

**KazMunaiGas Exploration Production  
Joint Stock Company**

Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2010

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## REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To Board of Directors and Shareholders of Joint Stock Company KazMunaiGas Exploration Production:

### **Introduction**

We have reviewed the accompanying condensed consolidated interim financial statements of Joint Stock Company KazMunaiGas Exploration Production and its subsidiaries ("the Group") as at June 30, 2010 comprising the consolidated interim statement of financial position as at June 30, 2010 and the related consolidated interim statement of comprehensive income for the three and six months then ended, statements of changes in equity and cash flows for the six-months period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

### **Scope of Review**

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

*Ernst & Young LLP*

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Paul Cohn  
Audit Partner

*[Signature]*  
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

11 August 2010



Auditor Qualification Certificate № 0000553  
dated 24 December 2003

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

**Condensed Consolidated Interim Statement of Financial Position**

*Tenge thousands*

|  |       | June 30, 2010        | December 31, 2009    |
|--|-------|----------------------|----------------------|
|  | Notes | Unaudited            | Audited              |
| <b>ASSETS</b>                                |       |                      |                      |
| <b>Non-current assets</b>                    |       |                      |                      |
| Property, plant and equipment                | 6     | 266,831,769          | 257,739,303          |
| Other financial assets                       | 7     | 967,300              | 797,931              |
| Receivable from jointly controlled entity    |       | 19,665,090           | 20,268,928           |
| Intangible assets                            |       | 2,034,903            | 2,276,745            |
| Investments in associates and joint ventures |       | 237,762,572          | 254,147,918          |
| Deferred tax asset                           |       | 9,028,592            | 10,265,537           |
| Other assets                                 |       | 11,803,531           | 7,291,870            |
| <b>Total non-current assets</b>              |       | <b>548,093,757</b>   | <b>552,788,232</b>   |
| <b>Current assets</b>                        |       |                      |                      |
| Inventories                                  |       | 16,093,932           | 15,525,704           |
| Taxes prepaid and VAT recoverable            |       | 18,912,414           | 9,969,965            |
| Prepaid expenses                             |       | 26,042,994           | 21,595,622           |
| Receivable from jointly controlled entity    |       | 3,092,516            | 1,082,100            |
| Trade and other receivables                  | 7     | 58,231,994           | 49,710,916           |
| Other financial assets                       | 7     | 612,326,101          | 534,288,078          |
| Cash and cash equivalents                    | 7     | 85,257,469           | 107,626,368          |
| <b>Total current assets</b>                  |       | <b>819,957,420</b>   | <b>739,798,753</b>   |
| <b>Total assets</b>                          |       | <b>1,368,051,177</b> | <b>1,292,586,985</b> |
| <b>EQUITY</b>                                |       |                      |                      |
| Share capital                                |       | 232,036,321          | 238,546,914          |
| Other capital reserves                       |       | 1,554,424            | 1,474,089            |
| Retained earnings                            |       | 796,987,280          | 747,820,751          |
| Other components of equity                   |       | 12,355,724           | 12,937,395           |
| <b>Total equity</b>                          |       | <b>1,042,933,749</b> | <b>1,000,779,149</b> |
| <b>LIABILITIES</b>                           |       |                      |                      |
| <b>Non-current liabilities</b>               |       |                      |                      |
| Borrowings                                   |       | 91,326,442           | 92,023,143           |
| Provisions                                   | 8     | 36,751,570           | 35,319,443           |
| <b>Total non-current liabilities</b>         |       | <b>128,078,012</b>   | <b>127,342,586</b>   |
| <b>Current liabilities</b>                   |       |                      |                      |
| Borrowings                                   |       | 48,363,365           | 45,650,017           |
| Income taxes payable                         |       | -                    | 21,138,596           |
| Mineral extraction and rent tax payable      |       | 40,589,174           | 36,177,299           |
| Trade and other payables                     |       | 31,428,037           | 33,651,462           |
| Dividends payable                            |       | 48,939,765           | 750,797              |
| Provisions                                   | 8     | 27,719,075           | 27,097,079           |
| <b>Total current liabilities</b>             |       | <b>197,039,416</b>   | <b>164,465,250</b>   |
| <b>Total liabilities</b>                     |       | <b>325,117,428</b>   | <b>291,807,836</b>   |
| <b>Total liabilities and equity</b>          |       | <b>1,368,051,177</b> | <b>1,292,586,985</b> |

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

**Condensed Consolidated Interim Statement of Comprehensive Income  
(unaudited)**

*Tenge thousands*

|  | Notes | Three months ended June 30, |                   | Six months ended June 30, |                    |
|--|-------|-----------------------------|-------------------|---------------------------|--------------------|
|  |       | 2010                        | 2009              | 2010                      | 2009               |
| Revenue  | 9     | 150,548,503                 | 123,475,611       | 296,605,166               | 206,630,713        |
| Operating expenses   | 10    | (101,682,169)               | (86,400,856)      | (193,110,245)             | (149,591,334)      |
| <b>Profit from operations</b>                                |       | <b>48,866,334</b>           | <b>37,074,755</b> | <b>103,494,921</b>        | <b>57,039,379</b>  |
| Finance income   |       | 10,173,030                  | 11,843,824        | 20,863,493                | 23,843,516         |
| Finance costs  |       | (1,979,406)                 | (460,889)         | (3,943,942)               | (970,537)          |
| Unrealised loss of crude oil derivative                      |       | –                           | (4,491,457)       | –                         | (4,491,457)        |
| Foreign exchange gain/(loss)                                 |       | 1,402,862                   | (3,685,204)       | (2,837,109)               | 97,886,291         |
| Share of result of associates and joint ventures             |       | 6,716,784                   | (4,080,166)       | 18,848,047                | (5,130,679)        |
| <b>Profit before tax</b>                                     |       | <b>65,179,604</b>           | <b>36,200,863</b> | <b>136,425,410</b>        | <b>168,176,513</b> |
| Income tax expense   | 11    | (16,824,533)                | (15,446,757)      | (36,391,304)              | (39,410,822)       |
| <b>Profit for the period</b>                                 |       | <b>48,355,071</b>           | <b>20,754,106</b> | <b>100,034,106</b>        | <b>128,765,691</b> |
| Exchange difference on translating foreign operations        |       | 99,524                      | (633,665)         | (581,671)                 | 14,104,004         |
| <b>Other comprehensive income for the period, net of tax</b> |       | <b>99,524</b>               | <b>(633,665)</b>  | <b>(581,671)</b>          | <b>14,104,004</b>  |
| <b>Total comprehensive income for the period, net of tax</b> |       | <b>48,454,595</b>           | <b>20,120,441</b> | <b>99,452,435</b>         | <b>142,869,695</b> |
| EARNINGS PER SHARE   |       |                             |                   |                           |                    |
| Basic  |       | 0.66                        | 0.29              | 1.37                      | 1.75               |
| Diluted  |       | 0.64                        | 0.28              | 1.33                      | 1.73               |

**Condensed Consolidated Interim Statement of Cash Flows (unaudited)**

*Tenge thousands*

|   |          | Six months ended June 30, |                     |
|---|----------|---------------------------|---------------------|
|   | Notes    | 2010                      | 2009                |
| <b>Cash flows from operating activities</b>                                 |          |                           |                     |
| Profit before income tax  |          | 136,425,410               | 168,176,513         |
| Adjustments to add (deduct) non-cash items                                  |          |                           |                     |
| Depreciation, depletion and amortisation                                    | 10       | 16,389,840                | 15,153,080          |
| Share of result of associates and joint ventures                            |          | (18,848,047)              | 5,130,679           |
| Settlement of crude oil under the terms of a pre-export financing agreement |          | –                         | (7,100,384)         |
| Unrealized loss of crude oil derivative instrument                          |          | –                         | 4,491,457           |
| Loss on disposal of property, plant and equipment (PPE)                     | 6        | 562,441                   | 401,926             |
| Impairment of PPE (reversal of impairment)                                  |          | 395,569                   | (544,784)           |
| Recognition of share-based payments   |          | 80,023                    | 141,199             |
| Forfeiture of share-based payments  |          | (5,320)                   | (146,113)           |
| Unrealised foreign exchange loss (gain) on non-operating activities         |          | 2,238,543                 | (43,692,752)        |
| Other non-cash income and expense   |          | 338,562                   | 403,637             |
| Add finance costs   |          | 3,943,942                 | 970,537             |
| Deduct interest income relating to investing activity                       |          | (20,863,493)              | (23,843,516)        |
| Working capital adjustments   |          |                           |                     |
| Change in other assets  |          | (4,511,661)               | (1,156,220)         |
| Change in inventories   |          | (557,655)                 | 22,413              |
| Change in taxes prepaid and VAT recoverable                                 |          | (4,432,593)               | (2,495,968)         |
| Change in prepaid expenses  |          | (4,522,176)               | (1,642,425)         |
| Change in trade and other receivables                                       |          | (8,650,327)               | (35,403,637)        |
| Change in trade and other payables  |          | (2,118,293)               | (8,871,978)         |
| Change in mineral extraction and rent tax payable                           |          | 4,411,875                 | 27,632,716          |
| Change in provisions  |          | 836,932                   | 9,775,457           |
| Income tax paid   |          | (60,128,183)              | (80,881,460)        |
| <b>Net cash generated from operating activities</b>                         |          | <b>40,985,389</b>         | <b>26,520,377</b>   |
| <b>Cash flows from investing activities</b>                                 |          |                           |                     |
| Purchases of PPE  | 6        | (26,447,472)              | (12,929,110)        |
| Proceeds from sale of PPE   |          | 20,277                    | 1,090,135           |
| Contribution to the charter capital of the joint venture                    |          | –                         | (580,044)           |
| Dividends received from joint ventures and associates                       |          | 34,109,060                | –                   |
| (Purchase) sale of financial assets held-to-maturity, net                   |          | (67,310,681)              | 28,710,851          |
| Interest received   |          | 3,371,417                 | 9,168,873           |
| <b>Net cash (used in) generated from investing activities</b>               |          | <b>(56,257,399)</b>       | <b>25,460,705</b>   |
| <b>Cash flows from financing activities</b>                                 |          |                           |                     |
| Purchase of treasury shares   |          | (6,546,233)               | (14,148,562)        |
| Repayment of borrowings   |          | (487,198)                 | (3,990,103)         |
| Dividends paid to Company's shareholders                                    |          | (74,217)                  | (50,411)            |
| Interest paid   |          | –                         | (91,745)            |
| <b>Net cash used in financing activities</b>                                |          | <b>(7,107,648)</b>        | <b>(18,280,821)</b> |
| Net change in cash and cash equivalents                                     |          | (22,379,658)              | 33,700,261          |
| Cash and cash equivalents at beginning of the year                          | 7        | 107,626,368               | 285,131,743         |
| Exchange gains on cash and cash equivalents                                 |          | 10,759                    | 806,746             |
| <b>Cash and cash equivalents at end of the period</b>                       | <b>7</b> | <b>85,257,469</b>         | <b>319,638,750</b>  |

**Condensed Consolidated Interim Statement of Changes in Equity (unaudited)***Tenge thousands*

|  | Share capital      | Treasury stock      | Other capital reserves | Retained earnings  | Foreign currency translation | Total Equity         |
|--|--------------------|---------------------|------------------------|--------------------|------------------------------|----------------------|
| <b>As at December 31, 2008 (audited)</b> | <b>263,094,581</b> | <b>(3,369,734)</b>  | <b>1,385,036</b>       | <b>586,058,950</b> | <b>(76,197)</b>              | <b>847,092,636</b>   |
| Profit for the period                    | -                  | -                   | -                      | 128,765,691        | -                            | 128,765,691          |
| Other comprehensive income               | -                  | -                   | -                      | -                  | 14,104,004                   | 14,104,004           |
| <b>Total comprehensive income</b>        | -                  | -                   | -                      | <b>128,765,691</b> | <b>14,104,004</b>            | <b>142,869,695</b>   |
| Recognition of share-based payments      | -                  | -                   | 141,199                | -                  | -                            | 141,199              |
| Forfeiture of share-based payments       | -                  | -                   | (146,113)              | -                  | -                            | (146,113)            |
| Exercise of employee options             | -                  | 20,646              | -                      | -                  | -                            | 20,646               |
| Share buy back                           | -                  | (14,264,036)        | -                      | -                  | -                            | (14,264,036)         |
| Dividends                                | -                  | -                   | -                      | (47,965,099)       | -                            | (47,965,099)         |
| <b>As at June 30, 2009 (unaudited)</b>   | <b>263,094,581</b> | <b>(17,613,124)</b> | <b>1,380,122</b>       | <b>666,859,542</b> | <b>14,027,807</b>            | <b>927,748,928</b>   |
| <b>As at December 31, 2009 (audited)</b> | <b>263,094,581</b> | <b>(24,547,667)</b> | <b>1,474,089</b>       | <b>747,820,751</b> | <b>12,937,395</b>            | <b>1,000,779,149</b> |
| Profit for the period                    | -                  | -                   | -                      | 100,034,106        | -                            | 100,034,106          |
| Other comprehensive income               | -                  | -                   | -                      | -                  | (581,671)                    | (581,671)            |
| <b>Total comprehensive income</b>        | -                  | -                   | -                      | <b>100,034,106</b> | <b>(581,671)</b>             | <b>99,452,435</b>    |
| Recognition of share-based payments      | -                  | -                   | 80,023                 | -                  | -                            | 80,023               |
| Forfeiture of share-based payments       | -                  | -                   | (5,320)                | -                  | -                            | (5,320)              |
| Exercise of employee options             | -                  | 35,640              | 5,632                  | -                  | -                            | 41,272               |
| Preferred share buy back                 | -                  | (6,546,233)         | -                      | -                  | -                            | (6,546,233)          |
| Dividends                                | -                  | -                   | -                      | (50,867,577)       | -                            | (50,867,577)         |
| <b>As at June 30, 2010 (unaudited)</b>   | <b>263,094,581</b> | <b>(31,058,260)</b> | <b>1,554,424</b>       | <b>796,987,280</b> | <b>12,355,724</b>            | <b>1,042,933,749</b> |

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

*Tenge thousands unless otherwise stated*

### 1. Corporate information and principal activities

KazMunaiGas Exploration Production Joint Stock Company (the “Company”) has been incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company’s direct majority shareholder is Joint Stock Company National Company KazMunaiGas (“NC KMG” or the “Parent Company”), which represents the state’s interests in the Kazakh oil and gas industry and which holds 59.63% of the Company’s outstanding shares as at June 30, 2010 (December 31, 2009: 59.38%). The Parent Company is 100% owned by joint stock company Samruk-Kazyna National Welfare Fund (“Samruk-Kazyna NWF”) which is in turn 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 a 50% interest in a jointly controlled oil and natural gas producer, a receivable from a jointly controlled entity and a 33% interest in an associate. These condensed consolidated interim financial statements reflect the financial position and results of operations of those divisions, jointly controlled entities, associates and certain other controlling and non-controlling interests in non-core entities.

### 2. Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting* (“IAS 34”) and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2009.

#### Exchange rates

The official rate of the Kazakhstan Tenge to the US Dollar at June 30, 2010 and December 31, 2009 was 147.46 and 148.36 Tenge to US Dollar, respectively. Any translation of Tenge amounts to US Dollar or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

### 3. Seasonality of operations

The Company’s operating costs are subject to seasonal fluctuations, with higher expenses for materials and repair, maintenance and other services usually expected in the later part of the year than in the first half of the year. These fluctuations are mainly due to the requirement to conduct formal public tenders in accordance with procurement rules set by Samruk-Kazyna NWF.

### 4. Significant non-cash transactions

During the six months ended June 30, 2010 the Company excluded from the condensed consolidated interim statement of cash flows a non-cash transaction related to the offset of withholding income tax payable against corporate income tax payable in the amount of 2,850,354 thousand Tenge (six months ended June 30, 2009: 3,263,807 thousand Tenge).

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

*Tenge thousands unless otherwise stated*

### 5. Accounting policies

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied in the preparation of the annual consolidated financial statements for the year ended December 31, 2009, except as discussed below.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2010:

- IFRS 3R Business Combinations

The Company has adopted the revised standard. The adoption of the revised standard did not have a material impact on the financial position and performance of the Company.

- IAS 27 Consolidated and Separate Financial Statements – amendment

The Company has adopted the revised standard. The adoption of the revised standard did not have any impact on the financial position and performance of the Company.

The following new standards, amendments to standards and IFRIC are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the Company.

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters
- IFRS 2 Group Cash-settled Share-based Payment Transactions
- IAS 39 Eligible hedged items
- IFRIC 17 Distributions of Non-cash Assets to Owners

### 6. Property, plant and equipment

During the six months ended June 30, 2010, the Company prepaid for and purchased property, plant and equipment with a cost of 26,447,472 thousand Tenge.

Property, plant and equipment with the net book value of 582,718 thousand Tenge were disposed of by the Company during the six months ended June 30, 2010, resulting in a net loss on disposal of 562,441 thousand Tenge.

### 7. Financial assets

*Other financial assets*

|                                     | June 30, 2010      | December 31, 2009  |
|-------------------------------------|--------------------|--------------------|
|                                     | Unaudited          | Audited            |
| Tenge-denominated term deposits     | 806,389            | 636,520            |
| Other                               | 160,911            | 161,411            |
| <b>Total non-current</b>            | <b>967,300</b>     | <b>797,931</b>     |
| US dollar-denominated term deposits | 516,160,944        | 447,254,500        |
| Tenge-denominated term deposits     | 61,664,700         | 87,033,308         |
| Held-to-maturity financial assets   | 34,500,187         | –                  |
| Other                               | 270                | 270                |
| <b>Total current</b>                | <b>612,326,101</b> | <b>534,288,078</b> |
|                                     | <b>613,293,401</b> | <b>535,086,009</b> |

**Notes to the Condensed Consolidated Interim Financial Statements  
(unaudited) (continued)**

*Tenge thousands unless otherwise stated*

**7. Financial assets (continued)**

*Other financial assets (continued)*

As at June 30, 2010 the current US dollar denominated term deposits include restricted cash in the amount of 19,513,923 thousand Tenge (December 31, 2009: 9,840,620 thousand Tenge) which is kept in a blocked account as security for the payment of interest and principal on the long term debt of KazMunaiGaz PKI Finance B.V. (KMG PKI Finance), a 100% subsidiary of the Company.

*Trade and other receivables*

|                                    | <b>June 30, 2010</b> | <b>December 31, 2009</b> |
|------------------------------------|----------------------|--------------------------|
|                                    | <b>Unaudited</b>     | <b>Audited</b>           |
| Trade receivables                  | 58,054,338           | 49,398,08                |
| Other                              | 487,846              | 523,91                   |
| Allowance for doubtful receivables | (310,190)            | (211,08                  |
|                                    | <b>58,231,994</b>    | <b>49,710,91</b>         |

As at June 30, 2010 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGas – Refinery and Marketing JSC (former Trade House KazMunaiGas JSC), a subsidiary of the Parent Company, of 55,432,542 thousand Tenge (December 31, 2009: 47,622,256 thousand Tenge).

*Cash and cash equivalents*

|   | <b>June 30, 2010</b> | <b>December 31, 2009</b> |
|---|----------------------|--------------------------|
|   | <b>Unaudited</b>     | <b>Audited</b>           |
| Tenge-denominated term deposits with banks      | 55,153,443           | 71,469,368               |
| US dollar denominated term deposits with banks  | 8,091,573            | 8,041,112                |
| Euro denominated term deposits with banks       | 362,752              | 641,004                  |
| Tenge-denominated cash in banks and on hand     | 20,570,188           | 6,933,117                |
| US dollar denominated cash in banks and on hand | 1,079,513            | 20,541,767               |
|   | <b>85,257,469</b>    | <b>107,626,368</b>       |

**8. Provisions**

|                             | <b>June 30, 2010</b> | <b>December 31, 2009</b> |
|-----------------------------|----------------------|--------------------------|
|                             | <b>Unaudited</b>     | <b>Audited</b>           |
| Environmental remediation   | 22,555,217           | 22,008,857               |
| Taxes                       | 21,847,664           | 21,010,732               |
| Asset retirement obligation | 15,166,202           | 14,729,028               |
| Other                       | 4,901,562            | 4,667,905                |
|                             | <b>64,470,645</b>    | <b>62,416,522</b>        |

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

*Tenge thousands unless otherwise stated*

### 9. Revenue

|                  | Three months ended June 30, |                    | Six months ended June 30, |                    |
|------------------|-----------------------------|--------------------|---------------------------|--------------------|
|                  | 2010                        | 2009               | 2010                      | 2009               |
|                  | Unaudited                   | Unaudited          | Unaudited                 | Unaudited          |
| Export:          |                             |                    |                           |                    |
| Crude oil        | 136,876,843                 | 109,083,426        | 272,622,128               | 183,027,378        |
| Domestic:        |                             |                    |                           |                    |
| Crude oil        | 9,255,001                   | 8,549,141          | 16,306,234                | 14,045,136         |
| Gas products     | 1,706,630                   | 1,234,979          | 2,837,435                 | 2,182,223          |
| Refined products | 1,630,326                   | 1,004,362          | 2,283,611                 | 1,740,032          |
| Other            | 1,079,703                   | 3,603,703          | 2,555,758                 | 5,635,944          |
|                  | <b>150,548,503</b>          | <b>123,475,611</b> | <b>296,605,166</b>        | <b>206,630,713</b> |

### 10. Operating expenses

|  | Three months ended June 30, |                   | Six months ended June 30, |                    |
|--|-----------------------------|-------------------|---------------------------|--------------------|
|  | 2010                        | 2009              | 2010                      | 2009               |
|  | Unaudited                   | Unaudited         | Unaudited                 | Unaudited          |
| Rent tax                                 | 23,791,256                  | 13,023,706        | 46,684,876                | 18,796,872         |
| Mineral Extraction Tax                   | 17,326,977                  | 14,200,826        | 34,086,102                | 23,788,599         |
| Employee benefits                        | 15,356,021                  | 10,991,659        | 29,355,284                | 24,237,306         |
| Transportation                           | 14,690,362                  | 12,561,653        | 28,255,859                | 26,653,877         |
| Depreciation, depletion and amortization | 8,442,049                   | 7,441,895         | 16,389,840                | 15,153,080         |
| Repairs, maintenance and other services  | 8,077,718                   | 7,272,358         | 12,276,484                | 9,117,756          |
| Energy                                   | 2,685,765                   | 2,489,383         | 5,495,204                 | 5,048,976          |
| Materials and supplies                   | 2,401,203                   | 1,471,224         | 4,530,701                 | 3,928,135          |
| Management fees and sales commissions    | 2,074,491                   | 1,905,395         | 4,138,707                 | 3,827,247          |
| Other taxes                              | 1,296,135                   | 1,140,520         | 2,272,137                 | 2,100,200          |
| Loss on disposal of fixed assets         | 535,804                     | 104,677           | 562,441                   | 401,926            |
| Social projects                          | 448,194                     | 380,946           | 1,658,576                 | 702,714            |
| Fines and penalties                      | 424,234                     | 11,150,442        | 1,041,336                 | 11,744,733         |
| Change in crude oil balance              | 1,516,392                   | 1,664,098         | 991,613                   | 1,047,613          |
| Other                                    | 2,615,568                   | 602,074           | 5,371,085                 | 3,042,300          |
|  | <b>101,682,169</b>          | <b>86,400,856</b> | <b>193,110,245</b>        | <b>149,591,334</b> |

### 11. Income tax expense

|                            | Three months ended June 30, |                   | Six months ended June 30, |                    |
|----------------------------|-----------------------------|-------------------|---------------------------|--------------------|
|                            | 2010                        | 2009              | 2010                      | 2009               |
|                            | Unaudited                   | Unaudited         | Unaudited                 | Unaudited          |
| Corporate income tax       | 11,674,633                  | 10,884,002        | 24,811,882                | 34,585,972         |
| Excess profit tax          | 4,535,720                   | 4,912,244         | 10,342,476                | 5,907,479          |
| <b>Current income tax</b>  | <b>16,210,353</b>           | <b>15,796,246</b> | <b>35,154,358</b>         | <b>40,493,451</b>  |
| Corporate income tax       | 484,080                     | (315,185)         | 957,907                   | (1,048,466)        |
| Excess profit tax          | 130,100                     | (34,304)          | 279,039                   | (34,163)           |
| <b>Deferred income tax</b> | <b>614,180</b>              | <b>(349,489)</b>  | <b>1,236,946</b>          | <b>(1,082,629)</b> |
| <b>Income tax expense</b>  | <b>16,824,533</b>           | <b>15,446,757</b> | <b>36,391,304</b>         | <b>39,410,822</b>  |

**Notes to the Condensed Consolidated Interim Financial Statements  
(unaudited) (continued)**

*Tenge thousands unless otherwise stated*

**12. 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.

Sales and purchases with related parties during the six months ended June 30, 2010 and 2009 and the balances with related parties at June 30, 2010 and December 31, 2009 are as follows:

|   | <b>Six months ended June 30,</b> |                  |
|---|----------------------------------|------------------|
|   | <b>2010</b>                      | <b>2009</b>      |
|   | <b>Unaudited</b>                 | <b>Unaudited</b> |
| <b>Sales of goods and services</b>            |                                  |                  |
| Entities under common control                 | 290,012,084                      | 154,289,331      |
| Other state-controlled entities               | 368,499                          | 578,079          |
| Joint ventures                                | 152,081                          | 240,868          |
| Associates                                    | 24,307                           | 7,914            |
| <b>Purchases of goods and services</b>        |                                  |                  |
| Entities under common control                 | 12,568,952                       | 12,408,535       |
| Parent Company                                | 3,887,737                        | 3,606,435        |
| Other state-controlled entities               | 6,198,907                        | 5,509,211        |
| Associates                                    | 80,026                           | 42,336           |
| Halyk Bank of Kazakhstan affiliates           | 637,181                          | 646,200          |
| <b>Interest earned on financial assets</b>    |                                  |                  |
| Halyk Bank of Kazakhstan                      | 9,124,719                        | 8,564,458        |
| Average interest rate on deposits             | 7.54%                            | 8.41%            |
| Kazkommertsbank                               | 7,535,409                        | 2,687,246        |
| Average interest rate on deposits             | 8.81%                            | 7.37%            |
| BTA Bank                                      | 112,906                          | 1,443,962        |
| Average interest rate on deposits             | 12.00%                           | 11.09%           |
| <b>Salaries and other short-term benefits</b> |                                  |                  |
| Members of the Board of Directors             | 56,672                           | 54,077           |
| Members of the Management Board               | 172,672                          | 69,193           |
| <b>Share-based payments</b>                   |                                  |                  |
| Members of the Board of Directors             | 2,717                            | 1,043            |
| Members of the Management Board               | 9,620                            | 23,005           |

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

*Tenge thousands unless otherwise stated*

### 12. Related party transactions (continued)

|                                     | June 30, 2010 | December 31, 2009 |
|-------------------------------------|---------------|-------------------|
|                                     | Unaudited     | Audited           |
| <b>Cash and cash equivalents</b>    |               |                   |
| Halyk Bank of Kazakhstan            | 66,938,671    | 51,232,052        |
| Kazkommertsbank                     | 316,240       | 14,572,711        |
| BTA Bank                            | 186,297       | 19,085,560        |
| <b>Financial assets</b>             |               |                   |
| Halyk Bank of Kazakhstan            | 238,694,672   | 232,974,000       |
| Kazkommertsbank                     | 168,905,842   | 182,825,420       |
| BTA Bank                            | –             | 5,222,040         |
| <b>Trade and other receivables</b>  |               |                   |
| Entities under common control       | 59,551,443    | 51,319,746        |
| Other state controlled entities     | 1,349,824     | 785,946           |
| Joint ventures                      | 22,794,459    | 21,399,372        |
| Associates                          | 8,386         | –                 |
| Halyk Bank of Kazakhstan affiliates | 624,000       | –                 |
| <b>Trade payables</b>               |               |                   |
| Entities under common control       | 550,200       | 523,423           |
| Parent Company                      | 2,263,527     | 1,009,802         |
| Other state controlled entities     | 300,430       | 389,600           |
| Associates                          | 98,545        | 180,151           |
| Halyk Bank of Kazakhstan affiliates | 72,011        | 82,162            |

### 13. Commitments and contingencies

*Commitments arising from oilfield licenses and contracts*

| Year             | Capital expenditures | Operational expenditures |
|------------------|----------------------|--------------------------|
| 2010 (remaining) | 49,602,017           | 1,553,687                |
| 2011             | 841,000              | 4,007,374                |
| 2012             | –                    | 4,007,374                |
| 2013             | –                    | 4,007,374                |
| 2014             | –                    | 4,007,374                |
| 2015-2021        | –                    | 18,823,809               |
|                  | <b>50,443,017</b>    | <b>36,406,992</b>        |

#### *Tax audit*

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

Expensing rather than capitalizing of hydro fracturing, other workover, transportation, geological and geophysical expenses;

Exclusion of the 1997 fixed asset valuation in the cost base of the EPT computation;

Non-recognition of revenue for CIT purposes in respect of fixed asset revaluation based on the applicable tax legislation.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

*Tenge thousands unless otherwise stated*

### 13. Commitments and contingencies (continued)

#### *Tax audit (continued)*

On September 15, 2009 the Company filed an appeal against the results of the above comprehensive tax audit with the Ministry of Finance. As a result, on February 9, 2010 the Ministry of Finance issued a new ruling whereby the principal tax assessment was reduced to 3,846,878 thousand Tenge and the corresponding late payment interest was reduced to 3,936,615 thousand Tenge. On March 12, 2010 this ruling was adjusted and reissued by the Ministry of Finance. According to the new ruling the principal tax assessment was increased to 10,766,097 thousand Tenge and late payment interest was reduced to 3,884,684 thousand Tenge. The Company filed an appeal to the court of first instance, which issued its ruling on May 24, 2010, which reduced the principal assessment to 8,634,939 thousand Tenge and the late payment interest to 2,632,746 thousand Tenge. The Company filed an appeal to the court of second instance, which was not satisfied by the court on July 29, 2010. The Company is in the process of appealing the decision to the court of third instance.

Management believes the further outcome of this dispute is uncertain and also believes that the Company may not be entirely successful in their appeals due to the ambiguity contained in the tax legislation and a history of varying interpretations and inconsistent opinions of the authorities. Management has therefore accrued for certain matters that arose in the assessment. As at June 30, 2010 7,541,762 thousand Tenge relating to the assessment has been accrued for the 2004 and 2005 years. A further 4,895,025 thousand Tenge has been accrued for these matters for the periods 2006 through to the first half year of 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 the appeal with the court of first instance. On December 1, 2009 the court of first instance ruled in favor of the Company. However, on January 20, 2010 the appeal filed by the customs committee was satisfied by the court of second instance. On February 8, 2010 the Company filed the further appeal with the third instance court. 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 condensed consolidated interim financial statements for the six months ended June 30, 2010.

#### *Commitments of JV Kazgermunai LLP (Kazgermunai)*

As at June 30, 2010 the Company's share in the commitments of Kazgermunai is as follows:

| <b>Year</b> | <b>Capital expenditures</b> | <b>Operational expenditures</b> |
|-------------|-----------------------------|---------------------------------|
| 2010        | 2,307,762                   | 1,585,280                       |

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

*Tenge thousands unless otherwise stated*

### 13. Commitments and contingencies (continued)

#### *Kazgermunai environmental claim*

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

On January 21, 2010 Kazgermunai filed an appeal to the Supreme Court of the Republic of Kazakhstan. On February 18, 2010 the Supreme Court of the Republic of Kazakhstan declined Kazgermunai's appeal. On May 24, 2010 Kazgermunai filed a repetitive petition to the General Prosecutor's Office of the Republic of Kazakhstan. On June 28, 2010 the General Prosecutor declined the petition of Kazgermunai. Kazgermunai will consider their potential actions and is in the process of filing a further appeal to the General Prosecutor's Office.

In 2009 Kazgermunai paid 94 million US Dollars or 13,601,860 thousand Tenge of the claims, in order to avoid enforced collection.

### 14. Subsequent events

#### *Repayment of KMG PKI Finance notes*

On July 2, 2010 the Company paid accrued interest and principal on the KMG PKI Finance notes in the amount of 39 million US dollars (5,861,437 thousands Tenge) and 92.3 million US dollars (13,606,806 thousands Tenge), respectively.

#### *Approval of the acquisition of a 50% interest in Mangistau Investments B.V.*

On July 12, 2010 the Company announced an agreement to purchase a 50% interest in Mangistau Investments B.V. ("MIBV") from National Company KazMunaiGas for cash consideration of 330 million US Dollars. MIBV is a special purpose entity that owns a 100% of the common share capital of JSC Mangistaumunaigas ("MMG"). The Company's share of non-recourse consolidated net debt within MIBV is 1,330 million US Dollars. The board of directors have unanimously approved the purchase, which is subject to satisfaction of a number of conditions including the approval of regulatory bodies.

#### *Approval of the acquisition of a 50% joint venture interest in Kazakhoil Aktobe LLP and 51% joint venture interest in Kazakturkmunai Ltd.*

On July 12, 2010 the Company announced an agreement to purchase a 50% joint venture interest in Kazakhoil Aktobe LLP ("KOA") and a 51% joint venture interest in Kazakturkmunai Ltd. ("KTM") from National Company KazMunaiGas for cash consideration of 350 million US Dollars and 70 million US Dollars, respectively. The board of directors have unanimously approved the purchase, which is subject to satisfaction of a number of conditions including the approval of regulatory bodies.

#### *Export customs duty*

On July 13, 2010 the Government of Kazakhstan re-introduced export customs duty on crude oil at the rate of 20 US dollars per ton. For the 2007 year the rate was set of zero US Dollars per ton. The Decree comes into force on August 16, 2010.

#### *Dividends received from Petrokazakhstan Inc. (PKI)*

On December 4, 2009 the shareholders of PKI agreed to distribute dividends in the amount of 300 million US Dollars. On July 15, 2010 PKI distributed the remaining 50 million US Dollars of the abovementioned dividends. Previously, distribution of 50 million US Dollar and a 200 million US Dollars were made on February 24, 2010 and on May 6, 2010, respectively.

**Notes to the Condensed Consolidated Interim Financial Statements  
(unaudited) (continued)**

*Tenge thousands unless otherwise stated*

**14. Subsequent events (continued)**

*Purchase of NC KMG bonds*

On July 16, 2010, the Company purchased bonds issued by NC KMG on the Kazakhstan Stock Exchange ("KASE") in the amount of 220 billion Tenge (1.5 billion US Dollars). The bonds carry an annual coupon rate of 7% per annum to be paid semi-annually, are indexed to the USD/KZT exchange rate and mature in June 2013. Pursuant to the Bond Sale and Purchase Agreement between the parties NC KMG will mandatorily use any future dividends from the Company to offset against the outstanding bonds. Furthermore, if at maturity, NC KMG does not settle the outstanding bonds for cash, the Company will pay a special dividend to its shareholders where NC KMG's share is sufficient to settle the outstanding bonds. The purchase of the bonds have been approved by the board of directors of the Company.

*Acquisition of preferred shares on KASE*

As part of the buy back program, on August 4, 2010 the Company purchased 456,148 preferred shares at an aggregate purchase price of 8,201,965 thousand Tenge on a specialised trade of its preferred shares on KASE. The Company has purchased 763,260 preferred shares during 2010 for an aggregate price of 14,636,878 thousand Tenge as at August 4, 2010.

These condensed consolidated interim financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on August 11, 2010:

Acting Chief Executive Officer

\_\_\_\_\_  
Miroshnikov V.Ya.

Chief Financial Officer

\_\_\_\_\_  
Bekezhanova Zh.D.

Financial Controller

\_\_\_\_\_  
Drader Sh. CA

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