191,152**	491,761,713
Short-term financial assets	**715,704,597**	551,176,232	**715,704,597**	551,176,232
Dividends receivable from associate	**14,687,640**	–	**14,687,640**	–
Trade accounts receivable	**142,179,614**	111,796,282	**142,179,614**	111,796,282
Note receivable from the shareholder of joint venture (current and non-current portions)	**21,351,028**	18,862,018	**21,351,028**	18,862,018
Note receivable from associate	**16,075,399**	–	**16,075,399**	–
Bonds receivable	**62,520,986**	–	**62,520,986**	–
Long-term loan to related party	**8,028,231**	–	**8,028,231**	–
Long-term bank deposits	**18,464,389**	29,694,239	**18,464,389**	29,694,239
Financial liabilities				
Borrowings	**1,837,674,150**	1,149,971,237	**1,816,080,184**	1,170,544,264
Payable for the acquisition of additional interest in North Caspian Project	**320,457,339**	239,500,799	**320,457,339**	239,500,799
Payable for acquisition of subsidiary	**8,405,223**	–	**8,405,223**	–
Trade accounts payable	**156,470,367**	142,902,855	**156,470,367**	142,902,855
Put option liability	**–**	14,895,525	**–**	14,895,525
Other current and-noncurrent liabilities (excluding advances received)	**33,402,320**	36,594,101	**33,402,320**	36,594,101

34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Fair values of financial instruments (continued)

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The Group'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.

35. CONSOLIDATION

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

Significant entities	Percentage ownership		
	2009	2008 (restated)	2007 (restated)
Subsidiaries			
Exploration and Production KazMunayGas JSC ("E&P KMG") and subsidiaries	**57.95%**	57.95%	57.95%
KazTransGas JSC ("KTG") and subsidiaries	**100.00%**	100.00%	100.00%
KazTransOil JSC ("KTO") and subsidiaries	**100.00%**	100.00%	100.00%
Trade House KazMunayGas JSC ("TH KMG") and subsidiaries	**100.00%**	100.00%	100.00%
KazMunayTeniz JSC ("KMT") and subsidiaries	**100.00%**	100.00%	100.00%
KazMunayGas-Service LLP and subsidiaries	**100.00%**	100.00%	100.00%
KMG Kashagan B.V.	**100.00%**	100.00%	100.00%
Cooperative KazMunaiGaz PKI U.A. and subsidiaries	**100.00%**	100.00%	100.00%
N Operating Company LLP	**100.00%**	100.00%	–
KMG Transcaspian LLP	**100.00%**	100.00%	–
Kazakhstan Pipeline Ventures and associate	**100.00%**	50.10%	50.10%
KazMorTransFlot JSC	**100.00%**	100.00%	100.00%

36. CONTINGENT LIABILITIES AND COMMITMENTS

Environment

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Other than those amounts provided for in provisions (Note 20), management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Group's financial position, consolidated statement of income or consolidated cash flows.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. 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.

As at December 31, 2009 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements (Notes 4 and 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Taxation (continued)

Transfer pricing control

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

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

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest at December 31, 2009.

As at December 31, 2009 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Tax audit of E&P KMG

E&P KMG 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 E&P KMG 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.

The Group's management believes its interpretations of the tax legislation were appropriate and that E&P KMG 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 E&P KMG 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. On March 4, 2010 EP KMG addressed a letter of complaint to the Specialised regional economical court of Astana city, in order to appeal in full the remaining additionally accrued tax amount. On March 12, 2010 the Tax Committee of the Ministry of Finance made available to EP KMG modified copy of Notification. The amount of accrued tax was increased up to KZT 10,766,097 thousand, and corresponding fine was decreased to KZT 3,884,684 thousand. EP KMG is intended to appeal this amount in full.

However, management believes the further outcome of the dispute is uncertain and further believes that E&P KMG 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 20).

Customs claim (E&P KMG)

On August 18, 2009 the customs committee of the Republic of Kazakhstan presented a claim to E&P KMG 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Taxation (continued)

Customs claim (E&P KMG) (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 E&P KMG. 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. On March 9, 2010 court of cassation upheld the court ruling dated January 20, 2010. Currently, EP KMG is in the process of making a complaint to the Oversight Body of the Supreme Court of the Republic of Kazakhstan.

Management of the Group 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.

Local market obligations

The Kazakhstan Government requires oil producers and oil trading companies to supply a portion of the their crude oil and oil products to meet domestic energy requirement on an annual basis, mainly to maintain oil products supply balance on the local market and to support agricultural products producers during the spring and autumn sowing campaigns.

Local market oil prices are significantly lower than export prices and even lower than the normal domestic market prices determined in an arm-length transaction. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Group, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Group's business, prospects, financial condition and results of operations.

Crude oil supply commitments

At December 31, 2009 E&P KMG 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), which is further processed by the Group's refineries for production of refined products for the local market discussed below.

Oil products supply commitments

During the first three months of 2010 TH KMG is required to supply 425.3 thousand tons of oil products for the total amount of 38,962,242 thousand Tenge to maintain the balance of oil products supply on the local market. In addition, during the spring of 2010 TH KMG is required to supply 76 thousand tons of diesel fuel to agricultural producers for spring sowing campaign for the total amount of 5,609,524 thousand Tenge. The values of commitments were estimated based on prices established by the Government. The remaining local market obligation of TH KMG for 2010 is to be determined by the Government in the nearest future.

Commitments under oilfield licenses and contracts

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

Some of the Group's oilfield contracts specify a minimum level of expenditures through the end of the license period. Each of the oilfield contracts also requires the Group to agree with the local governments annual business plans, which include capital and social infrastructure projects.

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Commitments under oilfield licenses and contracts (continued)

Oilfield licenses and contracts of E&P KMG and KGM

Year	Capital expenditures	Operational expenditures
2010	79,160,419	5,733,384
2011	841,000	4,013,192
2012	–	4,013,192
2013	–	4,013,192
2014-2021	–	22,840,168
Total	**80,001,419**	**40,613,128**

Commitments under exploration contracts of KMT

According to the terms of exploration contracts signed with Government bodies, KMT has certain commitments on fulfilment of minimal work programs under related oil and gas projects. As at December 31, 2009, KMT had commitments under 2010 minimal work programs amounting to US dollar 79,720 thousand (equivalent to 11,827,260 thousand Tenge).

Commitments under exploration contracts of the KazMunayGas

According to the terms of exploration contracts signed by KazMunayGas with Government bodies, the Company has certain commitments on fulfillment of minimal work programs under related oil and gas projects. As at December 31, 2009, KazMunaiGas had commitments under minimal work programs totaling 1,878,658 thousand Tenge (December 31, 2008: 178,738 thousand US Dollars and 1,424,921 thousand Tenge).

Commitments under exploration and production contract of KTG

The Group is committed to make certain payments, either annually or based on reaching certain milestones in the exploration, development and production periods. These payments include commercial discovery bonus, royalty and certain taxes defined by exploration contract of KTG. The commercial discovery bonus is defined as 0.05% of commercial amounts of discovered hydrocarbons.

According to the minimal working program during the period of 2000–2005 the Group was required to invest US$94.3 million for exploration of hydrocarbons. In accordance with the letter from the MEMR dated December 13, 2006, exploration period was prolonged till December 12, 2010 and the minimal working program was increased by US$35.9 million for this additional period.

The Group assumed a long–term obligation to repay to the Government under the terms of the exploration and production contract of KTG 4,146,784 thousand Tenge related to historical costs of geological and geophysical data and drilling works incurred by the Government. Production of gas commenced at Amangeldy gas field only, and accordingly, the Group recognized liabilities related to payment of historical costs on Amangeldy gas field.

Commitments under subsoil use contract of MMG (subsidiary of MIBV, MIBV is a 50% joint venture of the Group)

In accordance with the subsoil use contract MMG has to perform annual minimal work program. In accordance with this minimal work program for 2010 MMG has commitments in respect of capital and operational expenditures of US$1,800 million (equivalent to 267,048 million Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Investment and other obligations of Intergas Central Asia JSC ("ICA", subsidiary of KazTransGas JSC) under the Agreement with the Government on gas transportation system

Investments for the improvements of gas transportation assets

Under the terms of the Agreement with the Government, the Group has an obligation to invest US$30 million each year (4,450,800 thousand Tenge at 148.36 Tenge to US$1 as of December 31, 2009) for the improvement and repair of the gas transportation assets transferred and for investments in new gas transportation assets. In accordance with the terms of the Agreement with the Government, the Group will be reimbursed for the net book value of the above investments at the time the Agreement with the Government expires. As of December 31, 2009 the Group had approximately 5,282,244 thousand Tenge in contractual commitments related to this investment obligation (2008: 4,700,470 thousand Tenge).

This investment obligation is contingent upon the fulfilment of certain conditions. One of them is that the physical throughput of gas remains stable or increases from its 1996 level and another, that the ongoing business conditions of gas transport contracts with foreign customers remains on as favourable terms as they were prior to establishment of the Agreement with the Government. If gas tariffs and cash payment defaults by customers make it impractical to carry out improvement and investment, the Group is entitled to apply to the Government of Republic of Kazakhstan for an adjustment of the domestic tariff or an adjustment to the level of its investment obligations. As of December 31, 2009 the Group complied with these conditions.

Royalty

From July 17, 1997, the Group is obliged to pay a royalty to the Republic of Kazakhstan amounting to approximately 2% of the throughput of gas in the Western System. However, in accordance with the Agreement with the Government, this payment is only due and payable for the Western System after the issue by the Government of Republic of Kazakhstan Resolution or order of the Ministry of Finance advising the customers of the Western System of their obligation to pay the royalty to the Group. As of December 31, 2009, no such decree had been issued. Due to the uncertainty surrounding the implementation of the royalty, the Group has to date not been charging royalty to its customers.

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

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

Kyrgyz By-Pass

The Group is obliged, depending on certain conditions, which include tariff recovery, to design and construct the Kyrgyz By-Pass at a cost, which was estimated in the Agreement, of approximately US$90 million to US$100 million. This asset will be transferred to the Republic of Kazakhstan at the later of the end of the term of the Agreement or after twenty years from the completion for US$1. Construction of this bypass has not yet begun.

Management believes that they have taken all necessary steps to fulfil the Group's obligations in this respect, as well as considering the issue of taking into management a part of gas-pipeline belonging to the Kyrgyz Republic. However, the new domestic tariffs which, per the Agreement, are a precondition for the commencement of construction of the Kyrgyz By-Pass, have not been published as of December 31, 2009.

The Government of the Republic of Kazakhstan reviews the Group's compliance with its obligations under the Agreement, including the fulfilment of the investment commitments. The review of the Group's compliance with its obligations under the Agreement with Government for 2009 will be performed in 2010. The management believes that as of December 31, 2009 the Group is in compliance with investment requirements.

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

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Loans Covenants

Covenants of KMG

In 2008-2009 KMG issued US$ 4.5 billion bonds on London Stock Exchange. According to the bond issuance terms, KMG has to comply with the following financial covenant:

- a ratio of consolidated net indebtedness to consolidated EBITDA of not more than 3.5:1;

In addition, KMG as a Guarantor has to comply with certain non-financial covenants.

Covenants of TH KMG

In 2008 TH KMG concluded a credit facility agreement for the amount of US Dollar 2.5 billion from a syndicate of eight banks. The facility is fully guaranteed by KazMunayGas. According to the facility agreement concluded between the Group and the syndicate, the Group has to comply with certain covenants.

Covenants of KTO

Guarantees

At December 31, 2009 KTO has guaranteed to EBRD in respect of the obligations of KTO's joint venture "MunayTas" JSC under the loan agreement with EBRD. According to the Guarantee Agreement concluded between KTO and EBRD, KTO has to comply with the following covenants:

- Current Ratio of not less than 1:1;
- Ratio of Earnings before interest, income tax, depreciation and amortization to Interest of not less than 2:1; and
- Ratio of Debt to Equity of not more than 2:1;

In addition, KTO shall not create any restrictions other than those permitted by EBRD. KTO shall not enter into any transactions that are not based on arm's-length arrangements unless it is approved by regulatory bodies. KTO shall not sell, lease or dispose its assets in excess of 30% of total assets or undertake any merger or reorganization.

Borrowings

On August 28, 2008 KTO has concluded a syndicated loan facility agreement with BTMU (Europe) Limited, ING Bank N.V. and Natixis (the "Creditors") for amount of 275 million US Dollars (Note 17), According to the Loan facility Agreement concluded between KTO and the Creditors, KTO has to comply with the following covenants:

- Current ratio of not less than 1:1;
- a ratio of Financial Debt to Earnings before interest, income tax, depreciation and amortization of not more than 3,5:1;
- a ratio of Financial Debt to Equity of not more than 2:1;
- a ratio of Earning before interest, income tax to total debt costs of not more than 2:1.

Other contractual commitments

As of December 31, 2009, the Group has a number of contractual commitments to acquire property, plant and inventory from third parties.

Gas commitment

As at December 31, 2009, the Group had contractual commitment to acquire gas for the amount of 19,161,483 thousand Tenge (2008: 3,580,915 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Other contractual commitments (continued)

Contractual commitments of KMG Kashagan B.V.

As at December 31, 2009, KMG Kashagan B.V. had contractual obligations on acquisition, construction and development of its interest in North Caspian Project for a total amount of US dollar 1,756,302 thousand (2008: US dollar 1,700,381 thousand).

Contractual commitments of KazTransOil JSC ("KTO") for acquisition of property, plant and equipment, inventory and services

As at December 31, 2009, KTO had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 10,355,911 thousand Tenge (2008: 9,146,692 thousand Tenge). In addition, as at December 31, 2009, KTO has committed to purchase inventory (materials and spare parts) and services for the amount of 4,491,628 thousand Tenge (2008: 44,917,113 thousand Tenge).

Capital commitments of TH KMG

The capital commitments of TH KMG at December 31, 2009 were as follows:

Year	Capital Expenditures
2010	69,075,241
2011	73,411,127
2012	45,992,276
2013	108,972
2014	54,486
Total	**188,642,102**

Capital commitments mainly relate to projects related to reconstruction, capacity increase and compliance with Euro standards of the Group's refineries.

Contractual commitments of TH KMG

As of December 31, 2009 Rompetrol Rafinare S.A (a subsidiary of TH KMG) had non-group commitments for purchases of raw materials and utilities of 6,735,544 thousand Tenge and for petroleum products and utilities sales in amount of 12,388,060 thousand Tenge.

As of December 31, 2009 Rompetrol Petrochemicals S.R.L (a subsidiary of TH KMG) had non-group commitments for purchases of raw materials of 10,578,068 thousand Tenge and for petrochemical products sales in amount of 2,462,776 thousand Tenge.

As of December 31, 2009 Rompetrol Rafinare S.A. and Vector Energy AG (subsidiary of TH KMG) have used 34,122,800 thousand Tenge (2008: 49,032,620 thousand Tenge) in relation with letters of credit out of 62,682,100 thousand Tenge (2008: 114,127,650 thousand Tenge) available in accordance with bank facilities, out of which 17,951,560 thousand Tenge (2008: 8,562,593 thousand Tenge) are payable to crude oil and petroleum products suppliers (included in trade accounts payable) and 14,732,148 thousand Tenge (2008: 40,457,950 thousand Tenge) payable to the banks.

Contractual commitments of KazMorTransFlot JSC

As of December 31, 2009, KazMorTransFlot JSC had capital commitments to acquire two oil tankers for a total amount of 5,093,570 thousand Tenge.

Capital commitments of Kazakoil-Aktobe LLP ("KOA", 50% joint venture of the Group)

As of December 31, 2009, KOA had capital construction commitments for total amount of 39,169,660 thousand Tenge (2008: 8,948,519 thousand Tenge). In addition, KOA has annual work program commitments under its oil fields in total for US dollar 72,000 thousand (equivalent to 10,681,920 thousand Tenge as of December 31, 2009).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. SEGMENT REPORTING

The management of the Group analyzes the segment information based on IFRS numbers. Segment profits are considered based on gross profit and net profit results.

The Group's operating segments have their own structure and management according to the type of the produced goods and services provided. Moreover, all segments are strategic directions of the business which offer different types of the goods and serve different markets.

The group's activity consists of three main operating segments: exploration and production of oil and gas, transportation of oil and gas and refining and trading of crude oil and refined products. The remaining operating segments have been aggregated and presented as other operating segment due to their insignificance.

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2009:

In thousands of Tenge	Exploration and production of oil and gas	Transportation of oil and gas	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	99,765,920	320,359,633	1,158,609,419	10,813,649	–	**1,589,548,621**
Revenues from sales to other segments	390,374,948	22,491,345	2,348,365	15,097,224	(430,311,882)	–
Total revenue	**490,140,868**	**342,850,978**	**1,160,957,784**	**25,910,873**	**(430,311,882)**	**1,589,548,621**
Gross profit	314,627,667	148,536,519	105,460,213	9,385,057	(35,461,690)	**542,547,766**
Finance income	46,938,809	9,929,575	5,019,016	278,135,955	(255,156,178)	**84,867,177**
Finance cost	(17,922,569)	(14,893,162)	(48,349,855)	(133,786,314)	74,126,167	**(140,825,733)**
Depreciation, depletion and amortization	(30,603,196)	(32,513,951)	(38,605,612)	(3,714,898)	–	**(105,437,657)**
(Impairment) / recovery of impairment of property, plant and equipment	590,583	(1,736,610)	(9,017,379)	(200,830)	–	**(10,364,236)**
Impairment of goodwill	–	(6,324,369)	–	–	–	**(6,324,369)**
Share income / (loss) in associates	122,396,436	(2,939,489)	44,558,404	7,722,761	–	**171,738,112**
Income tax expenses	(76,083,203)	(24,522,058)	(2,990,520)	(75,699,933)	–	**(179,295,714)**
Net profit for the year	**191,836,766**	**63,515,330**	**(90,109,931)**	**80,235,265**	**(54,858,177)**	**190,619,253**
Other segment information						
Investments in associates	507,269,982	21,547,899	115,015,247	978,062	-	**644,811,190**
Capital expenditures	250,275,693	65,890,879	58,761,522	25,893,999	-	**400,822,093**
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(2,034,019)	(3,463,484)	(16,278,132)	(4,940,617)	-	**(26,716,252)**
Assets of the segment	**2,539,443,483**	**735,134,512**	**1,271,902,505**	**2,650,966,957**	**(2,071,492,732)**	**5,125,954,725**
Liabilities of the segment	**683,766,079**	**308,645,676**	**1,060,858,787**	**1,917,759,080**	**(1,203,317,578)**	**2,767,712,044**

Eliminations represent the exclusion of intra-group turnovers.

Inter-segment transactions were made on terms agreed to between the segments that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. SEGMENT REPORTING (continued)

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

In thousands of Tenge	Exploration and production of oil and gas	Transportation of oil and gas	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	146,775,231	260,716,144	1,468,803,454	9,311,086	–	**1,885,605,915**
Revenues from sales to other segments	493,250,909	32,466,391	9,070,232	17,364,031	(552,151,563)	**–**
Total revenue	**640,026,140**	**293,182,535**	**1,477,873,686**	**26,675,117**	**(552,151,563)**	**1,885,605,915**
Gross profit	472,273,631	105,778,491	134,818,284	16,018,194	(42,643,001)	**686,245,599**
Finance income	64,424,328	7,307,019	32,388,421	214,636,524	(217,652,498)	**101,103,794**
Finance cost	(38,724,206)	(14,911,497)	(51,660,977)	(21,682,290)	18,620,736	**(108,358,234)**
Depreciation, depletion and amortization	(34,178,935)	(32,656,137)	(28,756,470)	(2,778,488)	–	**(98,370,030)**
(Impairment of property, plant and equipment) / reversal of impairment	(385,820)	(3,819,151)	(409,229)	(2,000,413)	–	**(6,614,613)**
Impairment of goodwill	–	(17,553,133)	(6,000,000)	–	–	**(23,553,133)**
Share income / (loss) in associates	217,902,351	2,608,732	19,255,796	4,210	–	**239,771,089**
Income tax expenses	(167,631,911)	(3,472,092)	(5,502,888)	(23,680,298)	–	**(200,287,189)**
Net profit for the year	**232,855,692**	**47,140,465**	**(18,763,887)**	**155,753,802**	**(25,864,872)**	**391,121,200**
Other segment information						
Investments in associates	452,884,039	9,078,850	63,068,803	155,466	–	**525,187,158**
Capital expenditures	408,011,975	106,686,457	48,052,424	5,879,312	–	**568,630,168**
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, other assets, and doubtful VAT recoverable	(2,391,427)	(11,446,249)	(13,681,068)	(4,782,321)	–	**(32,301,065)**
Assets of the segment	**2,385,788,190**	**666,565,876**	**844,072,374**	**1,027,598,914**	**(1,017,351,926)**	**3,906,673,428**
Liabilities of the segment	**955,734,341**	**304,822,285**	**666,109,077**	**428,156,284**	**(478,122,871)**	**1,876,699,116**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. SUBSEQUENT EVENTS

In January, 2010 the Group repaid a loan taken from HSBC Bank Kazakhstan in the amount of 5,987,860 thousand Tenge (equivalent to US dollar 40,450,000) by its own funds and by obtaining additional loans under open credit lines from RBS Bank Kazakhstan in the amount of US dollar 50,000,000. Additionally, in January, 2010 the Group repaid a loan taken from Citibank Kazakhstan in the amount of 1,500,000 thousand Tenge (equivalent to US dollar 10,000,000) from the funds obtained under open credit lines from RBS Bank Kazakhstan.

On January 27, 2010 the Group (TH KMG) initiated a mandatory public offer for the acquisition of 132.77 million Rompetrol Well Services S.A. shares available on the stock exchange, for a price of RON 0.43 per share (equivalent to 21.73 Tenge). On February 23, 2010 the Group acquired an additional 20.74% interest in Rompetrol Well Services for a total amount of RON 24.8 million (equivalent to 1,253 million Tenge). After the public offer, the Group holds 73.01% of the company.

On February 8, 2010 the Group (TH KMG) initiated a mandatory public offer for the acquisition of 5,062.17 million Rompetrol Rafinare S.A. shares (representing approximately 24% of the company's share capital) available on stock exchange, for a price of RON 0.0741/share (equivalent to 3.74 Tenge). The offer period ends on March 26, 2010. During the offer period, the Group has already acquired an additional 17.23% interest in Rompetrol Rafinare S.A. for a total amount of RON 170 million (equivalent to 8,590 million Tenge).

In January-February 2010, the Government of the Republic of Kazakhstan made several announcements that the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan is considering the possibility of cancellation of stable tax regimes established in the Production Sharing Agreements (PSA) of certain Kazakhstani subsoil users. In case of such cancellation, it will affect the tax regimes of PSAs held by certain subsidiaries and joint ventures of the Group. The tax committee of Ministry of Finance is currently analyzing the existing PSAs and will issue the recommendations to the Government till April 1, 2010. The management of the Group is not aware of any proceedings on this matter. Also, the subsidiaries and joint ventures of the Group (which are the parties to various PSAs) did not receive any notifications from state authorities on possible changes in its tax regimes.

On March 10, 2010 KTO repaid the remaining principal amount of US dollar 137 million (equivalent to 20,165,030 thousand Tenge as of repayment date) under the loan agreement signed with Natixis, ING Bank N.V и BTMU (Europe) Limited in 2008.

On February 23, 2010 E&P KMG Board of Directors decided to approve the conclusion of major transaction – redemption of placed privileged shares of E&P KMG after their inclusion into KASE official list. Redemption will be performed at KASE during the period up to December 31, 2011. As per decision of the KASE Stock Council, E&P KMG privileged shares went through listing procedures on March 4, 2010. As of March 25, 2010 E&P KMG redeemed 215,504 preferred shares for the amount of 4,549,716 thousand Tenge.

ANNEX A - REPORT OF GAFFNEY, CLINE & ASSOCIATES LTD

GCA **Gaffney, Cline & Associates Ltd**
Technical and Management Advisers to the Petroleum Industry Internationally Since 1962

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TG/E2182/111/ngk **21st January, 2010**

The Directors,
JSC KazMunaiGas Exploration Production,
Left Bank, Tauelsizdik 2,
Astana 010000,
Republic of Kazakhstan.

Dear Sirs,

AN ASSESSMENT OF RESERVES AS AT 31st DECEMBER, 2009

INTRODUCTION

Gaffney, Cline & Associates (GCA) has been requested by Joint Stock Company KazMunaiGas Exploration Production (KMG EP), to provide an update, as at 31st December, 2009, to GCA's 31st December, 2008 independent Reserves certification for certain oilfields operated by the production affiliates EmbaMunaiGas (EMG) and OzenMunaiGas (OMG). This letter summarises the main results and conclusions.

The locations of the main fields are shown in the regional map in Figure 1. The OMG and EMG fields are located in five separate production units, or NGDUs, and under five different contracts. The EMG fields are shown grouped by NGDU in Figure 2. Uaz and Kondybai are located in the Taisogan exploration licence area and for the purposes of this report are included as part of KainarMunaiGas.

GCA has not been requested to perform a site visit, nor has GCA considered this necessary for the purposes of this Reserves evaluation and assessment of NPVs.

KMG EP has made available to GCA a comprehensive data set of technical and commercial information related to field production, operations, well performance and results of new wells and workovers, together with details of the draft 2010 Budget, a draft 2011 to 2014 Business Plan, oil transportation costs and other financial data pertaining to the fiscal terms applicable to the licences and contracts. In carrying out this review GCA has relied on this information and other representations made by KMG EP.

Production and Reserves are stated in this report in tonnes. For comparison with previous submissions, and to be consistent with generally accepted industry standards, the barrel equivalent Reserves are also stated, using the oil density for each field as a basis for conversion.

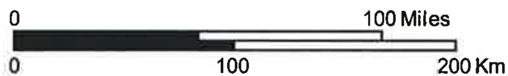
A Glossary of abbreviations, some or all of which may be used in this report, is attached as Appendix I. Reserves have been estimated in accordance with the 2007 Petroleum Resources Management System Definitions and Guidelines (PRMS) of the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers), attached herein as Appendix II.

FIGURE 1

KAZMUNAIGAS LOCATION MAP

FIGURE 2

EMBAMUNAIGAS NGDU FIELDS AND PIPELINE INFRASTRUCTURE



LEGEND

- Oil Field
- Oil Pipeline
- Gas Pipeline
- Oil Route by Truck

NGDU's

- ZhaikMunaiGas
- DossorMunaiGas } DossorMunaiGas
- MakatMunaiGas } DossorMunaiGas
- KainarMunaiGas
- KulsaryMunaiGas } ZhylyoiMunaiGas
- ProrvaMunaiGas } ZhylyoiMunaiGas

GCA is an independent energy consultancy specialising in petroleum reservoir evaluation and economic analysis. In the preparation of this report, GCA has maintained, and continues to maintain, a strict consultant-client relationship with KMG EP. The management and employees of GCA have been, and continue to be, independent of KMG EP in the services they provide to the company, including the provision of the opinions expressed in this report. Furthermore, the management and employees of GCA have no interest in any assets or share capital of KMG EP or in the promotion of the company.

SUMMARY AND CONCLUSIONS

The Proved, Proved plus Probable and Proved plus Probable plus Possible Reserves of KMG EP estimated by GCA as of 31st December, 2009, together with production and Reserves adjustments since the 31st December, 2008 assessment, are summarised in the following table and presented by field in Tables 1 to 3. The barrel equivalent Reserves are summarised by field in Table 4.

	Proved Mtonnes	Proved plus Probable Mtonnes	Proved plus Probable plus Possible Mtonnes
Total KMG EP	87,874	234,415	270,468

There has been a net reduction in Proved Reserves of 7,671 Mtonnes (Adjustment of 1,307 Mtonnes less 2009 production of 8,978 Mtonnes) and a net reduction in Proved plus Probable Reserves of 6,765 Mtonnes (Adjustment of 2,213 Mtonnes less 2009 production of 8,978 Mtonnes).

The oil production and expenditure forecasts corresponding to the Proved and Proved plus Probable Reserves estimates given above are presented in Table 5.

Oil production from some of the OMG and EMG fields was impacted by severe winter weather conditions during 2009; in addition, an ongoing labour dispute in OMG prevented achievement of the production targets. GCA does not expect that these events will result in any negative impact of ultimate oil recovery.

The Reserves adjustments result primarily from a combination of reduced drilling schedule, lower operating expenditures (opex) and higher oil prices, compared with the 2008 Reserves assessment.

Reserves estimates are mostly performance based. The availability of updated technical studies, together with other studies and updated Business Plan, have supported the performance based Reserves.

TABLE 1

SUMMARY OF PROVED RESERVES AS AT 31ST DECEMBER, 2009

NGDU Field	Total Proved Reserves at 31st December, 2008 Mtonnes	2009 Production Mtonnes	Adjustments Mtonnes	Total Proved Reserves at 31st December, 2009 Mtonnes	Proved Undeveloped Reserves at 31st December, 2009 Mtonnes
OzenMunaiGas					
Uzen	68,680	5,853	0	62,827	4,800
Karamandybas	4,238	397	0	3,841	450
NGDU ZhaikMunaiGas					
Kamyshitovoye SW	1,959	235	111	1,835	119
Zaburunye	1,340	195	136	1,281	111
Zhanatalap	1,380	163	249	1,466	0
Kamyshitovoye SE	1,127	138	102	1,091	146
Balgimbayev	864	111	107	861	16
Gran	507	67	31	471	29
Novobotinskoye	65	6	-7	52	23
Rovnoye	54	10	-7	36	0
NGDU ZhylyoiMunaiGas					
Nurzhanov	4,369	392	128	4,105	295
Prorva West	644	80	29	593	55
Dosmukhambetskoye	646	59	6	593	0
Aktyube	277	25	-11	242	17
Teren Uzyuk	772	64	-42	666	0
Akingen'	493	74	105	524	18
Kisimbai	308	40	-17	251	0
Kulsary	53	8	-15	30	0
Koshagyl	38	4	1	35	0
Tyulyus	24	3	1	22	0
Karaton Koshkimbet	59	7	3	55	0
Akkuduk	167	28	28	167	16
NGDU KainarMunaiGas					
Moldabek East	3,002	406	171	2,767	20
Zholamanov	445	48	17	414	87
North Kotyrtas	99	18	86	167	65
Uaz	140	20	-7	113	0
Kondybai	0	5	31	26	0
NGDU DossorMunaiGas					
Botakhan	1,474	213	21	1,282	0
Karsak	365	44	0	321	0
Altykul	140	17	12	134	0
Baichunas	73	9	-23	41	0
Bek Bike	19	3	-2	15	0
Dossor	7	1	-3	3	0
Iskine	1	0	0	1	0
Komsomolskoye	7	1	-1	5	0
Koshkar	36	5	-5	26	0
Tanatar	28	4	3	27	0
Makat East	1,436	195	48	1,289	53
Makat	13	2	-5	5	0
Zholdybai North	196	27	28	197	8
TOTAL	**95,545**	**8,978**	**1,307**	**87,874**	**6,328**

Notes:

1. Numbers may not add up due to rounding.
2. In 2008 report, Kondybai was reported together with Uaz. It is now reported separately.

TABLE 2

SUMMARY OF PROVED PLUS PROBABLE RESERVES AS AT 31ST DECEMBER, 2009

NGDU	Field	Reserves at 31st December, 2008 Mtonnes	2009 Production Mtonnes	Adjustments Mtonnes	Reserves at 31st December, 2009 Mtonnes
OzenMunaiGas					
	Uzen	171,834	5,853	0	165,980
	Karamandybas	10,502	397	0	10,104
NGDU ZhaikMunaiGas					
	Kamyshitovoye SW	6,554	235	0	6,319
	Zaburunye	3,401	195	212	3,419
	Zhanatalap	4,443	163	469	4,749
	Kamyshitovoye SE	3,475	138	255	3,592
	Balgimbayev	2,565	111	186	2,640
	Gran	1,649	67	-239	1,344
	Novobotinskoye	353	6	-222	125
	Rovnoye	124	10	-58	56
NGDU ZhylyoiMunaiGas					
	Nurzhanov	12,354	392	200	12,161
	Prorva West	1,365	80	-192	1,093
	Dosmukhambetskoye	1,473	59	-51	1,363
	Aktyube	567	25	-6	536
	Teren Uzyuk	1,251	64	193	1,380
	Akingen'	674	74	217	817
	Kisimbai	437	40	18	415
	Kulsary	75	8	-16	51
	Koshagyl	59	4	12	67
	Tyulyus	34	3	6	37
	Karaton Koshkimbet	87	7	16	96
	Akkuduk	219	28	53	244
NGDU KainarMunaiGas					
	Moldabek East	5,910	406	1,050	6,554
	Zholamanov	982	48	185	1,119
	North Kotyrtas	215	18	73	270
	Uaz	613	20	-303	290
	Kondybai	0	5	36	31
NGDU DossorMunaiGas					
	Botakhan	4,009	213	17	3,812
	Karsak	1,015	44	48	1,018
	Altykul	378	17	33	394
	Baichunas	200	9	-69	122
	Bek Bike	47	3	-6	39
	Dossor	14	1	-8	5
	Iskine	2	0	0	2
	Komsomolskoye	12	1	-1	10
	Koshkar	93	5	-16	72
	Tanatar	65	4	5	66
	Makat East	3,668	195	56	3,529
	Makat	20	2	-11	7
	Zholdybai North	442	27	71	485
TOTAL		**241,180**	**8,978**	**2,213**	**234,415**

Notes:

1. Numbers may not add up due to rounding.
2. In 2008 report, Kondybai was reported together with Uaz. It is now reported separately.

TABLE 3

SUMMARY OF PROVED PLUS PROBABLE PLUS POSSIBLE RESERVES AS AT 31ST DECEMBER, 2009

NGDU Field	Reserves at 31st December, 2008 Mtonnes	2009 Production Mtonnes	Adjustments Mtonnes	Reserves at 31st December, 2009 Mtonnes
OzenMunaiGas				
Uzen	194,372	5,853	0	188,519
Karamandybas	12,053	397	39	11,695
NGDU ZhaikMunaiGas				
Kamyshitovoye SW	7,805	235	-223	7,347
Zaburunye	3,898	195	326	4,029
Zhanatalap	4,948	163	712	5,496
Kamyshitovoye SE	4,096	138	371	4,328
Balgimbayev	2,724	111	171	2,784
Gran	2,041	67	-424	1,550
Novobotinskoye	462	6	-310	146
Rovnoye	155	10	-82	62
NGDU ZhylyoiMunaiGas				
Nurzhanov	17,209	392	-1,889	14,928
Prorva West	1,586	80	-295	1,211
Dosmukhambetskoye	1,661	59	-124	1,478
Aktyube	668	25	-62	582
Teren Uzyuk	2,311	64	-181	2,066
Akingen'	1,089	74	191	1,206
Kisimbai	722	40	-57	625
Kulsary	107	8	-34	65
Koshagyl	97	4	-1	92
Tyulyus	49	3	1	47
Karaton Koshkimbet	129	7	3	125
Akkuduk	274	28	45	291
NGDU KainarMunaiGas				
Moldabek East	8,949	406	199	8,742
Zholamanov	1,223	48	62	1,237
North Kotyrtas	264	18	76	322
Uaz	1,566	20	-808	738
Kondybai	0	5	40	35
NGDU DossorMunaiGas				
Botakhan	4,388	213	17	4,191
Karsak	1,063	44	46	1,064
Altykul	397	17	34	414
Baichunas	210	9	-73	128
Bek Bike	50	3	-6	41
Dossor	15	1	-9	5
Iskine	2	0	0	2
Komsomolskoye	14	1	-2	11
Koshkar	98	5	-16	77
Tanatar	75	4	5	76
Makat East	4,317	195	62	4,183
Makat	22	2	-12	7
Zholdybai North	474	27	77	523
TOTAL	**281,583**	**8,978**	**-2,137**	**270,468**

Notes:

1. Numbers may not add up due to rounding.
2. In 2008 report, Kondybai was reported together with Uaz. It is now reported separately.

TABLE 4

SUMMARY OF RESERVES REPORTED IN BARRELS AS AT 31ST DECEMBER, 2009

NGDU	Field	Proved MBbls	Proved plus Probable MBbls	Proved plus Probable plus Possible MBbls
OzenMunaiGas				
	Uzen	464,356	1,226,773	1,393,354
	Karamandybas	28,386	74,683	86,436
NGDU ZhaikMunaiGas				
	Kamyshitovoye SW	13,808	47,543	55,280
	Zaburunye	9,026	24,081	28,381
	Zhanatalap	10,632	34,450	39,874
	Kamyshitovoye SE	7,840	25,821	31,113
	Balgimbayev	6,054	18,575	19,584
	Gran	3,665	10,459	12,067
	Novobotinskoye	406	978	1,146
	Rovnoye	260	397	444
NGDU ZhylyoiMunaiGas				
	Nurzhanov	29,506	87,418	107,304
	Prorva West	4,239	7,815	8,656
	Dosmukhambetskoye	4,386	10,076	10,924
	Aktyube	1,798	3,993	4,329
	Teren Uzyuk	4,561	9,456	14,153
	Akingen'	3,782	5,891	8,698
	Kisimbai	1,805	2,985	4,501
	Kulsary	212	360	456
	Koshagyl	248	479	654
	Tyulyus	169	285	360
	Karaton Koshkimbet	391	687	887
	Akkuduk	1,271	1,861	2,218
NGDU KainarMunaiGas				
	Moldabek East	19,642	46,526	62,059
	Zholamanov	3,001	8,105	8,963
	North Kotyrtas	1,260	2,036	2,429
	Uaz	817	2,098	5,336
	Kondybai	191	225	254
NGDU DossorMunaiGas				
	Botakhan	9,599	28,546	31,383
	Karsak	2,196	6,970	7,283
	Altykul	941	2,761	2,898
	Baichunas	300	891	934
	Bek Bike	106	276	294
	Dossor	19	33	37
	Iskine	8	12	14
	Komsomolskoye	35	68	75
	Koshkar	188	525	554
	Tanatar	192	478	550
	Makat East	9,719	26,614	31,549
	Makat	39	48	53
	Zholdybai North	1,398	3,452	3,723
TOTAL		**646,451**	**1,724,728**	**1,989,206**

Note:

1. Numbers may not add up due to rounding.

TABLE 5

LONG TERM OIL PRODUCTION AND EXPENDITURE FORECASTS

	Proved			Proved plus Probable		
	Oil Production t/day	Capex U.S.$MM	Opex U.S.$MM	Oil Production t/day	Capex U.S.$MM	Opex U.S.$MM
2010	25,068	519	766	25,157	520	766
2011	24,756	556	679	25,061	556	679
2012	24,442	552	677	24,852	554	677
2013	24,222	499	677	24,795	501	677
2014	24,071	499	674	24,718	499	674
2015	23,600	156	674	24,472	363	672
2016	22,031	132	674	24,173	339	670
2017	20,595	111	673	23,903	301	668
2018	18,248	54	631	23,656	96	666
2019	15,529	21	562	23,430	82	664
2020	13,328	4	499	23,222	69	663
2021	4,861	0	182	22,661	59	659
2022	0	0	0	21,512	50	653
2023	0	0	0	20,458	43	648
2024	0	0	0	19,488	36	643
2025	0	0	0	18,593	31	638
2026	0	0	0	17,764	26	633
2027	0	0	0	16,996	22	629
2028	0	0	0	16,281	19	626
2029	0	0	0	15,616	16	622
2030	0	0	0	14,995	14	619
2031	0	0	0	14,415	12	616
2032	0	0	0	13,872	10	613
2033	0	0	0	13,156	8	580
2034	0	0	0	12,684	7	578
2035	0	0	0	12,241	6	575
2036	0	0	0	11,825	5	573
2037	0	0	0	11,432	4	571
2038	0	0	0	11,058	4	569
2039	0	0	0	10,699	3	567
2040	0	0	0	10,363	3	566
2041	0	0	0	10,047	2	564
2042	0	0	0	9,750	2	562
2043	0	0	0	9,472	2	561
2044	0	0	0	9,208	1	560
2045	0	0	0	8,958	1	558
2046	0	0	0	8,720	1	557
2047	0	0	0	6,347	1	387
2048	0	0	0	6,181	0	387
Total	**87,874**	**3,103**	**7,367**	**234,415**	**4,269**	**23,786**

Notes:

1. Proved Reserves are curtailed by Contract Expiry.
2. Numbers may not add up due to rounding.
3. Production totals in Mtonnes; capex and opex totals in U.S.$MM.

DISCUSSION

Most of the OMG and EMG fields are in a mature stage of development and the Proved and Proved plus Probable Reserves are derived based mainly on performance history with a reasonable degree of confidence. As in previous evaluations, GCA has generally based its Reserves assessment on an analysis of the fractional oil trends, as well as the field and individual well decline performance. GCA has also included the benefits from new wells and special treatments in both estimating Reserves and production levels. Provision is made for the future Budget and Business Plan drilling and special treatments programme. Estimated Reserves are checked against oil in place (STOIIP) estimates, where available, to ensure that ultimate recovery factors are reasonable and within accepted ranges.

The remaining oil is recovered within the term of the licence in the Proved scenario. In the Proved plus Probable scenario, the production has been taken out to 2048 on the assumption that the contracts will be extended. The Proved and Proved plus Probable forecasts of oil production for the aggregate OMG and EMG fields are summarised in Table 5. Both the Proved and Proved plus Probable Reserves are subject to economic limit testing.

Future Drilling Plans

The KMG EP proposed drilling plan for 2010 to 2014 is summarised below for EMG and OMG. This excludes any exploration related drilling.

	2010	2011	2012	2013	2014
EMG	41	37	38	37	39
OMG	158	180	180	180	180

In addition to this, a further 7 wells are included for Uaz, this being the number of pre-development approval appraisal wells, as advised by KMG EP.

For OMG this drilling schedule is relatively unchanged from the previous year's plan, except for 2010, where there is an increase. For EMG, however, the schedule represents a reduction in the previous year's plan. This reduction has an impact on the Reserves for some of the fields

Discussion on Individual Fields

Additional data in the form of Protocols, well results and reservoir maps were provided by KMG EP for the following fields:

- Nurzhanov;
- Moldabek East
- Zaburunye;
- Zholamanov;
- Akingen';
- Uaz.

For Zholamanov, Zaburunye and Akingen', GCA estimates of Proved plus Probable Reserves are still higher than reported B+C1 recoveries in the new Protocols. GCA still considers that the recoveries are achievable on the basis of performance.

For Moldabek East, there is no revised development plan to improve recovery from this heavy oil reservoir and there is no justification at this time to materially change the Reserves on the basis of production performance.

Nurzhanov

The 2008 GCA Reserves assessment was based on a 2008 reservoir study by CaspiMunaiGas, which attributed significant B+C1 Reserves to the Triassic T-IV and T-V reservoirs. GCA accepted the overall estimates of STOIIP for both the Jurassic and Triassic, but with a reduced recovery factor of 15% for the Triassic. This was due to the uncertainty associated with reservoir connectivity and continuity in the Triassic, and the mixed performance of the Triassic wells.

As part of this Reserves update, GCA has received data on recent Triassic wells, 503, 504, 505 and 506, together with a recent Reserves Protocol and updated production and well performance data. The drilling schedule for Nurzhanov over the business plan period represents a reduction on the previous year's business plan.

The Reserves Protocol presents a more conservative assessment of recoverable oil than the 2008 CaspiMunaiGas study, especially for the Triassic. Given the performance of the Triassic wells, the forward development drilling plan and other data received to date, GCA considers that the representations made in the Reserves Protocol are reasonable. GCA has increased its estimated recovery factor for the Triassic but, with a reduced STOIIP estimate, there is no significant change to the Reserves.

Uaz

The volumetrics appear reasonable, but the well performance and development plan do not appear adequate to recover the estimated B+C1 volumes. GCA has accepted the additional 7 wells over the business plan period at the 2P and 3P levels, and has made provision for further wells in the 3P case. These wells are adequate to maintain production but there is no performance decline evident yet that can recover the volumetric B+C1 Reserves over the life of the project. The water cut is about 44%, and any performance based reserves assessment gives a much lower recovery than the volumetrics.

On the basis of this data, GCA has had to reduce its Reserves estimates for Uaz. The field is still in a pilot production phase and with the availability of more performance data and a field development plan, there may be a basis to re-instate some or all of the B+C1 Reserves in a future re-assessment..

Economic Limit Test

A weighted average discount to Brent for exported crudes of U.S.$10.51/Bbl was derived based on marketing data and budget plans provided by KMG EP. This discount is comprised of quality differential and transportation costs. The domestic price is based on price differential information provided by KMG EP, and equates to an average U.S.$38.80/Bbl against Brent.

For the purposes of performing the ELT, the following Brent price scenario was used:

2010 U.S.$81.94/Bbl
2011 U.S.$85.81/Bbl
2012 U.S.$87.83/Bbl
2013 U.S.$87.10/Bbl
2014 U.S.$86.59/Bbl
2015 U.S.$88.33/Bbl

2015 and beyond escalated at 2.0% pa

The capex and opex were based on the 2010 budget and the 2011 to 2014 business plan. For the purposes of performing the ELT GCA has only included the production related costs. Taxes, royalties, amortisation and transportation costs are calculated separately in the GCA cash flow model

and are therefore excluded from the opex. These costs are normalised to account for the inflation rate of 2% that the GCA cash flow model is based on.

The budget and business plan costs have been converted into U.S.$ at an exchange rate of 150 Tg/U.S.$.

The long term forecasts of production and expenditures for the Proved and Proved plus Probable scenarios are presented in Table 5.

The ELT was performed separately for each of the pre-existing seven NGDUs on the basis that the opex and economic life will generally be dependent on the overall facilities. The basic assumption is that all fields within an NGDU will cease production at the same time.

The economic limits for OMG and the six pre-existing EMG NGDUs are as follows:

	Proved	Proved plus Probable
OzenMunaiGas	2021	2048
ZhaikMunaiGas	2018	2046
ZhylyoiMunaiGas		
ProrvaMunaiGas	2020	2046
KulsaryMunaiGas	2020	2032
KainarMunaiGas	2021	2046
DossorMunaiGas	2018	2046
MakatMunaiGas	2018	2046

Note: ZhylyoiMunaiGas comprises ProrvaMunaiGas and KulsaryMunaiGas; DossorMunaiGas includes MakatMunaiGas.

At the Proved plus Probable plus Possible level, the economic limit is 2048 for all NGDUs.

The Reserves presented in Tables 1 to 3 are based on these economic limits.

BASIS OF OPINION

This assessment has been conducted within the context of GCA's understanding of the effects of petroleum legislation, taxation, and other regulations that currently apply to these properties. However, GCA is not in a position to attest to property title, financial interest relationships or encumbrances thereon for any part of the appraised properties.

It should be understood that any determination of Reserve volumes, particularly involving petroleum developments, may be subject to significant variations over short periods of time as new information becomes available and perceptions change.

Yours faithfully

GAFFNEY, CLINE & ASSOCIATES

Geoff Cull

Regional Chief Executive Officer

APPENDIX I

Glossary of Terms

GLOSSARY OF TERMS

List of key abbreviations used in this report.

%	Percentage
Bbl	Barrels
CAPEX	Capital Expenditure
CT	Corporation Tax
E&A	Exploration & Appraisal
EMG	EmbaMunaiGas
EPT	Excess Profits Tax
G&A	General and Administrative costs
GOR	Gas Oil Ratio
IRR	Internal Rate of Return
km	Kilometers
km^2	Square kilometers
KzTg	Kazakh Tenge
m	Metres
m^3	Cubic metres
m^3/day	Cubic metres per day
MKzTg	Thousand Kazakh Tenge
Mm^3	Thousand Cubic metres
Mm^3/day	Thousand Cubic metres per day
MMm^3	Million Cubic metres
M	Thousand
MM	Million
Mtonne	Thousand tonnes
MMtonne	Million tonnes
NGL	Natural Gas Liquids
NPV	Net Present Value
OMG	OzenMunaiGas
OPEX	Operating Expenditure
p.a.	Per annum
PVT	Pressure volume temperature
STOIIP	Stock tank oil initially in place
t/day	Tonnes per Day
U.S.$	United States Dollar

APPENDIX II

Petroleum Resources Management System Definitions and Guidelines

Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers

Petroleum Resources Management System

Definitions and Guidelines ([1])

March 2007

Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

International efforts to standardize the definition of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), SPE published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organizations jointly released a single set of definitions for Reserves that could be used worldwide. In 2000, the American Association of Petroleum Geologists (AAPG), SPE and WPC jointly developed a classification system for all petroleum resources. This was followed by additional supporting documents: supplemental application evaluation guidelines (2001) and a glossary of terms utilized in Resources definitions (2005). SPE also published standards for estimating and auditing reserves information (revised 2007).

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation. However, the technologies employed in petroleum exploration, development, production and processing continue to evolve and improve. The SPE Oil and Gas Reserves Committee works closely with other organizations to maintain the definitions and issues periodic revisions to keep current with evolving technologies and changing commercial opportunities.

The SPE PRMS document consolidates, builds on, and replaces guidance previously contained in the 1997 Petroleum Reserves Definitions, the 2000 Petroleum Resources Classification and Definitions publications, and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources"; the latter document remains a valuable source of more detailed background information.,

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that SPE PRMS will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

The full text of the SPE PRMS Definitions and Guidelines can be viewed at:
www.spe.org/specma/binary/files/6859916Petroleum_Resources_Management_System_2007.pdf

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[1] These Definitions and Guidelines are extracted from the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) Petroleum Resources Management System document ("SPE PRMS"), approved in March 2007.

RESERVES

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

On Production

The development project is currently producing and selling petroleum to market.

The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%. The project "decision gate" is the decision to initiate commercial production from the project.

Approved for Development

A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget. The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells.

Justified for Development

Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.

In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class). The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.

Proved Reserves

Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes:

(1) the area delineated by drilling and defined by fluid contacts, if any, and

(2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see "2001 Supplemental Guidelines," Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that the locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

Probable Reserves

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Possible Reserves

Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves

The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

Probable and Possible Reserves

(See above for separate criteria for Probable Reserves and Possible Reserves.)

The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the

known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area. Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

Developed Reserves

Developed Reserves are expected quantities to be recovered from existing wells and facilities.

Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

Developed Producing Reserves

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves

Developed Non-Producing Reserves include shut-in and behind-pipe Reserves

Shut-in Reserves are expected to be recovered from:

(1) completion intervals which are open at the time of the estimate but which have not yet started producing,

(2) wells which were shut-in for market conditions or pipeline connections, or

(3) wells not capable of production for mechanical reasons.

Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

Undeveloped Reserves

Undeveloped Reserves are quantities expected to be recovered through future investments:

(1) from new wells on undrilled acreage in known accumulations,

(2) from deepening existing wells to a different (but known) reservoir,

(3) from infill wells that will increase recovery, or

(4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to

(a) recomplete an existing well or

(b) install production or transportation facilities for primary or improved recovery projects.

CONTINGENT RESOURCES

Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Development Pending

A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status. The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.

Development Unclarified or on Hold

A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.

The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a reclassification of the project to "Not Viable" status. The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.

Development Not Viable

A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.

The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.

PROSPECTIVE RESOURCES

Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.

Prospect

A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.

Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.

Lead

A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.

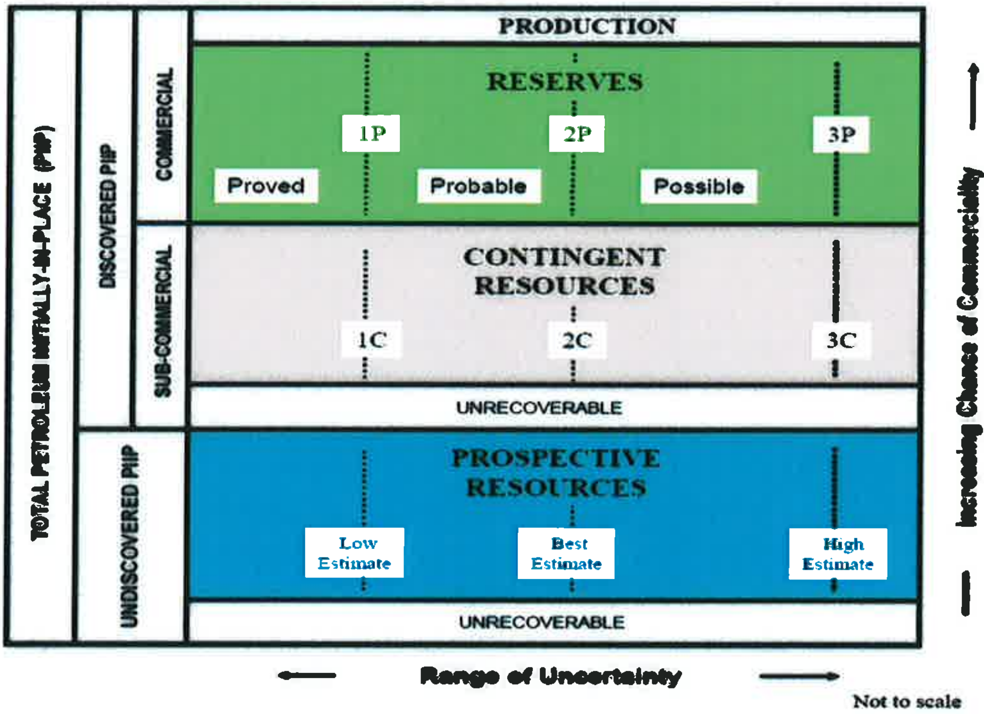
Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.

Play

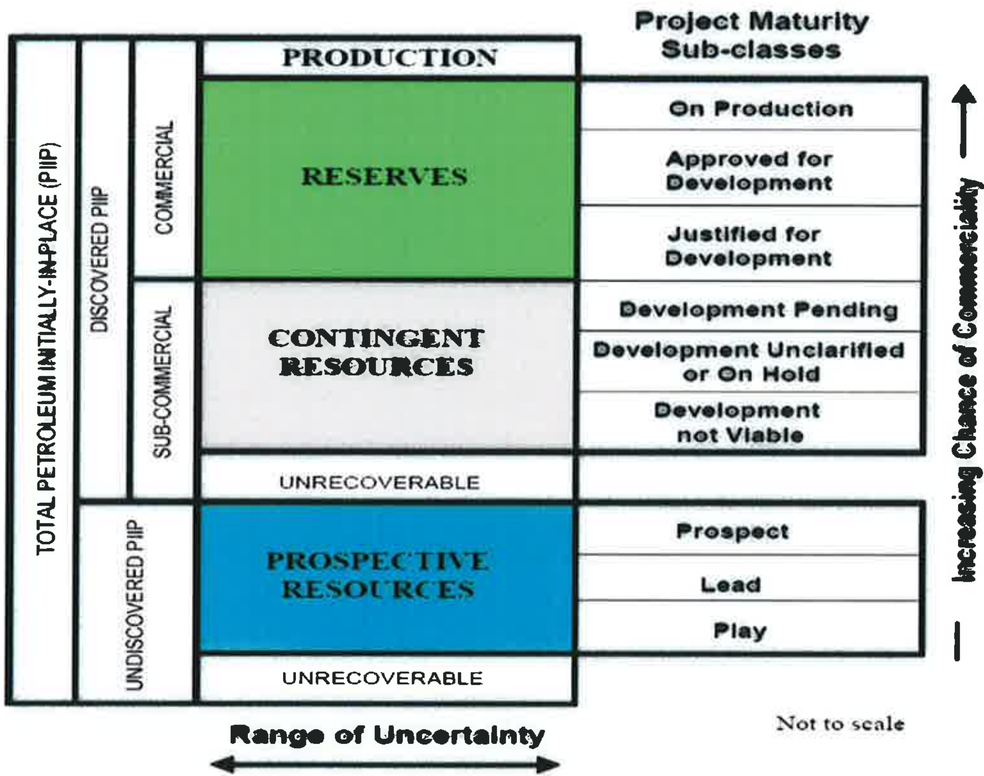
A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

RESOURCES CLASSIFICATION



PROJECT MATURITY



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