KazMunaiGas Exploration Production Joint Stock Company

Consolidated Financial Statements

For the year ended December 31, 2010

Contents

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Joint Stock Company KazMunaiGas Exploration Production and its subsidiaries ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of Joint Stock Company KazMunaiGas Exploration Production and its subsidiaries as of 31 December 2010, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

11 February 2011

Consolidated Statement of Financial Position

Tenge thousands

		As at December 31,	
	Notes	**2010**	**2009**
ASSETS			
Non-current assets			
Property, plant and equipment	5	297,508,553	255,993,908
Intangible assets	6	15,185,859	4,022,140
Investments in joint ventures	8	96,737,910	122,424,309
Investments in associates	9	139,952,442	131,723,609
Receivable from a jointly controlled entity	8	19,153,089	20,268,928
Other financial assets	7	221,825,818	797,931
Deferred tax asset	18	8,408,967	10,265,537
Other assets		13,858,297	7,291,870
Total non-current assets		**812,630,935**	**552,788,232**
Current assets			
Inventories	10	18,779,936	15,525,704
Taxes prepaid and VAT recoverable		26,529,298	9,969,965
Prepaid expenses		27,815,083	21,595,622
Trade and other receivables	7	65,529,767	49,710,916
Receivable from a jointly controlled entity	8	1,203,834	1,082,100
Other financial assets	7	377,800,956	534,288,078
Cash and cash equivalents	7	98,519,680	107,626,368
Total current assets		**616,178,554**	**739,798,753**
Total assets		**1,428,809,489**	**1,292,586,985**
EQUITY			
Share capital	11	214,081,197	238,546,914
Other capital reserves		1,739,901	1,474,089
Retained earnings		931,455,065	747,820,751
Other components of equity		12,376,574	12,937,395
Total equity		**1,159,652,737**	**1,000,779,149**
LIABILITIES			
Non-current liabilities			
Borrowings	13	62,286,045	92,023,143
Deferred tax liability	18	1,829,852	–
Provisions	14	35,625,247	35,319,443
Total non-current liabilities		**99,741,144**	**127,342,586**
Current liabilities			
Borrowings	13	60,194,818	45,650,017
Income taxes payable		–	21,138,596
Mineral extraction and rent tax payable		46,054,359	36,177,299
Trade and other payables		47,304,799	34,402,259
Provisions	14	15,861,632	27,097,079
Total current liabilities		**169,415,608**	**164,465,250**
Total liabilities		**269,156,752**	**291,807,836**
Total liabilities and equity		**1,428,809,489**	**1,292,586,985**

The notes on pages 5 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Tenge thousands

	Notes	For the year ended December 31, 2010	2009
Revenue	15	609,242,398	485,493,479
Operating expenses	16	(422,493,059)	(330,605,629)
Profit from operations		**186,749,339**	**154,887,850**
Finance income	17	38,039,785	46,758,905
Finance costs	17	(7,495,555)	(3,241,289)
Foreign exchange (loss) / gain		(3,459,449)	89,534,814
Other income	9	21,471,195	–
Share of result of associates and joint ventures		56,641,838	(2,467,551)
Profit before tax		**291,947,153**	**285,472,729**
Income tax expense	18	(57,445,263)	(75,745,829)
Profit for the year		**234,501,890**	**209,726,900**
Exchange difference on translating foreign operations		(560,821)	13,013,592
Other comprehensive (loss) / income for the year, net of tax		**(560,821)**	**13,013,592**
Total comprehensive income for the year, net of tax		**233,941,069**	**222,740,492**
EARNINGS PER SHARE			
Basic and diluted	12	3.23	2.87

The notes on pages 5 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Tenge thousands

	Notes	For the year ended December 31, 2010	2009
Cash flows from operating activities			
Profit before tax		291,947,153	285,472,729
Adjustments to add / (deduct) non-cash items			
Depreciation, depletion and amortization	5, 6	35,486,128	31,155,359
Other income	9	(21,471,195)	–
Share of result of associates and joint ventures		(56,641,838)	2,467,551
Settlement of crude oil under the terms of a pre-export financing agreement		–	(10,830,585)
Loss on disposal of property, plant and equipment (PPE)		2,200,613	2,547,437
Impairment / (reversal of impairment) of PPE	5	16,194	(590,558)
Dry well expense on exploration and evaluation assets	6	1,103,615	–
Recognition of share-based payments		309,987	248,106
Forfeiture of share-based payments		(49,809)	(164,690)
Unrealised foreign exchange gain on non-operating activities		(73,832)	(7,993,206)
Other non-cash income and expense		916,338	2,673,712
Add finance costs		7,495,555	3,241,289
Deduct finance income relating to investing activity		(38,039,785)	(46,758,905)
Working capital adjustments			
Change in other assets		630,450	(4,352,007)
Change in inventories		(3,463,525)	(1,282,335)
Change in taxes prepaid and VAT recoverable		(11,312,224)	(2,818,233)
Change in prepaid expenses		(6,351,679)	(13,762,247)
Change in trade and other receivables		(18,377,144)	(9,697,855)
Change in trade and other payables		10,918,152	(6,558,436)
Change in mineral extraction and rent tax payable		9,877,060	36,177,299
Change in provisions		3,500,215	5,670,976
Income tax paid		(92,926,111)	(115,686,180)
Net cash generated from operating activities		**115,694,318**	**149,159,221**
Cash flows from investing activities			
Purchases of PPE		(86,679,884)	(42,844,814)
Proceeds from sale of PPE		139,497	1,221,183
Purchases of intangible assets		(1,572,033)	(497,033)
Contribution to the capital of a joint venture		–	(3,043,907)
Dividends received from joint ventures and associates	8, 9	94,458,518	3,768,250
Purchase of investments in debt instruments of NC KMG	7	(221,543,183)	–
Interest received from investment in debt instruments of NC KMG		7,691,113	–
Sale / (purchase) of financial assets held-to-maturity		146,680,715	(242,838,804)
Loan repayments received from related parties		3,959,137	5,028,216
Acquisition of subsidiary, net of cash acquired		(8,614,935)	459,646
Interest received		33,988,614	26,046,200
Net cash used in investing activities		**(31,492,441)**	**(252,701,063)**
Cash flows from financing activities			
Purchase of treasury shares	11	(24,531,975)	(21,392,129)
Repayment of borrowings		(14,614,702)	(6,352,778)
Dividends paid to Company's shareholders		(48,235,969)	(46,108,343)
Interest paid		(5,852,024)	(109,083)
Net cash used in financing activities		**(93,234,670)**	**(73,962,333)**
Net change in cash and cash equivalents		(9,032,793)	(177,504,175)
Cash and cash equivalents at beginning of the year	7	107,626,368	285,131,743
Exchange losses on cash and cash equivalents		(73,895)	(1,200)
Cash and cash equivalents at end of the year	7	**98,519,680**	**107,626,368**

The notes on pages 5 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Tenge thousands

	Share capital	Treasury stock	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total Equity
As at January 1, 2009	**263,094,581**	**(3,369,734)**	**1,385,036**	**586,058,950**	**(76,197)**	**847,092,636**
Profit for the year	–	–	–	209,726,900	–	209,726,900
Other comprehensive income	–	–	–	–	13,013,592	13,013,592
Total comprehensive income	**–**	**–**	**–**	**209,726,900**	**13,013,592**	**222,740,492**
Recognition of share-based payments	–	–	248,106	–	–	248,106
Forfeiture of share-based payments	–	–	(164,690)	–	–	(164,690)
Exercise of employee options	–	203,266	5,637	–	–	208,903
Share buy back (Note 11)	–	(21,381,199)	–	–	–	(21,381,199)
Dividends (Note 11)	–	–	–	(47,965,099)	–	(47,965,099)
As at December 31, 2009	**263,094,581**	**(24,547,667)**	**1,474,089**	**747,820,751**	**12,937,395**	**1,000,779,149**
Profit for the year	–	–	–	234,501,890	–	234,501,890
Other comprehensive loss	–	–	–	–	(560,821)	(560,821)
Total comprehensive income	**–**	**–**	**–**	**234,501,890**	**(560,821)**	**233,941,069**
Recognition of share-based payments	–	–	309,987	–	–	309,987
Forfeiture of share-based payments	–	–	(49,809)	–	–	(49,809)
Exercise of employee options	–	66,258	5,634	–	–	71,892
Share buy back (Note 11)	–	(24,531,975)	–	–	–	(24,531,975)
Dividends (Note 11)	–	–	–	(50,867,576)	–	(50,867,576)
As at December 31, 2010	**263,094,581**	**(49,013,384)**	**1,739,901**	**931,455,065**	**12,376,574**	**1,159,652,737**

The notes on pages 5 to 36 are an integral part of these consolidated financial statements.

1. Organization and principal activities

KazMunaiGas Exploration Production Joint Stock Company (the "Company") has been incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company's direct majority shareholder is Joint Stock Company National Company KazMunaiGas ("NC KMG" or the "Parent Company"), which represents the state's interests in the Kazakh oil and gas industry and which holds 60.50% of the Company's outstanding shares as at December 31, 2010 (2009: 59.38%). The Parent Company is 100% owned by joint stock company Samruk-Kazyna National Welfare Fund ("Samruk-Kazyna NWF") which in turn is 100% owned by the government of the Republic of Kazakhstan (the "Government").

The Company conducts its principal operations through the UzenMunaiGas and EmbaMunaiGas production divisions. In addition the Company has oil and gas interests in the form of wholly owned subsidiaries, jointly controlled entities, associates and certain other controlling and non-controlling interests in non-core entities. These consolidated financial statements reflect the financial position and results of operations of all of the above interests.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Adopted accounting standards and interpretations

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

- IAS 27 Consolidated and Separate Financial Statements – amendment
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Structural Amendmend
- IFRS 2 Group Cash-settled Share-based Payment Transactions
- IFRS 3R Business Combinations
- IFRIC 17 Distributions of Non-cash Assets to Owners
- Improvements to IFRSs (April 2009)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New accounting developments

The following IFRS, IFRIC interpretations and improvements to IFRS are not yet in effect for the year ended December 31, 2010:

• IAS 24	Related Party Disclosures – amendment
• IAS 32	Financial Instruments: Presentation - Classification of right issues
• IFRS 9	Financial Instruments: Classification and measurement
• IFRS 1	First-time Adoption of International Financial Reporting Standards – Limited exemption from Comparative IFRS 7 Disclosures
• IFRIC 14	Prepayments of a minimum funding requirement (amendment)
• IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
• IAS 12	Recovery of Underlying Assets
• IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
• IFRS 7	New disclosures for derecognition of financial instruments.
• Improvements to IFRSs (May 2010)	

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

2.2 Reclassifications

In 2010, the Company reviewed the presentation of exploration and evaluation assets in the consolidated statement of financial position and has determined that a better presentation of the exploration and evaluation assets is to record them within intangible assets rather than property, plant and equipment. As a result exploration and evaluation assets as at December 31, 2009 have been reclassified from property, plant and equipment to intangible assets in the amount of 1,745,395 thousand Tenge.

2.3 Consolidation

Subsidiaries

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

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

Investment in associates and interests in joint ventures

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

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

2. Summary of significant accounting policies (continued)

2.3 Consolidation (continued)

Investment in associates and interests in joint ventures (continued)

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

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

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

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

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

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

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

2.4 Foreign currency translation

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

The assets and liabilities of foreign operations are translated into Tenge at the rate of exchange ruling at the reporting date and their statements of comprehensive income are translated at the exchange rates at the date of transaction. The exchange differences arising on the translation are recognised in other comprehensive income or loss. On disposal of a foreign entity, the accumulated foreign currency translation reserve relating to that particular foreign operation is recognised in profit or loss.

2. Summary of significant accounting policies (continued)

2.5 Oil and natural gas exploration and development expenditure

Exploration license costs

Exploration license costs are capitalized within intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned. If no future activity is planned, the remaining balance of the license cost is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'), amortization ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, and all licenses and approvals are obtained from the appropriate regulatory bodies, then the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Exploration expenditure

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

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

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

Development expenditure

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

2.6 Property, plant and equipment

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

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

Oil and natural gas properties are depreciated using a unit-of-production method over proved developed reserves. Certain oil and gas property assets with useful lives less than the remaining life of the fields are depreciated on a straight-line basis over useful lives of 4-10 years.

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

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

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

2. Summary of significant accounting policies (continued)

2.6 Property, plant and equipment (continued)

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 statement of comprehensive income in the period the item is derecognized.

2.7 Impairment of non-financial assets

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

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

2.8 Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include capitalized expenditure for exploration and evaluation and other intangible assets, which are mainly comprised of computer software. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Computer software costs have an estimated useful life of 3 to 7 years and are amortized on a straight line basis over this period.

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

2.9 Financial assets

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

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

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

2. Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

Held-to-maturity investments

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

Trade and other receivables

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

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss until the investment is derecognized or determined to be impaired at which time the cumulative reserve is recognized in profit or loss.

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

2. Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

Available-for-sale financial investments

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

Derecognition of financial assets

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

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

2.10 Inventories

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

2.11 Value added tax (VAT)

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

2.12 Cash and cash equivalents

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

2.13 Share capital

Share Capital

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

Treasury Shares

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

2. Summary of significant accounting policies (continued)

2.13 Share capital (continued)

Dividends

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

Share-based payment transactions

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

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

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

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

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

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

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

2.14 Trade payables

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

2.15 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

2. Summary of significant accounting policies (continued)

2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

2.17 Deferred income tax

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

The Company withholds 10% from the salary of its employees as the employees' contribution to their designated pension funds. The pension deductions are limited to a maximum of 112,140 Tenge per month in 2010 (2009: 101,025 Tenge per month in first six months of 2009 and 102,877 Tenge per month in last six months of 2009). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits.

2.19 Revenue recognition

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

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

2.20 Income taxes

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

3. Significant accounting estimates and judgments

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

Oil and gas reserves

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

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

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

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The Company calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company reviews site restoration provisions at each reporting date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

3. Significant accounting estimates and judgments (continued)

Asset retirement obligations (continued)

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 13.93% and 12.8% of the provision at December 31, 2010 and 2009 relates to final closure costs, respectively. 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 carrying value of obligation at December 31, 2010 were 5.0% and 7.9% respectively (2009: 5.0% and 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 14.

Environmental remediation

The Company also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan. As at the date of these financial statements the scope and timing of the remediation plan has not been formally agreed with the Government, except as agreed in the annual budget. Accordingly, the liability has not been discounted as the terms of the liability have not yet been established. The Company has classified this obligation as non-current except for the portion of costs, included in the annual budget for 2011. 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 22. Movements in the provision for environmental remediation obligations are disclosed in Note 14.

Taxation

Taxable income is computed in accordance with the tax legislation enacted as of January 1, 2009. The Company accrues and pays corporate income tax (CIT) at a rate of 20% of taxable income in 2010. In November 2010 the Government of the Republic of Kazakhstan passed legislation, which was enacted as of January 1, 2011 cancelling the initially adopted gradual reduction of CIT rates and confirming the CIT rate at 20% for the foreseeable future. The above legislation also eliminated the planned increase of the mineral extraction tax (MET) rates.

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. 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 18.

4. Business combinations

Acquisition of NBK LLP ("NBK")

On September 24, 2010 the Company acquired a 100% interest in NBK. NBK is an oil and gas company, which has a license for the exploration and production of the West Novobogatinksoye oil field located in Atyrau oblast of the Republic of Kazakhstan. The acquired company is currently in the exploration stage and has rights to sell test production from four successful exploration wells over the period of exploration. The interest in NBK was acquired for cash consideration of 35,000 thousand US Dollars (5,162,150 thousands Tenge). The Company paid 90% of the consideration and withheld the remaining 10%, subject to the vendor completing their obligations under the sale purchase agreement. Subsequent to the acquisition, NBK's exploration license was extended to September 2012 from September 2010.

4. Business combinations (continued)

Acquisition of NBK LLP (“NBK”) (continued)

NBK’s assets and liabilities, based on the allocation of the consideration over the fair values of the identifiable net assets, as at September 24, 2010 and the corresponding carrying amounts immediately before the acquisition and as at December 31, 2010 are as follows:

	Carrying values as at September 24, 2010	Fair values as at September 24, 2010	Assets and liabilities as at December 31, 2010
Cash	212	212	77,001
Current assets	11,768	11,768	53,460
Non-current assets	1,343,003	6,161,767	5,618,324
	1,354,983	6,173,747	5,748,785
Current liabilities	19,494	19,494	51,921
Non-current liabilities	28,350	992,103	992,103
	47,844	1,011,597	1,044,024
Net assets	**1,307,139**	**5,162,150**	**4,704,761**

The difference of 3,855,011 thousand Tenge between the consideration paid for and the carrying value of the net assets acquired has been wholly attributed to the value of the exploration and production license of NBK.

The results of operations of NBK for the period from the acquisition date to the year end were included into the consolidated financial statements of the Company and comprised a loss of 544,919 thousand Tenge.

Acquisitions of SapaBarlau Service LLP (“SBS”)

On September 24, 2010 the Company acquired a 100% interest in SBS. SBS is an oil and gas company, which has a license for the exploration of the East Zharkamys I field located in Aktobe oblast of the Republic of Kazakhstan. The interest in SBS was acquired for cash consideration of 4,410,000 thousand Tenge. The Company paid 90% of the consideration and withheld 10%, subject to the vendor completing their obligations under the sale purchase agreement. Subsequent to acquisition, SBS’s exploration license was extended to November 2012 from November 2010.

SBS’s assets and liabilities, based on the allocation of the consideration over the fair values of the identifiable net assets, as at September 24, 2010 and the corresponding carrying amounts immediately before the acquisition and as at December 31, 2010 are as follows:

	Carrying values as at September 24, 2010	Fair values as at September 24, 2010	Assets and liabilities as at December 31, 2010
Cash	1,968	1,968	47,800
Current assets	2,502	2,502	1,744
Non-current assets	1,144,484	5,474,983	5,040,257
	1,148,954	5,479,453	5,089,801
Current liabilities	194,401	194,401	2,572
Non-current liabilities	8,952	875,052	875,052
	203,353	1,069,453	877,624
Net assets	**945,601**	**4,410,000**	**4,212,177**

The difference of 3,464,399 thousand Tenge between the consideration paid for and the carrying value of the net assets acquired has been wholly attributed to the value of the exploration license of SBS.

The results of operations of SBS for the period from the acquisition date to the year end were included into the consolidated financial statements of the Company and comprised a loss of 480,000 thousand Tenge.

5. Property, plant and equipment

	Oil and gas properties	Other assets	Construction work-in-progress	Total
2009				
Opening net book amount at January 1, 2009	**207,361,723**	**28,813,068**	**11,446,502**	**247,621,293**
Additions	1,014,674	1,253,022	41,296,702	43,564,398
Change in ARO estimate	(794,517)	–	–	(794,517)
Disposals	(2,468,772)	(380,150)	(1,999,246)	(4,848,168)
Transfers from work-in-progress	35,083,465	6,285,162	(41,368,627)	–
Internal transfers	483,912	(496,180)	12,268	–
Depreciation charge	(26,166,197)	(3,973,459)	–	(30,139,656)
(Impairment) / reversal	–	(791,888)	1,382,446	590,558
Closing net book amount at December 31, 2009	**214,514,288**	**30,709,575**	**10,770,045**	**255,993,908**
At December 31, 2009				
Cost	362,550,961	46,672,242	10,770,045	419,993,248
Accumulated depreciation	(148,036,673)	(15,962,667)	–	(163,999,340)
Net book amount	**214,514,288**	**30,709,575**	**10,770,045**	**255,993,908**
2010				
Opening net book amount at January 1, 2010	**214,514,288**	**30,709,575**	**10,770,045**	**255,993,908**
Additions	2,009,579	806,415	77,576,377	80,392,371
Change in ARO estimate	(542,101)	–	–	(542,101)
Disposals	(2,394,841)	(242,585)	(1,849,502)	(4,486,928)
Transfers from work-in-progress	70,757,966	4,686,423	(75,444,389)	–
Internal transfers	190,187	(191,374)	1,187	–
Depreciation charge	(29,503,722)	(4,328,781)	–	(33,832,503)
Impairment	(790)	(3,099)	(12,305)	(16,194)
Closing net book amount at December 31, 2010	**255,030,566**	**31,436,574**	**11,041,413**	**297,508,553**
At December 31, 2010				
Cost	428,871,355	51,045,927	11,041,413	490,958,695
Accumulated depreciation	(173,840,789)	(19,609,353)	–	(193,450,142)
Net book amount	**255,030,566**	**31,436,574**	**11,041,413**	**297,508,553**

6. Intangible assets

	Exploration and evaluation assets	Other intangibles	Total
2009			
Opening net book amount at January 1, 2009	**1,729,860**	**2,401,553**	**4,131,413**
Additions	445,764	487,845	933,609
Disposals	–	(27,179)	(27,179)
Amortization charge	(430,229)	(585,474)	(1,015,703)
Closing net book amount at December 31, 2009	**1,745,395**	**2,276,745**	**4,022,140**
At December 31, 2009			
Cost	10,588,798	4,175,304	14,764,102
Accumulated amortization	(8,843,403)	(1,898,559)	(10,741,962)
Net book amount	**1,745,395**	**2,276,745**	**4,022,140**
2010			
Opening net book amount at January 1, 2010	**1,745,395**	**2,276,745**	**4,022,140**
Additions	13,068,275	858,857	13,927,132
Disposals	–	(6,173)	(6,173)
Deletions	(1,103,615)	–	(1,103,615)
Amortization charge	(954,694)	(698,931)	(1,653,625)
Closing net book amount at December 31, 2010	**12,755,361**	**2,430,498**	**15,185,859**
At December 31, 2010			
Cost	22,553,458	5,027,989	27,581,447
Accumulated amortization	(9,798,097)	(2,597,491)	(12,395,588)
Net book amount	**12,755,361**	**2,430,498**	**15,185,859**

Additions in 2010 relate primarily to the licenses acquired in NBK and SBS acquisitions (Note 4).

In 2010 the Company recognized dry well expense related to three exploratory wells drilled on its R-9 block in the amount of 1,103,615 thousand Tenge.

7. Financial assets

Other financial assets

	2010	2009
Investments in debt instruments of NC KMG	220,710,987	–
Tenge denominated term deposits	953,920	636,520
Other	160,911	161,411
Total non-current	**221,825,818**	**797,931**
US dollar denominated term deposits	264,841,437	447,254,500
Tenge denominated term deposits	57,786,248	87,033,308
Held-to-maturity financial assets	54,916,073	–
Investments in debt instrument of NC KMG	256,928	–
Other	270	270
Total current	**377,800,956**	**534,288,078**
	599,626,774	**535,086,009**

The weighted average interest rate on US dollar denominated term deposits in 2010 was 6.6% (2009: 9.3%). The weighted average interest rate on Tenge denominated term deposits in 2010 was 4.7% (2009: 7.9%).

7. Financial assets (continued)

Other financial assets (continued)

As at December 31, 2010 the current US dollar denominated term deposits include restricted cash of 27,639,860 thousand Tenge (2009: 9,840,620), which is kept in a blocked account as security for the repayment of interest and principal on the long term debt of KazMunaiGaz PKI Finance B.V. (KMG PKI Finance), a 100% subsidiary of the Company (Notes 9 and 13).

Investments in debt instrument of NC KMG

On July 16, 2010 the Company purchased unsubordinated, coupon indexed, unsecured bonds issued by NC KMG ("Debt Instrument") on the Kazakhstan Stock Exchange ("KASE") in the amount of 221,543,183 thousand Tenge (1,499,649 thousand US Dollars). The Debt Instrument carries an annual coupon rate of 7% per annum, paid semi-annually, is indexed to the USD/KZT exchange rate at the date of issuance and matures in June 2013. As at December 31, 2010 the outstanding amount of the Debt Instrument and related accrued interest is 220,710,987 thousand Tenge and 256,928 thousand Tenge respectively.

The Debt Instrument contains the following key provisions:

i. Whilst there are no fixed repayment terms, NC KMG will mandatorily use any future dividends from the Company to repay against the outstanding Debt Instrument.

ii. If the Company acquires assets from NC KMG during the life of the Debt Instrument with an aggregate value of more than 800 million US Dollars, then the Company will be able to finance the portion of the cost of such acquisitions exceeding the 800 million US Dollars threshold through transferring or selling to NC KMG the relevant portion of the Debt Instrument at par value plus accrued coupon indexed to the USD/KZT exchange rate at the issuance date.

iii. If at maturity, NC KMG does not settle its outstanding Debt Instrument for cash, the Company shall pay a Special Dividend to its shareholders of a quantum, where NC KMG's share is sufficient to settle the outstanding Debt Instrument.

iv. The Company will ensure that it will have sufficient cash reserves, which are in compliance with Company's treasury policy, to pay its minority shareholders their portion of the Special Dividend, should it become necessary. Special monitoring and control mechanisms have been put in place to ensure that the Independent Non-Executive Directors could exercise control over expenditures exceeding budgeted amounts in the event that the amount of cash, held in appropriate banks, falls below required levels.

Trade and other receivables

	2010	2009
Trade receivables	65,367,737	49,398,083
Other	439,253	523,914
Allowance for doubtful receivables	(277,223)	(211,081)
	65,529,767	**49,710,916**

As of December 31, 2010 US dollar denominated trade and other receivables represented 93% of total receivables (2009: 90%). The remaining balances are Tenge denominated. Trade receivables are non-interest bearing and are generally on 30 days' terms.

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

	2010	2009
Current	58,298,195	49,689,150
0 – 30 days overdue	7,222,973	2,442
120 and more days overdue	8,599	19,324
	65,529,767	**49,710,916**

7. Financial assets (continued)

Cash and cash equivalents

	2010	2009
US dollar denominated term deposits with banks	75,315,631	8,041,112
Tenge denominated term deposits with banks	12,982,717	71,469,368
Euro denominated term deposits with banks	394,734	641,004
US dollar denominated cash in banks and on hand	5,067,220	20,541,767
Tenge denominated cash in banks and on hand	3,880,555	6,933,117
GBP denominated cash in bank and on hand	878,823	–
	98,519,680	**107,626,368**

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

The weighted average interest rate on Tenge denominated deposits in 2010 was 1.9% (2009: 6.2%).The weighted average interest rate on US dollar denominated deposits in 2010 was 0.2% (2009: 3.0%).

8. Investments in joint venture and receivable from a jointly controlled entity

	2010	2009
Interest in JV Kazgermunai LLP ("Kazgermunai")	96,737,910	122,424,309
Receivable from jointly controlled entity	20,356,923	21,351,028
	117,094,833	**143,775,337**

JV Kazgermunai

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

The Company's share of Kazgermunai's assets and liabilities as at December 31 is as follows:

	2010	2009
Cash	14,503,911	28,182,715
Current assets	9,998,641	8,219,342
Non-current assets	125,855,630	127,628,947
	150,358,182	164,031,004
Current liabilities	21,808,244	16,472,625
Non-current liabilities	31,812,028	25,134,070
	53,620,272	41,606,695
Net assets	**96,737,910**	**122,424,309**

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

	2010	2009
Revenues	112,478,772	86,500,472
Operating expenses	(73,201,797)	(69,279,410)
Profit from operations	39,276,975	17,221,062
Finance cost, net	(169,169)	(2,092,941)
Profit before tax	39,107,806	15,128,121
Income tax expense	(16,550,967)	(17,525,803)
Profit (loss) for the year	**22,556,839**	**(2,397,682)**
Foreign currency translation (loss) gain recognized in other comprehensive income	**(460,988)**	**7,775,291**

Profit for the year in 2010 is net of the effect of amortization of the fair valuation of the licenses in the amount of 10,175,494 thousand Tenge (2009: 10,642,389 thousand Tenge) and related deferred tax benefit of 1,129,711 thousand Tenge (2009: deferred tax expense of 8,640,105 thousand Tenge).

8. Investments in joint venture and receivable from a jointly controlled entity (continued)

JV Kazgermunai (continued)

During 2010 the Company received dividends from Kazgermunai in the amount of 47,782,250 thousand Tenge (2009: 3,768,250 thousand Tenge).

Receivable from jointly controlled entity CITIC Canada Energy Limited ("CCEL")

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

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 the Company is contractually obliged to transfer any dividends received from CCEL, in excess of a Guaranteed Amount, to CITIC, up to the Total Maximum Amount, which amounted to 753.2 million US dollars (111,019,849 thousand Tenge) as at December 31, 2010 (2009: 790.5 million US dollars or 117,288,512 thousand Tenge). The Total Maximum Amount represents the balance of the Company's share of the original purchase price funded by CITIC plus accrued interest. The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Company recognizes in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total maximum Guaranteed Amount. The carrying amount of this receivable at December 31, 2010, amounted to 135.9 million US dollars (20,027,909 thousand Tenge) (2009: 141.7 million US dollars equivalent to 21,022,017 thousand Tenge).

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

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

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

	2010	**2009**
Current assets	25,459,836	27,436,006
Non-current assets	119,535,632	112,162,558
	144,995,468	139,598,564
Current liabilities	23,498,775	11,680,985
Non-current liabilities	121,496,693	127,917,579
	144,995,468	139,598,564
Net assets	–	–

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

9. Investments in associates

	2010	2009
Interest in Petrokazakhstan Inc. ("PKI")	139,164,657	130,962,455
Other	787,785	761,154
	139,952,442	**131,723,609**

Petrokazakhstan Inc.

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

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

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

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

	Fair values as at December 22, 2009
Equity interest in PKI	130,980,827
Cash and cash equivalents	3,361,953
Other assets	10,465,851
Borrowings	(128,983,948)
Other payables	(48,102)
	15,776,581

As at December 22, 2009, other assets include restricted cash of 66,329 thousand US dollars (9,855,848 thousand Tenge), which is placed on the bank term deposits in accordance with the terms of KMG PKI Finance notes (Note 13).

The Company's share of PKI's assets and liabilities as at December 31 are as follows:

	2010	2009
Cash	12,908,371	12,376,980
Current assets	33,467,489	51,347,630
Non-current assets	199,098,292	143,541,055
	245,474,152	207,265,665
Current liabilities	69,317,233	22,436,202
Non-current liabilities	36,992,262	53,867,008
	106,309,495	76,303,210
Net assets	**139,164,657**	**130,962,455**

9. Investments in associates (continued)

Petrokazakhstan Inc. (continued)

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

	2010	**2009**
Revenue	166,399,322	3,489,068
Operating expenses	(122,656,203)	(2,851,783)
Profit from operations	43,743,119	637,285
Gain on Turgai Petroleum (TP) re-acquisition	13,242,336	–
Finance cost, net	(988,517)	(12,725)
Profit before tax	55,996,938	624,560
Income tax expense	(21,813,358)	(366,019)
Profit for the period	**34,183,580**	258,541
Foreign currency translation loss recognized in other comprehensive income	**(776,305)**	(276,913)

Profit for the year in 2010 is net of the effect of amortization of the fair valuation of the licenses in the amount of 13,638,372 thousand Tenge (from acquisition date to December 31, 2009: 349,015 thousand Tenge) and write off of the fair valuation of inventory in the amount of 4,337,420 thousand Tenge.

During 2010 the Company received dividends from PKI in the amount of 46,676,268 thousand Tenge (2009: nil).

During 2006 PKI and Lukoil Overseas Kumkol B.V. ("Lukoil") commenced arbitration claims against each other in the Stockholm Chamber of Commerce ("the Tribunal"). On October 28, 2009, the Tribunal issued an award, where Lukoil was entitled to acquire 50% of TP from PKI and to receive compensation by way of damages and accrued interest on such damages. Starting from October 28, 2009 PKI ceased consolidation of TP's results in its consolidated financial statement for the year ended December 31, 2009.

On August 16, 2010 PKI and Lukoil have entered into an Amicable Agreement (hereinafter – the Agreement) with respect to the TP dispute. According to the Agreement the ownership structure of TP remains unchanged: PKI and Lukoil will continue to jointly own TP in equal shares. Furthermore, PKI paid to Lukoil an amount of 438.4 million US Dollars as compensation for damages.

As a result of the Agreement, PKI accounted for the re-acquisition of a 50% interest in TP in its consolidated financial statements for the year ended December 31, 2010, based on the assessment of fair values of the identifiable assets, liabilities and contingent liabilities of TP as at the acquisition date. The Company accordingly reflected this in its consolidated financial statements for the year ended December 31, 2010. The resulting share of gain in the amount of 90 million US Dollars (13,242,336 thousand Tenge) was recognized by the Company in 2010.

With regard to the compensation to Lukoil, CNPC Exploration and Development Company Limited ("CNPC E&D") and the Company entered into a separate Agreement on Principles (the "AOP") on July 28, 2010. In accordance with AOP the Company's share of the compensation to Lukoil was paid by PKI after they secured a loan for this purpose. At the same time, CNPC E&D made a contribution to the share capital of PKI in the amount of 441.6 million US Dollars which is equal to the principal amount of the loan taken by PKI, inclusive of financing costs. The Company was held harmless in respect of any liability in relation to the payment of the compensation or any loss relating to such liability, and retained its 33% interest. Consequently, the Company recognized in 2010 the resulting gain of 145.7 million USD Dollars (21,471,195 thousand Tenge) within other income.

10. Inventories

	2010	**2009**
Materials, at cost	8,881,241	7,165,606
Crude oil, at cost	9,898,695	8,360,098
	18,779,936	**15,525,704**

As at December 31, 2010 the Company had 347,685 tons (2009: 380,703 tons) of crude oil in storage and transit.

11. Share capital

	Shares outstanding (number of shares)				
	Common shares	Preferred shares	Common shares	Preferred shares	Total share capital
As at January 1, 2009	**69,910,396**	**4,136,107**	**258,690,820**	**1,034,027**	**259,724,847**
Reduction of treasury stock due to exercise of share options	12,528	–	203,266	–	203,266
Increase of treasury stock due to share repurchases	(1,499,180)	–	(21,381,199)	–	(21,381,199)
As at December 31, 2009	**68,423,744**	**4,136,107**	**237,512,887**	**1,034,027**	**238,546,914**
Reduction of treasury stock due to exercise of share options	5,927	–	66,258	–	66,258
Increase of treasury stock due to share repurchases	–	(1,346,213)	–	(24,531,975)	(24,531,975)
As at December 31, 2010	**68,429,671**	**2,789,894**	**237,579,145**	**(23,497,948)**	**214,081,197**

The Kazakhstan Stock Exchange has enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets (Note 6) per shares outstanding as at year end. As at December 31, 2010 the amount per share outstanding is 16,249 Tenge.

11.1 Share capital

Authorized shares

The total number of authorized ordinary and preferred shares is 70,220,935 (2009: 70,220,935) and 4,136,107 (2009: 4,136,107), respectively. 43,087,006 of the outstanding common shares are owned by the Parent as at December 31, 2010 (2009: 43,087,006). Ordinary and preferred shares of the Company have no par value.

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognized as distributions to equity holders during the period amounted to 704 Tenge per share (2009: 656 Tenge per share) for both of the outstanding ordinary and preferred shares as at June 7, 2010, the date of record.

11.2 Employee share option plans

The expense recognized for share option plans related to employee services received during the year is 309,987 thousand Tenge (2009: 248,106 thousand Tenge).

Employee option plans

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

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

11. Share capital (continued)

11.2 Employee share option plans (continued)

Initial public offering ("IPO") plan

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

Movement in the year

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

	2010		2009	
	No.	WAEP	No.	WAEP
Outstanding at January 1	1,384,542	17.41	808,701	14.82
Granted during the year	1,028,436	19.27	746,805	13.42
Exercised during the year	(35,561)	15.71	(109,093)	14.99
Forfeited during the year	(131,222)	19.11	(61,871)	21.18
Outstanding at December 31	2,246,195	18.15	1,384,542	17.41
Exercisable at December 31	543,641	21.83	257,823	15.25

The weighted average remaining contractual life for share options outstanding as at December 31, 2010 is 6.24 years (2009: 6.12 years). The range of exercise price for options outstanding at December 31, 2010 was 13.00 US Dollars - 26.47 US dollars per GDR (2009: 13.00 US Dollars -26.47 US Dollars). The EOP 1, EOP 2 and IPO plan are equity settled plans and the fair value is measured at the grant date.

12. Earnings per share

	2010	2009
Weighted average number of all shares outstanding	72,561,873	73,057,697
Profit for the year	234,501,890	209,726,900
Basic and diluted earnings per share	3.23	2.87

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

13. Borrowings

	2010	2009
Fixed interest rate borrowings	8,146,065	8,690,190
Weighted average effective interest rate	7.42%	7.45%
Floating interest rate borrowings	114,334,798	128,982,970
Weighted average effective interest rates	4.74%	5.41%
Total borrowings	**122,480,863**	**137,673,160**
Non-current	62,286,045	92,023,143
Current	60,194,818	45,650,017

The Company's borrowings are denominated in US dollars. The fixed rate borrowings (2010: 6,795,238 thousand Tenge, 2009: 7,330,565 thousand Tenge), primarily relate to an obligation to reimburse historical costs incurred by the Government prior to the acquisition of licenses by the Company, which will expire on December 31, 2025. The Company has discounted this obligation at an interest rate of 7.93% and accounts for these borrowings at amortized cost.

13. Borrowings (continued)

The Company's floating interest rate borrowings relate to KMG PKI Finance notes, which were issued in 2006 relating to the acquisition of 33% equity interest in PKI (Note 9). On July 5, 2006 KMG PKI Finance issued floating rate notes in the amount of 1,374,500 thousand US dollars. As at December 31, 2010 the outstanding amounts of the notes and related accrued interest are 760,034 thousand US dollars and 15,643 thousand US dollars, respectively (112,029,012 thousand Tenge and 2,305,786 thousand Tenge, respectively) (2009: 850,010 thousands US dollars and 19,382 thousands US dollars respectively or 126,107,460 thousand Tenge and 2,875,510 thousand Tenge, respectively). There is no recourse to the Company or its assets, except for:

i) a share pledge over all KMG PKI Finance rights, benefits and title in the 33% of the equity interest in PKI

ii) 80% of any dividend or distribution made from PKI is restricted for further redemption of principal and accrued interest on notes

The notes bear interest at twelve months LIBOR plus a margin of 2.9073%. The notes are redeemed at one seventh of the principal and accrued interest on the first Monday of July every year to the extent of the restricted cash balance. As this loan is non-recourse, any outstanding annual principal and interest of the notes will be deferred to be due and payable on the next payment date and bear interest at the rate applicable for the interest period concerned. If KMG PKI Finance fails to repay the aggregate of any deferred principal and interest outstanding at the expiry of the initial period in July 2013, KMG PKI Finance may seek to redeem the outstanding amount on each of the eighth, ninth and tenth years after the issuance date. Whether KMG PKI Finance will be permitted to redeem the outstanding amount in eighth, ninth and tenth years after the issuance date will be at the discretion of the trustee. As at December 31, 2010 the deferred principal comprises 183,558 thousand US dollars (27,056,450 thousand Tenge) (2009: 79,463 thousand US dollars or 11,789,187 thousand Tenge).

14. Provisions

	Environmental remediation	Taxes	Asset retirement obligation	Other	Total
At January 1, 2009	**25,505,339**	**18,840,500**	**15,183,703**	**4,284,363**	**63,813,905**
Additional provisions	–	12,714,474	50,660	629,190	13,394,324
Unused amounts reversed	–	(10,544,242)	–	–	(10,544,242)
Unwinding of discount	–	–	1,204,068	–	1,204,068
Changes in estimate	(93,363)	–	(794,517)	–	(887,880)
Used during the year	(3,403,119)	–	(914,886)	(245,648)	(4,563,653)
Current portion	4,823,769	21,010,732	999,735	262,843	27,097,079
Non-current portion	17,185,088	–	13,729,293	4,405,062	35,319,443
At December 31, 2009	**22,008,857**	**21,010,732**	**14,729,028**	**4,667,905**	**62,416,522**
Additional provisions	–	2,795,918	223,432	998,919	4,018,269
Unused amounts reversed	–	(4,835,885)	–	–	(4,835,885)
Unwinding of discount	–	–	1,168,011	–	1,168,011
Changes in estimate	–	–	(542,100)	–	(542,100)
Used during the year	(2,207,597)	(7,285,707)	(956,735)	(287,899)	(10,737,938)
Current portion	3,170,070	11,685,058	695,421	311,083	15,861,632
Non-current portion	16,631,190	–	13,926,215	5,067,842	35,625,247
At December 31, 2010	**19,801,260**	**11,685,058**	**14,621,636**	**5,378,925**	**51,486,879**

Notes to the Consolidated Financial Statements (continued)

Tenge thousands unless otherwise stated

15. Revenue

	2010	2009
Export:		
Crude oil	556,566,299	435,815,380
Domestic (Note 22):		
Crude oil	34,603,268	31,964,447
Gas products	6,452,132	4,826,049
Refined products	6,104,431	4,897,497
Other sales and services	5,516,268	7,990,106
	609,242,398	**485,493,479**

16. Operating expenses

	2010	2009
Rent tax	97,484,646	58,673,500
Mineral Extraction Tax	70,932,591	55,087,266
Employee benefits	66,241,795	50,876,767
Transportation	57,794,777	53,793,843
Depreciation, depletion and amortization	35,486,128	31,155,360
Repairs, maintenance and other services	28,857,572	21,178,039
Materials and supplies	12,007,713	10,135,010
Energy	10,987,439	10,429,959
Management fees and sales commissions (Note 19)	8,281,574	7,648,453
Export customs duty	6,477,735	–
Other taxes	4,815,027	5,031,000
Social projects	4,137,051	2,239,845
Fines and penalties	2,805,102	8,132,702
Loss on disposal of fixed assets	2,200,613	2,547,437
Dry well expense	1,103,615	–
Geological and geophysical expense	968,648	390,950
Change in crude oil balance	(1,538,597)	213,835
Other	13,449,630	13,071,663
	422,493,059	**330,605,629**

17. Finance income / costs

17.1 Finance income

	2010	2009
Interest income on term deposits with banks	27,613,518	42,880,748
Interest income on Debt Instrument of NC KMG	7,061,243	–
Interest income on receivable from jointly controlled entity	3,101,386	3,216,660
Interest income on held-to-maturity financial assets	239,628	404,288
Other	24,010	257,209
	38,039,785	**46,758,905**

17.2 Finance costs

	2010	2009
Interest expense	6,192,140	958,917
Unwinding of discount on asset retirement obligation	1,168,012	1,204,068
Impairment of held-to maturity financial assets	16,449	570,928
Realised loss on crude oil derivative instruments	–	246,132
Other	118,954	261,244
	7,495,555	**3,241,289**

18. Income taxes

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

	2010	2009
Corporate income tax	45,298,691	63,934,17
Excess profit tax	10,276,747	20,648,24
Current income tax	**55,575,438**	**84,582,41**
Corporate income tax	1,683,946	(7,015,624
Excess profit tax	185,879	(1,820,965
Deferred income tax	**1,869,825**	**(8,836,589**
Income tax expense	**57,445,263**	**75,745,82**

The following table provides a reconciliation of the Kazakhstan income tax rate to the effective tax rate of the Company on profit before tax.

	2010	2009
Profit before tax	291,947,15	285,472,72
Income tax	57,445,26	75,745,82
Effective tax rate	**20%**	**27%**
Statutory income tax	20	20
Increase (decrease) resulting from		
Excess profit tax	4	8
Corporate income tax of prior years	–	(1)
Share of result of associates and joint ventures	(4)	–
Non-taxable income	(2)	–
Movement of provisions	–	(1)
Non-deductible expenses	2	1
Effective tax rate	**20**	**27**

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

	Fixed assets	Provisions	Taxes	Other	Total
At January 1, 2009	**2,855,336**	**(1,284,424)**	**(279,765)**	**(2,720,095**	**(1,428,948)**
Recognized in profit and loss	1,273,534	162,153	(8,551,971)	(1,720,305	(8,836,589)
At December 31, 2009	**4,128,870**	**(1,122,271)**	**(8,831,736)**	**(4,440,400**	**(10,265,537)**
Deferred taxes acquired in business combinations	1,816,597	–	–	–	1,816,597
Recognized in profit and loss	4,878,318	(346,980)	(2,914,487)	252,97	1,869,825
At December 31, 2010	**10,823,785**	**(1,469,251)**	**(11,746,223)**	**(4,187,426**	**(6,579,115)**

19. Related party transactions

The category ‘entities under common control’ comprises entities controlled by the Parent Company. The category ‘other state controlled entities’ comprises entities controlled by Samruk-Kazyna NWF, except for banks, controlled by Samruk-Kazyna NWF. Halyk Bank of Kazakhstan is a related party due to the bank being controlled by a member of the management board of Samruk-Kazyna NWF. BTA Bank is a related party since it is controlled by Samruk-Kazyna NWF and Kazkommertsbank is a related party due to Samruk Kazyna NWF holding 21.2% of the bank’s ordinary shares.

19. Related party transactions (continued)

Sales and purchases with related parties during the years ended December 31, 2010 and 2009 and the balances with related parties at December 31, 2010 and 2009 are as follows:

	2010	2009
Sales of goods and services (Note 15)		
Entities under common control	594,059,556	386,384,246
Other state-controlled entities	986,698	1,106,860
Joint ventures	328,627	398,864
Associates	34,332	9,416
Halyk Bank of Kazakhstan affiliates	23,955	778
Purchases of goods and services (Note 16)		
Entities under common control	25,597,155	25,084,989
Parent Company	7,775,474	7,212,870
Other state-controlled entities	12,434,270	12,651,588
Associates	995,559	267,312
Halyk Bank of Kazakhstan affiliates	1,190,601	1,278,380
Interest earned on financial assets		
Interest earned on Debt Instrument	7,061,243	–
Effective interest rate on Debt Instrument – indexed USD/KZT	6.87%	–
Halyk Bank of Kazakhstan	12,854,310	17,857,881
Average interest rate on deposits	7.31%	8.30%
Kazkommertsbank	9,489,680	10,621,306
Average interest rate on deposits	8.54%	8.34%
BTA Bank	112,906	2,347,620
Average interest rate on deposits	12.00%	11.48%
Impairment loss on held-to-maturity financial assets		
BTA Bank	16,449	570,928
Salaries and other short-term benefits		
Members of the Board of Directors	115,197	109,729
Members of the Management Board	325,066	196,930
Share-based payments		
Members of the Board of Directors	5,248	5,698
Members of the Management Board	33,917	37,687
	December 31, 2010	**December 31, 2009**
Cash and cash equivalents (Note 7)		
Halyk Bank of Kazakhstan	13,141,643	51,232,052
Kazkommertsbank	997,391	14,572,711
BTA Bank	10,381	19,085,560
Financial assets (Note 7)		
Halyk Bank of Kazakhstan	99,583,042	232,974,000
Kazkommertsbank	37,873,202	182,825,420
BTA Bank (net of impairment)	–	5,222,040
Debt Instrument – indexed USD/KZT	220,967,915	–
Trade and other receivables (Note 7)		
Entities under common control	66,981,677	51,319,746
Other state-controlled entities	606,068	785,946
Joint ventures	20,432,051	21,399,372
Associates	7,540	–
Halyk Bank of Kazakhstan affiliates	98,300	–
Trade payables		
Entities under common control	543,559	523,423
Parent Company	2,591,825	1,009,802
Other state-controlled entities	282,844	389,600
Associates	631,987	180,151
Halyk Bank of Kazakhstan affiliates	48,609	82,162

19. Related party transactions (continued)

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. Export sales to related parties represented 6,860,318 tons of crude oil in 2010 (2009: 5,320,931 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 83,890 Tenge in 2010 (2009: 66,462 Tenge). In addition, the Company supplies oil and oil products to the local market at the directive of the Kazakhstan government, the ultimate controlling shareholder of the Parent Company. Those supplies to the domestic market represented 1,604,458 tons of crude oil production in 2010 (2009: 1,717,488 tons). Prices for the local market sales are determined by agreement with NC KMG. For deliveries to the local market in 2010 the Company received an average price per produced crude oil ton of around 21,531 Tenge (2009: 18,579 Tenge). Trade and other receivables from related parties principally comprise amounts related to export sales transactions.

Purchases and payables

Management fees to the Parent Company amounted to 7,775,474 thousand Tenge in 2010 (2009: 7,212,870 thousand Tenge). Agency commissions for crude oil sales amounted to 506,100 thousand Tenge in 2010 (2009: 435,583 thousand Tenge). Transportation services related to the shipment of 6,128,082 tons of crude oil in 2010 (2009: 6,967,200 tons) were purchased from a subsidiary of NC KMG for 20,656,793 thousand Tenge in 2010 (2009: 21,064,331 thousand Tenge). The remaining services purchased from subsidiaries of NC KMG include primarily payments for demurrage, sales commissions and electricity.

Share based payments to members of the Management Board

Share based payments to members of the Management Board represents the amortization of share based payments over the vesting period. Additionally during 2010 the Company granted 122,434 options (2009: 117,942 options) at average exercise prices of, US dollars 19.84 or 2,929 Tenge (2009: US dollars 15.13 or 1,971 Tenge).

20. Financial risk management objectives and policies

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

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

Interest rate risk

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

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

At December 31, 2010 the Company has floating rate debt of 114,334,798 thousand Tenge (2009: 128,982,970 thousand Tenge).

Foreign currency risk

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

20. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

The Company also has transactional currency exposures. Such exposure arises from sales of crude oil in currencies other than the Company's functional currency. Approximately 91% of the Company's sales are denominated in US dollars, whilst almost all of costs are denominated in Tenge. The majority of the sales receipts are received within thirty days of sale. Therefore, exposure to movement in the exchange rate on these amounts is limited at any one time to one month of sales. Management monitors but historically has not mitigated this exposure.

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

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

	Increase / decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2010		
US dollar	+ 10%	75,147,053
US dollar	- 15%	(112,720,579)
2009		
US dollar	+ 10%	49,142,464
US dollar	- 15%	(73,713,695)

Credit risk

The Company's vast majority of sales is made to affiliate of the Parent and has a significant concentration risk of the receivable from this affiliate (Note 7, 19). Additional number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

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

The Company is exposed to credit risk from its operating activities and certain investing activities. With regard to investing activities, the Company places deposits with Kazakhstan and foreign banks as well as purchases held-to-maturity Government bonds. In addition, the Company purchased Debt Instruments issued by its Parent (Note 7).

The Company's treasury policy limits the amount of financial assets held at any one bank to the lower of a stipulated maximum threshold or a percentage of the bank's Tier I capital, which is linked to the banks long term counterparty credit rating, as measured by Standard and Poor's rating agency, (e.g. not greater than 40% for a BB rated bank at December 31, 2010). In 2010 the Company's Board of directors approved a transition plan whose intent was to allow the Company to better manage its credit risks and more closely comply with its amended treasury policy. The amended policy stipulates that local and foreign banks, which are the residents of Kazakhstan, with credit ratings less than two levels below that of the Kazakhstan government's sovereign credit rating, cannot be used to deposit financial assets. If the foreign subsidiary banks do not have their standalone credit ratings, than the credit ratings of their parent banks can be used. The treasury policy defines a foreign subsidiary bank as a bank with at least 50% ownership by the foreign parent bank. In that case, the credit rating of the foreign parent bank should be at least 'A–' as measured by Standard and Poor's rating agency. When the Company deposits financial assets in overseas foreign banks, the rating of the bank should also be at least 'A–'. The transition plan allows the Company to keep financial assets in Halyk Bank and Kazkommertsbank, irrespective of their credit ratings, given that Samruk Kazyna NWF holds stakes in the above banks. Maximum exposure to Kazkommertsbank and Halyk Bank is targeted at 250 million US Dollars and 750 million US Dollars as at December 31, 2010 and 250 million US Dollars and 500 million US Dollars as at December 31, 2011, respectively.

20. Financial risk management objectives and policies (continued)

As at December 31, 2010 the Company has greatly reduced its year on year exposure to the Kazakh banking system primarily through the purchase of the Parent's Debt Instuments and increasing deposits with foreign banks. As a result the Company's compliance with its treasury policy has greatly increased and amounts of the financial assets in non-compliant instruments or institutions are not material as at December 31, 2010.

The table below shows the balances of the financial assets held in banks and Debt Instruments of NC KMG at the reporting date using the Standard and Poor's credit ratings.

Banks	Location	Rating[1] 2010	Rating[1] 2009	2010	2009
Investment in Debt Instruments of NC KMG	Kazakhstan	BBB- (stable)	BB+ (stable)	220,967,915	–
Halyk Bank	Kazakhstan	B+ (stable)	B+ (negative)	112,724,685	284,204,891
ATF Bank[2]	Kazakhstan	BBB (positive)	Rating recalled	86,746,032	43,506,484
Citi Bank	Kazakhstan/UK	A+ (negative)	A (stable)	75,505,810	17,254,342
HSBC	Kazakhstan/Hong Kong/UK	AA (stable)	AA (negative)	70,384,415	25,679,952
National Bank of Republic of Kazakhstan	Kazakhstan	Baa2 (stable)	Baa2 (negative)	54,916,073	–
Kazkommertsbank	Kazakhstan	B (negative)	B (negative)	38,870,593	197,375,592
RBS Kazakhstan	Kazakhstan	A (stable)	A (stable)	21,412,244	38,916,400
Deutsche Bank	Germany	A+ (stable)	A+ (stable)	8,816,125	4,626,872
Credit Suisse	British Virgin Islands	A+ (stable)	A+	4,971,970	4,573,579
BankCenterCredit	Kazakhstan	Ba3 (negative)	Ba3 (negative)	1,840,538	2,144
ING Bank	Netherlands	A+	A+	668,737	1,997,796
BTA Bank	Kazakhstan	B- (stable)	D/no forecast	10,381	24,307,599
Other				149,540	105,045
				697,985,058	**642,550,696**

Liquidity risk

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

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

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2010 based on contractual undiscounted payments:

Year ended December 31, 2010	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	253,358	60,419,794	63,362,092	3,348,200	127,383,444
Trade and other payables	47,304,799	–	–	–	–	47,304,799
	47,304,799	**253,358**	**60,419,794**	**63,362,092**	**3,348,200**	**174,688,243**

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

[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

20. Financial risk management objectives and policies (continued)

Commodity price risk

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

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

Capital management

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

As at December 31, 2010 the Company had a strong financial position and a conservative capital structure. Going forward, the Company intends to maintain a capital structure which allows it the flexibility to take advantage of growth opportunities as and when they arise.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy or processes during the years ended December 31, 2010 and 2009.

21. Financial instruments

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

	Carrying amount		Fair value	
	2010	**2009**	**2010**	**2009**
Current financial assets				
Cash and cash equivalents	98,519,465	107,626,368	98,519,465	107,626,368
Held-to-maturity financial assets	54,916,073	–	54,916,073	–
US dollar-denominated term deposits	264,841,437	447,254,500	264,841,437	447,254,500
Tenge-denominated term deposits	57,786,248	87,033,308	57,786,248	87,033,308
Receivable from jointly controlled entity	1,203,834	1,082,100	1,203,834	1,082,100
Investment in Debt Instrument	256,928	–	256,928	–
Other financial assets	270	270	270	270
Non-current financial assets				
Investment in Debt Instrument	220,710,987	–	220,710,987	–
Receivable from jointly controlled entity	19,153,089	20,268,928	19,153,089	20,268,928
Tenge-denominated term deposits	953,920	636,520	953,920	636,520
Other financial assets	160,911	161,411	160,911	161,411
Financial liabilities				
Borrowings floating rate interest	114,334,798	128,982,970	114,334,798	128,982,970
Borrowings fixed rate interest	8,146,065	8,690,190	8,146,065	8,690,190

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

22. Commitments and contingencies

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. The Kazakhstani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. 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 access to capital and cost of capital for the Company and its counterparties, which could affect the Company's financial position, results of operations and business prospects.

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

Local market obligation

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. While the price for such supplies of crude oil is agreed with the Company's Parent, this price may be materially below international market prices and may even be set at the cost of production. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Company's business, prospects, financial condition and results of operations.

During the current year, in accordance with their obligations, the Company delivered 1,811,481 tons of oil (2009: 2,017,488 tons) and joint venture Kazgermunai have delivered 784,000 tons of oil (2009: 615,000 tons) on the domestic market.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. 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, 2010.

The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions and will dispute the tax assessment to the fullest extent possible under the law of the Republic of Kazakhstan.

Customs claim

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

On September 23, 2009 the Company filed an appeal with the court of first instance. On December 1, 2009 the court of first instance ruled in favor of the Company. However, on January 20, 2010 the appeal filed by the customs committee was satisfied by the court of second instance. On February 8, 2010 the Company filed the further appeal with the third instance court. On March 9, 2010 the third instance court also ruled in favor of the customs authorities. The Company is planning to appeal this matter to the Supreme Court of Kazakhstan.

Management of the Company believes that they will ultimately prevail in this matter and therefore no amounts have been accrued in the consolidated financial statements for the year ended December 31, 2010.

22. Commitments and contingencies (continued)

Environment

Environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of civil litigation or changes in legislation cannot be reasonably estimated. Other than those amounts provided for in provisions (Note 14) 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.

Oilfield licenses

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

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

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

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

Commitments arising from oilfield and exploration licenses and contracts

Year	Capital expenditures	Operational expenditures
2011	98,326,086	5,539,151
2012	7,260,231	4,240,970
2013	–	4,006,987
2014	–	4,006,987
2014-2021	–	18,823,598
Total	**105,586,317**	**36,617,693**

Crude oil supply commitments

The Company has obligations to supply oil and oil products to the local market under government directives (Note 22).

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2010:

Year	Capital expenditures	Operational expenditures
2011	4,575,950	2,545,941

23. Subsequent event

Acquisition of preferred shares on KASE

As part of its buy back program, on February 3, 2011 the Company purchased 236,430 preferred shares at an aggregate purchase price of 4,552,046 thousand Tenge via a specialized trade of its preferred shares on KASE. As at February 3, 2011, the Company has purchased 1,582,643 preferred shares from the start of the buy back program for an aggregate price of 28,909,971 thousand Tenge.

These consolidated financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on February 11, 2011:

Chief Executive Officer	Ibrashev K. N.
Chief Financial Officer	Bekezhanova Zh.
Financial Controller	Drader Sh., CA

Contact information

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