

ANNUAL REPORT

2010

Astana 2011





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ANNUAL REPORT

2010



ҚазМұнайГаз
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ



2010
Annual Report



A SPEECH OF WELCOME

Dear readers,
We would like to bring to your attention the Annual Report 2010
of Joint-Stock Company "National Company
"KazMunayGas".

www.kmg.kz

A SPEECH OF WELCOME



Timur Askarovich KULIBAYEV
Chairman of the Board of Directors
JSC "National Company "KazMunayGas"

Last year was important for recovering the rates of economic growth in the republic. Measures taken by the state prevented shocks in the economy and enabled companies to survive the hardships of the recession period.

Against the background of the growth of the world energy markets, National Company "KazMunayGas" improved the financial performance of its production activities in 2010. The volume of oil and gas-condensate production amounted to almost 22 million tons. The company's share in the country's liquid hydrocarbons production volume grew to 28 percent. The company's total profit rose almost threefold, the financial soundness improved.

The company remains one of the principle sources for recharging the state budget. The KazMunayGas group of companies accounts for 2.9 billion dollars in taxes and payments to the budget of the republic. This is a quarter of the state budget revenues and almost a third of all tax revenues of the budget. The National Fund of the republic is 70 percent formed using the receipts from the group.

In accordance with the strategic direction of increasing the company's resource base, a number of contracts on exploration in the Atyrau, Aktiubinsk and Mangistau oblasts were signed



Kayrgeldy Maksutovich KABYLDIN
Chairman of the Management Board
JSC "National Company "KazMunayGas"

with Kazakhstan's Ministry of Oil and Gas. Positive results of prospecting drilling were obtained onshore – the Liman block - and offshore – the N block. A number of important agreements was signed – on the Ishim gas-condensate deposit, the North-Caspian Project.

The increasing production requires diversification of the export directions for oil transportation. In this context, the final resolution of the Caspian Pipeline Consortium shareholders on the financial-and-economic and technical parameters of the CPC oil pipeline expansion project may be noted with great satisfaction. Implementation of the expansion project will make it possible to increase the volume of Kazakhstan's oil exports in the western direction step-by-step to 52.5 million tons of oil annually by 2015. Oil transportation in the eastern direction to China is in line with the plan. Over 10 mn tons were transported by the Atasu-Alashankou oil pipeline in 2010.

As part of the State Program for Boosted Industrial-and-Innovation Based development, concurrently with the modernization of the Atyrau Refinery, KazMunayGas is implementing the aromatics production project. The aromatics complex will for the first time render it possible to produce basic products for

Kazakhstan's petrochemical industry – benzene and paraxylene. Within the framework of the SPBIID, the project for construction of the road bitumens plant is also being implemented, with a view to providing the Republic of Kazakhstan with high quality road bitumens. The capacity of the road bitumens production plant is 400 thousand tons annually. Another ongoing project of the industrial-and-innovation-based development program is the project for construction of the Beineu-Bozoy-Shymkent gas pipeline. The 1,475 km gas pipeline will run across the territory of the Mangistau, Aktiubinsk, Kyzylorda, and South-Kazakhstan oblasts. Implementation of the project will allow to finally solve the issue of satisfaction of the gas requirement of the southern regions of the republic, eliminate the dependence on gas imports, and create a new export route in the direction of China.

Understanding the need for a strong coastal service infrastructure for the successful development of the hydrocarbon resources of the Caspian Sea shelf, KazMunayGas completed creation of the high-priority facilities of the offshore oil operations support base in the township of Bautino of the Tyub-Karagan gulf. The Integrated Plan for Development of the Coastline of the Kazakhstan Sector of the Caspian Sea was actualized during 2010. Aircraft for the company's needs were acquired.

One of the priority areas of work in 2010 was ensuring growth in the Kazakhstan content in the purchases of the KazMunayGas group of companies, and assistance to further development of the domestic oil and gas machine-manufacturing. The value of the agreements on purchase of goods, works and services in the KMG group of companies amounted to over 1.6 trillion tenges. The company's specialists are in constant contact with the representatives of the domestic business. The plans for purchases of goods, works and services are placed on the corporate sites of the KMG group on a regular basis. It stands to mention the "Program of Assistance by JSC NC «KazMunayGas» to Development of the Petroleum Mechanic Engineering in the Republic of Kazakhstan". Since the beginning of implementation of the first Program in 1998, Kazakhstan's plants have set up production of over 300 items of equipment on the largest positions. The share of the Kazakh production on a number of items has been brought to 100 percent. In 2010 52 Kazakh enterprises – manufacturers of finished products for the oil and gas complex are involved in the Program. Oil and gas equipment, machinery and materials for the amount of over 28 billion tenges have been bought from them.

In accordance with KMG's health, safety and environmental policy, the main priority directions are protection of health of the personnel and population, ensuring environmental safety for sustainable development. The "Comprehensive Environmental Program of JSC NC «KazMunayGas» for 2006-2015" is in place in the company, whose primary objective is to ensure systemic approach to the environmental activities in the KMG group of companies as a whole. The program is being successfully imple-

mented. Alignment of the environmental measures in compliance with the high-priority areas of activities was carried out in 2010. Great efforts were made to implement the governmental Programme for disposal of associated petroleum gas at the deposits and stopping gas flaring.

The work to improve the corporate governance and increase transparency of operations in accordance with the international principles and standards is underway. KazMunayGas is the only domestic oil and gas sector company represented in the Global Compact – the entity under the aegis of the UN, propagating conduct of business according to the sustainable development principles. According to the rating of web-sites assigned by the RFCA Ratings jointly with the Kazakhstan Independent Directors Association, the corporate site of KazMunayGas received the highest score among 500 companies of Kazakhstan and was given the "Best Corporate Web-Site" award. KazMunayGas was pronounced the winner in the "Senim 2010" contest and was given the "Best Managing Company-Employer" award.

The strategy of KazMunayGas in the sphere of corporate social responsibility and relations with parties concerned consists in securing long-term and mutually beneficial cooperation, support to the most actual and socially significant projects aimed for social-and-cultural and social-and-living development of the regions of the republic, support to the socially vulnerable strata of population, and implementation of measures on the level of the republic and internationally, in order to improve the image of the state as a whole and that of the Company, in particular. The Company continues to be the leader of the business environment in terms of social expenditures. In 2010, KazMunayGas and its subsidiary and dependent entities rendered sponsor assistance (charity) for the amount of over 10 billion KZT.

Positive performance influences upgrading of ratings and improvement of the company's international status. According to the estimate of the Energy Intelligence rating agency, reputable in the oil and gas industry, following the main results of the 2010 activities, KazMunayGas ranked 36th among the world's top oil and gas companies, rising by 5 positions from the 41st place in 2009.

On the whole, the 2010 results may be evaluated positively, noting the positive trends of the financial-and-production results of activities of JSC NC «KazMunayGas» in overcoming the adverse effects of the global economic recession.

Understanding the role and importance of the National Oil and Gas Company «KazMunayGas» for the stability and development of Kazakhstan's oil and gas industry, and other spheres of the economy and vital functions of the state, the team aims their efforts at increasing the operational efficiency in all fields of activity and creating conditions necessary to implement the strategic vision of the company as a highly efficient international-class oil and gas company.



Chairman of the Board of Directors
JSC "National Company «KazMunayGas»
T.A. Kulibayev



Chairman of the Management Board
JSC "National Company «KazMunayGas»
K.M. Kabyldin

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1991

At the end of 1991, along with general changes in the structure of the public administration of the republic, transformations in the management of Kazakhstan's energy sector occurred. The sector got under control of the Ministry of Energy and Electrification of the Republic of Kazakhstan and the RoK State Committee for Geology and Conservation of Resources.

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ABOUT THE COMPANY

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КазМұнайГаз
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ



ABOUT THE COMPANY

National Company “KazMunayGas” is Kazakhstan’s national operator for exploration, production, refining and transportation of hydrocarbons, representing the interests of the state in Kazakhstan’s petroleum sector. 100 percent of its shares are owned by the Sovereign Welfare Fund “Samruk-Kazyna” JSC.

Joint Stock Company “National Company “KazMunayGas” was established through the merger of National Oil And Gas Company “Kazakhoil” and National Company “Oil and Gas Transportation” in accordance with the Decree of 20 February 2002 of President of the Republic of Kazakhstan.

Mission

Maximizing the profits of the Republic of Kazakhstan from participation in the development of the national petroleum industry:

- Maximizing the company’s value, rising the profitability, ensuring industrial safety;
- Becoming an internationally competitive integrated oil and gas company;
- Support for domestic suppliers of goods, works and services, development of the local workforce.

Vision

KazMunayGas is a highly efficient international-class oil and gas company, meeting the highest standards of safety operations.

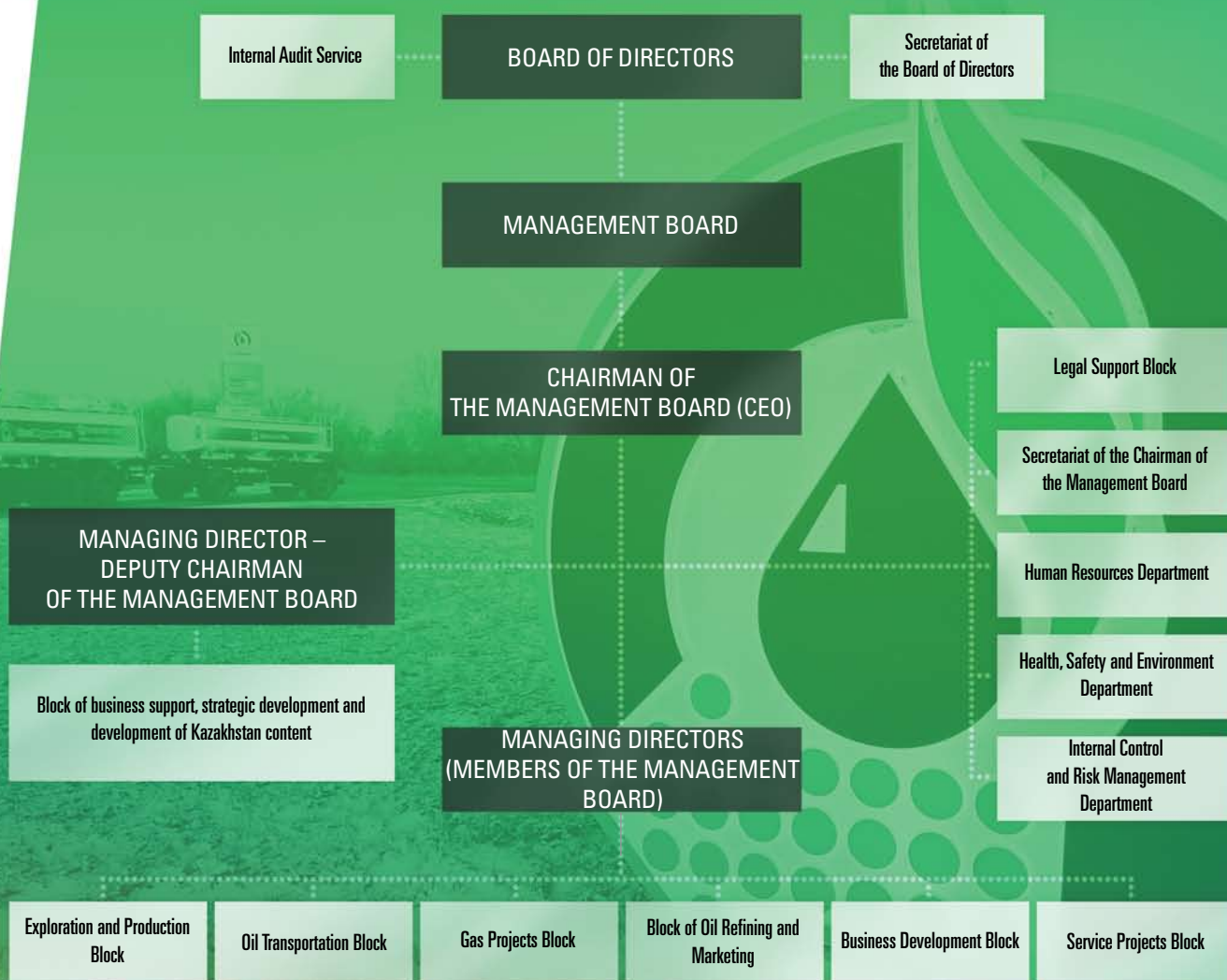
National Company “KazMunayGas” will pursue the strategy of integrated growth in the sectors of oil and gas upstream, transportation and marketing of gas, oil transportation, oil refining, petrochemistry and marketing of oil and oil products, and selective development of strategically important assets in the sector of services for the petroleum industry.

The objective of National Company “KazMunayGas” is to join the ranks of the world’s 30 top oil and gas companies by 2015.

The core operations of National Company “KazMunayGas” are as follows:

- participation in the implementation of the common state policy in the petroleum industry;
- ensuring efficient and rational utilization of the republic’s petroleum resources;
- participation in the development of the strategy to use, restore and further increase the oil and gas resources;
- representation of the state interests in contracts with contractors conducting petroleum operations, through obligatory participatory interest in contracts;
- participation in arrangement of competitive tenders for petroleum operations on the territory of the Republic of Kazakhstan;
- corporate governance and monitoring of exploration, development, production, refining, sales, transportation of hydrocarbons, engineering, construction, operation of oil and gas pipelines and petroleum field infrastructure;
- participation, in accordance with the procedure established by law, in domestic and international projects of the Republic of Kazakhstan for conduct of petroleum operations.

Company's organizational structure



BOARD OF DIRECTORS OF JSC NC «KAZMUNAYGAS»

Board of Directors
of JSC NC «KazMunayGas»
as of 31 December 2010

KMG's Board of Directors consists of 6 members, of them 2 are Independent Directors.

Chairman of KMG's Board of Directors is Timur Askarovich Kulibayev, elected by resolution of the Management Board of JSC «Sovereign Welfare Fund «Samruk-Kazyna» of 21 May 2009, minutes No.53/09.

During 2001, the following changes occurred in the membership of KMG's Board of Directors:

- as per resolution of the Management Board of JSC «National Welfare Fund «Samruk-Kazyna» dated 13 Aug 2010, No. 47/10, the powers of the following members of the Board of Directors were early terminated: Galiasat Kairbekovich Keshubaev – since 5 Jan 2010, and Bolat Uralovich Akchulakov – since 16 June 2010;
- as per the above-said resolution of the Management Board of JSC «Sovereign Welfare Fund «Samruk-Kazyna», for the term until the expiration of the term of powers of the Board of Directors as a whole Daniyar Rustemovich Abulgazin was elected a Member of KMG's Board of Directors.
- as per resolution of the Management Board of JSC «Sovereign Welfare Fund «Samruk-Kazyna» of 1 Nov 2010, minutes No.61/10, for the term until the expiration of the term of powers of KMG's Board of Directors as a whole Nurlan Yermekovich Sauranbayev was elected a Member of KMG's Board of Directors as the representative of KMG's Sole Shareholder's interests.



KULIBAYEV
Timur Askarovich

Chairman of the
Board of Directors of
JSC NC «KazMunayGas»

Has lead various business structures since 1992. Has held the posts of Director of the project evaluation and negotiating directorate of the State Investment Committee of the Republic of Kazakhstan, Vice President for Economy and Finance of CJSC «National Oil and Gas Company «Kazakhoil», President of CJSC «NOTC «KazTransOil», General Director of CJSC «National Company «Oil and Gas Transportation», Senior Vice President of JSC «NC «KazMunayGas», Advisor to President of the Republic of Kazakhstan, Deputy Chairman of the Management Board of JSC «Samruk» Kazakhstan Holding for State Assets Management», Deputy Chairman of the Management Board of JSC «National Welfare Fund «Samruk-Kazyna». Has been appointed Chairman of the Management Board of JSC NWF «Samruk-Kazyna» on 12 April 2011. He is Chairman of the Board of Directors in JSC «NAC «Kazatomprom», JSC «NC «KazMunayGas», JSC «NC «Kazakhstan temir zholy», JSC «Kazakhstan Electricity Grid Operating Company» (KEGOC), JSC «Samruk-Energo».

He receives no remuneration for his work in the Board of Directors of JSC NC «KazMunayGas».



KUIJLAARS
Frank C.W.

Independent Director

During his long (over 25 years) career in the international financial institutions – such as ABN AMRO Bank and later on in the Royal Bank of Scotland (RBS), Mr. Kuijlaars headed such important sectors of banking, as, for example: Head of Corporate and Investment Banking Instruments in Belgium, Regional Bank Manager in Brazil, Country Manager in Russia and Argentine, Global Head of the Integrated Energy Block, Chairman of the Audit Committee of ABN AMRO Bank in Russia, Chairman of the Audit Committee of ABN AMRO in Argentine. Mr. Kuijlaars has also been a member of Supervisory Boards in Russia, Kazakhstan and Uzbekistan. After his appointment as Corporate Executive Vice President in 2001, apart from the leadership of the Global Energy Business, he later on became a Member of Executive Committees for Europe, Central and Eastern Europe, Middle East and Africa, and the Head of the block for corporate and investment banking instruments, determining the policy on financing, advising, placement and purchase of securities in independent, international and national energy companies Mr. Kuijlaars has a particularly high reputation for his contribution into the development of the banking franchising on the energy markets, and for introduction of one of the world's leading types of energy franchising.

Receives a fixed fee at the rate of 100,000 US dollars per annum.



LANE
Peter William

Independent Director

Peter Lane has worked as Economic Advisor of the Exchequer, UK's Ministry of Finance. He worked for 13 years in Royal Dutch Shell, holding executive posts in a number of countries, including the post of Chief Executive Officer for East Caribbean, and Director of Shell UK Oil. In 1994 he was appointed Director of Lloyd's of London, and was a key person in the successful implementation of the Reconstruction and Renewal Program, that allowed the company taking up the market position held earlier. He has also been Director of Lloyd's in Japan. After that, he was appointed Managing Director of the Lloyd's in the US, which promoted recovery of Lloyd's position on this key market. Later on he worked as the Company's Managing Director for Insurance of Exchange Transactions. Since 2008 to the present he has been Chairman of the Management Board of Strathearn Capital Limited.

Receives a fixed fee at the rate of 100,000 US dollars per annum.



SAURANBAYEV
Nurlan
Yermekovich

Managing Director of
JSC "Samruk-Kazyna"
(representative of the
Sole Shareholder)

Has worked as Senior Vice President in OJSC "Atyrau Refinery", held the post of General Manager in CJSC NOC "Kazakhoil", General Director in the TenizService LLP. Has been Chairman of the Board of Directors of JSC "Airline "Euro-Asia Air" and JSC "Kazakh Institute of Oil and Gas". Until 2010, worked as Managing Director for Service Projects of JSC NC "KazMunayGas".

He receives no remuneration for his work in the Board of Directors of JSC NC "KazMunayGas".



KABYLDIN
Kairgeldy
Maksutovich

Chairman of the
Management Board,
JSC NC "KazMunayGas"

Has been in the petroleum industry since 1977. He has worked as Maintenance Engineer, Head of a department, Head of a pump station. Has held various posts in the USSR's Ministry of Oil Industry, RoK's Ministry of Energy and Fuel Resources, PA "Main Oil Pipelines of Kazakhstan and Central Asia", Ministry of Oil and Gas Industry. Has held the posts of Vice President for Strategic Development of CJSC "KazTransOil", Senior Vice President of CJSC "NC "Oil and Gas Transportation", Managing Director and Vice President of National Company "KazMunayGas", Deputy Chairman of the Management Board of JSC "Samruk". He receives no remuneration for his work in the Board of Directors of JSC NC "KazMunayGas".



ABULGAZIN
Daniyar
Rustemovich

Managing Director of
JSC "Samruk-Kazyna"
(representative
of the Sole Shareholder)

Has held the position of Chairman of the Management Board of the 1st Kazakhstan Voluntary Pension Fund, worked as Vice Minister of Finance, Vice Minister – Chairman of the State Property and Privatization Committee under the RoK MoF. Worked as Vice President, Chief of Staff of NOC "Kazakhoil", Deputy General Director of the Caspian Industrial-Financial Group, Managing Director, Advisor to President of JSC NC "KazMunayGas", General Director of the Caspian Industrial-Financial Group, Advisor to Chairman of the Management Board of JSC "NWF "Samruk-Kazyna". A Member of the Board of Directors of JSC "KEGOC" and JSC "Samruk-Energo". He receives no remuneration for his work in the Board of Directors of JSC NC "KazMunayGas".

COMMITTEES OF THE BOARD OF DIRECTORS

Appointment Committee

Chairman: T.A. Kulibayev (Chairman of the Management Board of JSC "NWF "Samruk-Kazyna", Chairman of the BD)
Members: F. Kuijlaars, P. Lane (KMG's Independent Directors)

Remuneration Committee

Chairman: T.A. Kulibayev (Chairman of the Management Board of JSC "NWF "Samruk-Kazyna", Chairman of the BD)
Members: F. Kuijlaars, P. Lane (KMG's Independent Directors)

Audit Committee

Chairman: F. Kuijlaars (KMG's Independent Director)
Members: F. Lane (KMG's Independent Director), S.N. Mynsharipova (Director of the Audit and Control Department of JSC "NWF "Samruk-Kazyna")

MANAGEMENT BOARD OF JSC NC "KAZMUNAYGAS"*

as of 31 December 2010



KABYLDIN,
Kaïrgeldy Maksutovich

Chairman of the Management Board,
JSC NC "KazMunayGas"



TIYESOV, Daniyar Suyinshlikovich
Managing Director, Downstream

He has worked as Deputy General Director for Operations in JSC "TH "KazMunayGas", has held various posts in LLP "Atyrau Refinery", CJSC "NC "KazMunayGas" and NOC "Kazakhoil".



BALZHANOV, Askar Kumarovich
Managing Director, Upstream

He has worked as General Director of the KazMunaiGas EP JSC, JSC OOC KazMunayTeniz, Deputy General Director of CJSC "KazRosGas", and held executive posts in various business structures.



MIRZAGALIYEV, Magzum Maratovich
Managing Director, Service Projects (elected Member of the Management Board on 25 June 2010)

Worked as Drilling Mud Engineer, Head of the Aktau Branch of MI Drilling Fluids International, General Director of the TenizService LLP.



BOZZHANOV, Tolegen Jumadovich
Managing Director for Business Development

Has worked as General Director of JSC "Trade House "KazMunayGas". He has held the posts of Executive Director of JSC NC "KazMunayGas", Deputy General Director of "Kar-Tel" LLP, Managing Director of the Kazkommertzsecurities OJSC.



ZHANGAULOV, Yerzhan Arystanbekovich
General Manager, Legal

He has worked in CJSC "NC "Oil and Gas Transportation". Has held the post of the head of the legal support service and head of the department of the legislation, defense and law order sector in the Administrative Department of the President of the RoK. Has worked in the RoK Prime Minister's Office, in the Ministry of Justice, and RoK's Public Prosecutor's Office.



NAZAROV, Bolat Kunakbayevich
Managing Director, Gas Projects

He has worked as General Director of JSC "KazTransGas". Has held the posts of Deputy General Director of LLP "KazRosGas", Managing Director for PSA Projects Management of JSC NC "KazMunayGas", Executive Director for

PSA Projects Management of JSC NC "KazMunayGas", First Deputy General Director of JSC "Intergas Central Asia", Vice President of JSC "KazTransGas" for the Karachaganak Project, Director of a department in NOC "Kazakhoil", Vice President for Sales of JSC "KarachaganakGazprom".



SHMANOV, Nurtas Nuribekovich
Managing Director, Transportation

He has worked as General Director of JSC "KazTransOil", Deputy General Director-at-Large of CPC-R, Regional Manager for Transportation in ChevronNefteGaz in Moscow and Almaty. Has held various posts in ShevronMunaiGaz and Atyrau Oil Pipeline Administration.



PALYMBETOV, Bolat Abylkassymovich
Managing Director – Deputy Chairman of the Management Board (elected Member of the Management Board on 4 May 2010)

Worked in the governmental authorities – Deputy Akim of the Atyrau oblast, Vice Minister of Economy and Trade of Kazakhstan, Akim of the Mangistau oblast, Vice Minister of Economy and Budget Planning. Deputy Chairman of the Management Board of OJSC "Halyk Bank of Kazakhstan", General Director of Closed Joint Stock Company "KazTransOil", Senior Deputy General Director of National Company "Oil and Gas Transportation". In recent years led the socially-responsible corporation "Kaspiy".

* Members of the Management Board receive no remuneration

1992



In 1992 Kazakhstan, Russia and Oman established the Caspian Pipeline Consortium (CPC), planning to construct a pipeline for transportation of oil from the Tengiz field to the Black Sea port in Novorossiysk.



KEY FINANCIAL AND PERFORMANCE INDICATORS

KEY FINANCIAL INDICATORS

KZT mn

	2010	2009	2008	2010 / 2009
Total income including:	2,252,197	1,955,526	2,022,475	15%
Income from sales of goods and rendering services	2,098,942	1,589,549	1,885,606	32%
Total expenses including:	2,065,663	1,765,068	1,678,475	17%
Cost price of sold products and rendered services	1,409,001	1,050,463	1,199,360	34%
Corporate income tax expenses (including sales tax)	132,675	178,603	200,287	74%
Total profit	305,309	110,904	298,291	275%

KEY PERFORMANCE INDICATORS

	2010	2009	2008	2007
Oil and gas-condensate production, thousand tons	21,971	18,701	18,051 ¹	16,690
Gas production ² , Mcm	4,912	4,332	3,786	3,532
Oil transportation by main oil pipelines ³ , mn tons	65.83	64.18	60.65	50.8
Marine transportation of oil ⁴ , thousand tons	7,082	7,363	2,869	2,280
Gas transportation by main gas pipelines, bcm	99.4	91.1	116.7	114.2
Hydrocarbons refining, thousand tons	15,144	12,758	10,993	4,712 ⁵
A, B, C ₁ oil reserves (proven) at year-end, mn tons	791.3	781.4	706	611.3
A, B, C ₁ natural gas residual reserves at year-end, bcm	395.6	374.6	343.2	236.5
Average headcount as of 31 December, people ⁶	64,660	57,087	54,768	52,829

¹ Consolidated oil uplift taking into account oil production by PetroKazakhstan.

² Natural and associated gas. Includes the KMG EP and Kazgermunay volumes.

³ Includes the volume of oil transportation by the main pipelines of JSC "KazTransOil" and transportation volumes of JSC "North-West Pipeline Company" "MunaiTas" (51%) and LLP "Kazakhstan-China Pipeline" (50%).

⁴ 2007-2008 – 50 % share of JSC "NMSK "Kazmortalstot".

⁵ Consolidated indicator – taking into account the refining volumes in the Shymkent Refinery and acquisition of the 49.72% stake in July, 2007.

⁶ Historic data have been changed in accordance with the used consolidation method.

ASSET STRUCTURE OF THE JSC NC «KAZMUNAYGAS» GROUP

as of 31 December 2010

UPSTREAM

KMG EP JSC	57,9%
Cooperative KMG PKI	95,1%
Kazakhturkmunai LLP	51%
Kazakhoil-Aktobe LLP	50%
KMG-Kumkol LLP	100%
JV "TCO" LLP	20%
KazMunayTeniz OOC JSC	100%
OOO "KOGC"	50%
KMG Kashagan B.V. plc	100%
"N Operating Company" LLP	100%
"MK Caspian Zhuldyz" LLP	50%
Urikhtau Operating LLP	100%
BeineuMunayGas LLP	100%
PSA LLP	100%
TOTAL:	14

OIL TRANSPORTATION

KazTransOil JSC	100%
CPC-R CJSC	20,75%*
CPC-K JSC	20,75%*
JSC "NMSK "Kazmortransflot"	100%
KMG-Transcaspiy LLP	100%
Kazakhstan Pipeline Ventures LLC	100%
TOTAL:	6

DOWNSTREAM

KMG – Refining & Marketing JSC	100%
Kylysh JV	50%
Kazakhstan Petrochemical Industries JSC	50%
"Kazakhoil-Ukraina"	34,04%
JSC "Pavlodar Petrochemical Plant"	42%
TOTAL:	5

GAS TRANSPORTATION AND MARKETING

KazTransGas JSC	100%
KazRosGas LLP	50%
AstanaGas KMG LLP	100%
TOTAL:	3

SERVICE SECTOR (CONDITIONALLY-SPECIALIZED AND NON-CORE SERVICES)

Euro-Asia Air JSC	100%
Kazakhstan-British Technical University JSC	100%
Semser Security LLP	100%
Rauan Media Group JSC	96,56%
"Kazakh Institute of Oil and Gas" JSC	98,3%
KMG-Service LLP	79,58%
Naukograd LLP	100%
TenizService LLP	48,996%
"KMG's Businesses under Construction Directorate" LLP	100%
TOTAL:	9

ASSETS OF SUBSIDIARY AND DEPENDENT ENTITIES OF JSC NC «KAZMUNAYGAS»

Entity	KMG NC's Equity, %	Subsidiary and Dependent Entities	Equity, %
KazMunaiGas EP JSC	57,9	CEKB LLP	100
		Akniyet-Emba LLP	100
		Embaenergomunai LLP	100
		Embaokuortalygy LLP	100
		KRUZ LLP	100
		Zhondeu LLP	100
		Munaienergosservis LLP	51
		Ken-Kurylysservis LLP	100
		Ozen-Yeles LLP	100
		TOO KMG EP Catering	100
		KazGPP LLP	100
		UDTV LLP	100
		KazMunayGas-Service LLP	20,42
		Kazgermunai JV LLP	50
		KING JSC	1,7
		Kazakhstan Petrochemical Industries JSC	50
		Munaishy Holdings Limited	100
		Kazakhstan Petrochemical Industries Inc. LLP	51
		KMG EP NETHERLANDS ENERGY COOPERATIEF U.A.	95
		Munaishy Finance B.V.	100
		COOPERATIVE KMG EP U.A.	95,1
		KMG EP Norge	100
		NBK LLP	100
		SapaBarlau Service LLP	100
		KMG EP UK Limited	100
KazMunayTeniz OOC JSC	100	Tyub Karagan Operating Company B.V. Branch	50
		Kurmangazy Petroleum LLP	100
		Atash Company LLP	50
		Caspi Meruerty Operating Company B.V. Branch	40
		Zhambyl Petroleum LLP	100
		Teniz Burgylau LLP	100
		Zhambai LLP	50
		Caspi Development Centre LLP	7
KazTransGas JSC	100	GasInService LLP	100
		Asian Gas Pipeline LLP	50
		KazTransGas AG Company	50
		KyrKazGas OsOO	50
		Intergas International B.V.	100
		LLP "Intergas Central Asia"	100
		KazTransGas-Aimak JSC	100
		KazTransGas Onimderi LLP	100
		Amangeldy Gas LLP	100
		Intergas Finance B.V.	100
		KazTransGas-Almaty JSC	100
		KazTransGas-Tbilisi OOO	100
		Beineu-Shymkent Gas Pipeline LLP	100
		Samruk-Energo JSC – in trust of JSC NWF "Samruk-Kazyna"	6
KazTransOil JSC	100	KazTransOil-Service JSC	100
		"MunaiGas" North-Western Pipeline Company JSC	51
		Kazakhstan-China Pipeline LLP	50
		"Accumulative Pension Fund of Halyk Bank of Kazakhstan" JSC	1
		Batumi Capital Partners (Cyprus)	50
		Batumi Industrial Holdings (Cyprus)	100
JSC "NMSK "Kazmortransflot"	100	Kazmortransflot UK LTD	100
		Mangistau Oblast Ship-Repair Yard LLP	30
		Kazmortransflot LTD	100

ASSETS OF SUBSIDIARY AND DEPENDENT ENTITIES OF JSC NC «KAZMUNAYGAS»

Entity	KMG NC's Equity, %	Subsidiary and Dependent Entities	Equity, %
JSC "KazMunayGas – Refining & Marketing"	100	KMG-Astana LLP (Astana)	100
		KMG-Alatau LLP (Almaty)	100
		KMG-Zhaiyk LLP (Atyrau)	100
		Kazkor-Transservice JSC (Aktau)	12,87
		TransMunai OOO (Kiev)	50
		PE "Samruk-Kazyna" CU" (Astana)	9,9
		JSC "KMG-Ominderi"	100
		TH KazMunaiGaz N.V. (Amsterdam)	100
		Refinery Company RT	100
		Atyrau Refinery LLP	99,49
		TOO «Eurasia Munai Impex»	100
KazRosGas LLP	50	"KazRosGaz" AG	99
		KazRosGas Service OOO	100
"Kazakhoil-Ukraina" LLP	34,0	"Ukrnefteprodukt" TH" LLP	99,996
KMG-Service LLP	79,58	Borzhomi-Likani OOO	100
		"KMGS-Georgia" OOO	100
		Aisir Tourism ve Inshaat anonym Shirketi JSC	75
		KMGS-Kurylys LLP	100
		KazMunayGasService-Compass LLP	40
		AstanaEnergoservice JSC	0,065
Kazakhstan-British Technical University JSC	100	"Research and Development Center of the KBTU" LLP	100
		KBTU Business School LLP	100
		"D.V. Sokolsky Institute of Organic Catalysis and Electrochemistry" JSC	100
		"A.B. Bekturov Institute of Chemical Science" JSC	100
"Kazakh Institute of Oil and Gas" JSC	98,3	"NIPI Kaspimunaigas" JSC	100
		KazNIPImunaigas JSC	100
		"Petrodata Kazakhstan" JSC	50
		Technip-Kazakhstan JV LLP	50
Rauan Media Group JSC	96,56	"Rauan" Publishing House LLP	100
		New Television-Kazakhstan LLP	100
		Izvestiya-Kazakhstan LLP	80
		"NS Radio-Nationwide Network" Television and Radio Broadcasting Company LLP	100
		"Television of the City of Astana" LLP	40
KMG-Kumkol LLP	100		
Kazakhoil-Aktobe LLP	50		
Kazakhturkmunai LLP	51		
Kashagan b.v. LLC	100		
Kazakhstan Pipeline Ventures LLC	100	CPC-K JSC	1,75
		CPC-R CJSC	1,75
Teniz Service LLP	49	Kaz M-I LLP	51
CPC-K JSC	19		
CPC-R CJSC	19		
Caspian Oil-and-gas Company OOO	50		
Tengizchevroil JV LLP	20	Tengizchevroil Finance Company	100
		Tengizchevroil International Bermuda Limited	100
"Kilysh" Commercial Partnership	50		
Cooperatieve KazMunaiGaz PKI U.A.	95,1	KMG Hvalynskoye Finance B.V.	100
		KazMunaiGaz Finance Sub B.V.	100
		KazMunaiGaz Finance B.V.	100
		Mangistau Investment B.V.	50
			100
"Euro-Asia Air" JSC	100		
"Semser Security" LLP	100	"Semser Ort Sondirushi" LLP	100
"N Operating Company" LLP	51		
KMG-Transcaspi LLP	100		
Kazakhstan Petrochemical Industries JSC	50	SAT Operating Aktau" LLP	100
		"SAT Operating Atyrau" LLP	100
		"JV "CASPI BITUM" LLP	50
"MK Caspian Zhuldyz" LLP	50		
Urikhtau Operating LLP	100		
"KMG's Businesses under Construction Directorate" LLP	100		
Naukograd LLP	100		
PSA LLP	100		
AstanaGas KMG LLP	100		
BeineuMunayGas LLP	100		
JSC PPCP	42		

STRATEGIC OBJECTIVES

The strategic objective of KazMunayGas is to join the ranks of the world's 30 top oil and gas companies by 2015 in terms of oil reserves and production.

Following the results of 2010, KazMunayGas is holding leading positions in terms of operating activities in the country's oil and gas sector. Shares held per Company's key operating sector are as follows:

Business area		2010		2009		2008	
			%		%		%
Reserves	A, B, C ₁ oil reserves (proven) at year-end, mn tons	791.3	14*	781.4	25*	706	23*
	A, B, C ₁ natural gas residual reserves at year-end, bcm	395.6	16*	374.6	32*	343.2	29*
Production	Oil and gas-condensate production, thousand tons	21,971	28	18,701	24.5	18,051	25.5
	Gas production, Mcm	4,912	13.1	4,332	12	3,786	11.2
Oil transportation	by main oil pipelines, mn tons	65.8	76.4	64.18	63	60.65	62
	marine transportation of oil, thousand tons	7,082	74	7,363	66	2,869	64
Natural gas transportation by main gas pipelines, bcm		99.4	95.7 ¹	91.1	100	116.7	100
Refining	oil, thousand tons	11,392	83.2	8,192.5	67.5	6,079	49.5
	² sour gas, Mcm	7,901	50	8,266	50	7,916	50
Retail sales	oil products, thousand tons	543	9.0	295.7	9.0	361.7	10.0
	natural gas, Mcm	5,989	100	5,008	100	5,465	100

* according to experts' estimates

¹ The Asia Gas Pipeline JSC transported 4.5 bcm of gas to China in 2010

² Gas processing in the OGPP (Orenburg Gas-Processing Plant)

The top priorities of KazMunayGas in the oil and gas upstream sector are:

- replenishment of the resource potential of KazMunayGas;
- increasing the volume of exploration works;
- creation of the Core Storage and Study Centre;
- development of a quality geologic-geophysical database;
- organization and development of the own centre for acquisition, processing and interpretation of geologic-geophysical and field data;
- creation of live geologic and simulation models of the KazMunayGas' fields;
- implementation of projects to increase the volumes of production at the fields under development;
- introduction of an efficient Project Management System and an efficient Exploration Management System;
- supplementary exploration and development of new fields using new technologies;
- introduction of new drilling technologies (for example, coil tubing, lateral drilling etc.);
- putting new fields on line;
- efficient system for innovation-based development of exploration and production.

Top priorities of KazMunayGas in the sector of oil refining, petrochemistry and marketing of oil and oil products include increase in Kazakhstan's oil refining volumes to 19 mn tons annually by 2016 and maximizing the earning capacity of oil and oil products trading operations.

KazMunayGas plans to implement a number of large-scale investment projects, including, as part of implementing the Program for Development of Oil and Gas Sector of the Republic of Kazakhstan for 2010-2014, approved by the Government of the Republic of Kazakhstan:

- modernization of the refining assets for the purpose of increasing the processing depth (to 89% starting 2016), and increasing the quality of oil products (Euro-3 - starting 2014, Euro-4, Euro-5 – starting 2016),
- construction and commissioning of a Bitumen Plant in Mangistau oblast by 2012,
- development of the retail network with a view to increasing the share of KazMunayGas on the retail market up to 20% by 2015.

In the gas transportation and marketing sector:

- gaining and using to the maximum of the status of common operator for transportation, transit, exports, imports and distribution of gas,
- completion of forming a technically integrated gas-transportation system and diversification of the export and transit directions through completion of construction of the First Section of the “Kazakhstan-China” Gas Pipeline and the Beineu-Shymkent gas pipeline,
- forming a complete cycle of the value chain in the gas sphere through buildup of the own reserves and increasing the volumes of the own production of natural and associated gas, both in Kazakhstan, and in the adjacent countries,
- entering into long-term agreements on the guaranteed volumes of transit of the Central Asian and Russian gas across the territory of the Republic of Kazakhstan, and agreements on counter-delivery of gas to the Republic of Kazakhstan with a view to providing the south’s consumers with gas at acceptable prices through swap operations with the Karachaganak gas,
- arranging project financing and financing at the expense of partners for implementation of the projects for modernization and expansion of the gas-distributing networks in the regions of Kazakhstan,
- selective development of the electric power industry using gas.

In the oil transportation sector:

- increasing the role of KazMunayGas as a common operator of the domestic oil-transportation infrastructure, which will allow strengthening the own positions in the relations with partners and ensuring the fullest protection of the state’s economic interests,
- preparation and implementation of the Kazakhstan Caspian Transportation System project, projects for expansion of the Kazakhstan-China Pipeline and Caspian Pipeline Consortium, buildup of the tanker fleet capacity, ensuring expansion and diversification of the export capacity to provide flexibility in export directions in the long-term.

In the service sector KazMunayGas is facing three top-priority tasks:

- implementation of infrastructure and service projects as part of the Program for Development of Oil and Gas Sector of the Republic of Kazakhstan for 2010-2014, approved by Decree of the RoK Government No. 1072 of 18 October 2010.
- development of the “Kazakh content” in the petroleum industry,
- implementation of the restructuring program for the purpose of optimization and creation of an efficient and transparent structure of the service assets of KazMunayGas, capable of increasing the economic viability of the service business area.

INTEGRATED MANAGEMENT SYSTEM

In accordance with the State Program for Boosted Industrial-and-Innovation Based Development of the Republic of Kazakhstan, the Sole Shareholder – Samruk-Kazyna – has developed an action plan to implement the Strategy for 2011-2020, providing for introduction and improvement of the management systems in its subsidiary and dependent entities as per the requirements of the international standards.

As at 31 December 2010, 8 subsidiaries of KazMunayGas (incl. the KMG Exploration Production JSC, JSC “KazTransOil”, JSC “KazMunayTeniz”, JSC “KMG – “Refining & Marketing”, JSC NMSK “Kazmortalflot”, LLP “KazakhoilAktobe”, JSC “Kazakh Institute of Oil and Gas”, LLP “Teniz-Service”), as last year, were certified against three standards (ISO 9001, ISO 14001 and OHSAS 18001). 6 entities (JSC “EuroAsiaAir”, JSC “KazTransGas”, LLP “KazRosGas”, JSC KBTU, LLP “Semser”, LLP “KMG-Service”) – introduced and are now improving their quality management systems as per the requirements of the ISO 9001 standard.

According to the submitted reports, the implementation of management systems as per the requirements of international standards in the majority of subsidiaries has enabled them to improve the processes, their interrelation, and allocation of responsibility for the processes.

In 2010 the Semser-Security LLP expanded the area of application of the health, safety and environment system as per the requirements of OHSAS 18001.

In March, 2010 JSC NC “KazMunayGas” passed a compliance audit that confirmed compliance of the integrated management system of KazMunayGas and extended the compliance certificates issued in 2009 for one more year.

Over almost five years of the system’s existence, about 150 KMG employees have been trained; a 2-week seminar for KMG’s senior management was organized in December, 2010 in the Japan Petroleum Industry Human Resources Development Center.



1993

The “contract of the century” was made on 6 April 1993 – such a name was given to the long-term (40 years) agreement with the American Chevron signed by the RoK Government.

2010
Annual Report

II

OIL AND GAS UPSTREAM

II

www.kmg.kz



КазМұнайГаз
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

OIL AND GAS UPSTREAM

In 2010 JSC NC “KazMunayGas” made purposeful efforts in the main strategic business area – buildup of the hydrocarbon reserves and production, works on the project “Integrated Study of Sedimentary Basins of the Republic of Kazakhstan” were continued. As part of these efforts, analysis of the petroleum potential of 15 RoK sedimentary basins, revaluation of the earlier known oil-bearing regions, areas and identification of new territories based on the appraisal of hydrocarbon resources per sedimentary basin will be carried out. The deliverables will make it possible to perform quantitative evaluation of the RoK predicted hydrocarbon resources, optimize economic performance of exploration, contribute to a material increase in KMG NC’s resource base.

RESERVES

Further growth of the level of consolidated proven reserves of oil and gas was registered in 2010. Whereas, as of 1 January 2010 the proven residual recoverable oil reserves of JSC NC “KazMunayGas” (taking into account the participatory interest) amounted to 781.4 mn tons of oil, at the end of 2010 this indicator was 791.3 mn tons of oil. The 2010 increase in the reserves was mainly due to the recalculation and revaluation of deposits reserves at the producing assets.

A, B, C,¹ Category Consolidated (Proven) Hydrocarbon Reserves of the “KazMunayGas” Group

Name	As of 1 Jan 2010	Total increment	Production	As of 1 Jan 2011
Oil, mn tons	781.4	31.77	21.87	791.3
Condensate, mn tons	14.0	1.1	0.044	15.0
Natural gas, bcm	374.6	26.8	5.0	395.6

¹ Calculated according to the Instruction on Qualification Classification of Fields Reserves, Oil and Natural Hydrocarbon Gas Prospective and Forecast Resources (approved by Order No. 283 dated 27 October 2005 of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan).

OIL PRODUCTION

The consolidated uplift of oil and gas-condensate in the KazMunayGas group of companies amounted to 21,971 thousand tons in 2010, with the plan of 21,103 thousand tons (+868 thousand tons) or 104% of the plan. As compared to 2009, the consolidated production of oil and condensate by the companies with a participatory interest of JSC NC "KazMunayGas" increased by 3,269 thousand tons or 17.5% in 2010. The increase in the oil output in the company as a whole was achieved by means of consolidation of the MangistauMunaiGaz JSC production and growth in the oil production by the Tengizchevroil LLP.

In 2010 the consolidated volume of oil and condensate production, taking into account the participatory interest of the KazMunaiGas EP JSC, amounted to 13,299.8 thousand tons, with

the plan of 13,228.6 thousand tons (+71.2 thousand tons) or 100.5% of the plan. As compared to 2009, the consolidated production of oil and condensate by the companies with a participatory interest of the KazMunaiGas EP JSC increased by 1,787.8 thousand tons (or 15.5%) in 2010. The increase in the oil production volume was mainly due to the acquisition of the 33% interest in PetroKazakhstan Inc. in December, 2009.

In order to achieve basic development parameters, well interventions to ensure the planned oil production and efficient operation of the operating and injection well stock were made.

JSC NC "KazMunayGas" accounted for 28.0% of oil production in the republic as a whole. A total of 79.6 mn tons of oil were produced in Kazakhstan in 2010.

Oil and Gas Condensate Production in Companies with Participation of JSC NC "KazMunayGas"

thousand tons

Name	2010	2009	2008	2007	2006
KazMunaiGas Exploration Production	8,780	8,978	9,486	9,548	9,551
KazTransGas (Amangeldy Gas)	24	26	26	26	-
Kazakhoil-Aktobe (50%)	488	468	380	435	509
Kazakhturkmunai (51%)	116	113	111	129	163
PetroKazakhstan (33%)	1,999	2,077	2,109	2,238	-
Kazgermunay (50%)	1,551	1,601	1,570	1,527	-
Karazhanbasmunay (50%)	970	933	914	-	-
Tengizchevroil (20%)	5,183	4,505	3,455	2,786	2,664
MangistauMunaiGaz (50%)	2,860				
TOTAL	21,971	18,701	18,051	16,689	12,887

OIL AND GAS UPSTREAM

GAS PRODUCTION

The consolidated production of natural and associated gas in the KazMunaiGas group of companies amounted to 4,912 Mcm in 2010, with the plan being 4,551 Mcm (+361 Mcm) or 108% of the plan. As compared to 2009, the consolidated production of natural and associated gas in the KazMunaiGas group of companies

in 2010 increased by 579.5 Mcm or 13% of the plan. KazMunaiGas Exploration Production JSC and LLP "Tengizchevroil" account for the bulk of gas production in the KazMunaiGas group of companies.

Gas Production in Companies with Participation of JSC NC "KazMunaiGas"

Mcm

Name	2010	2009	2008	2007	2006
KazMunaiGas Exploration Production	890	932	1,018	1,098	1,181
Kazgermunay	258	260	262	276	118
Tengizchevroil	2,724	2,338	1,798	1,445	1,382
Kazakhoil-Aktobe	141	136	107	140	224
MangistauMunaiGaz	227				
Other	672	666	601	573	319
TOTAL	4,912	4,332	3,786	3,532	3,224

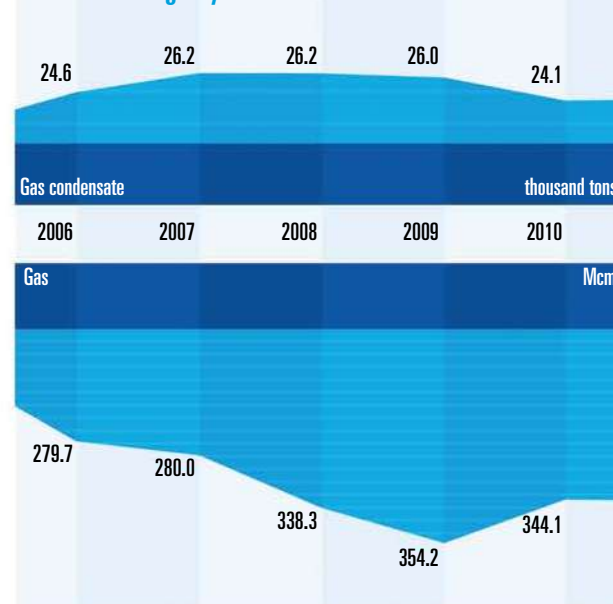
In accordance with the Program for Development of Gas Industry of the Republic of Kazakhstan for 2004-2010, with a view to providing the consumers of the republic's south region with gas and ensuring energy security, JSC "KazTransGas" conducts exploitation of the Amangeldy group of gas deposits in Zhambyl oblast under the Hydrocarbon Feedstocks Exploration and Production Contract of 12 Dec 2009.

Within the framework of this project commercial exploitation of the Amangeldy field and development of other fields of the Amangeldy group is carried out, including a complex of exploration and seismic works, reserves calculation, development of test production projects, projects for construction of producer wells and field surface facilities.

LLP "Amangeldy Gas" (a subsidiary of JSC "KazTransGas") is carrying out development of the Amangeldy gas and condensates field, located 170 km to the north from the city of Taraz (administrative centre of Zhambyl oblast in the south of Kazakhstan).

Development of the field began in 2001, first gas supply to consumers in Taraz was in 2003. Since the beginning of exploitation of the Amangeldy gas field, 2.1 Bcm of gas and 178.1 thousand tons of condensate have been produced.

Natural gas and condensate production on the Amangeldy field



IMPLEMENTATION OF SPBIID PROJECTS

Reconstruction and Modernization of the Atyrau Refinery

«CONSTRUCTION OF THE AROMATICS PRODUCTION COMPLEX»

ANTICIPATED EFFECT:

- Increase in the refinery's balanced capacity from 4.3 to 5.0 mn tons annually.
- Increase in the volume of production of high-octane gasoline meeting the Euro-3 standard.
- Production of petrochemical feedstocks (benzene, paraxylene).

PROJECT COSTS: 1 130 mn USD

CURRENT STATUS:

- Turnkey EPC contract with Sinopec (PRC) signed on 29 Oct 2009.
- Master loan agreement signed between DBK and the AR LLP for financing of the project for an amount of 1,064 mn USD on 30 Jul 2010.
- Advanced payment made in the amount of 312 mn USD on 30 Sep 2010, the contractor proceeded to construction.
- The AR crude processing tariff increased from 5,764.92 tenge to 7,472.1 tenge per 1 ton on 15 Nov 2010, in order to service the loan raised for the implementation of the investment projects.
- Disassembling performed with the assistance of Kazakh companies, the construction sites fenced, works on the soil surveying of the processing facilities completed, works on the pile driving and testing accomplished.
- Work on the pile driving at the construction site, development of the detailed design, purchase of equipment are underway.

PLANS FOR 2011:

- Development of the engineering documentation: by March, 2012
- Placement of equipment purchase orders – by March, 2013
- Performance of construction and assembly works on the project facilities – by December, 2013.

PROJECT IMPLEMENTATION PERIOD: 2010-2013

PARTICIPATION IN MAJOR OIL AND GAS PROJECTS

TENGIZ PROJECT

The Tengiz field discovered in 1979 is one of the largest in the world.

The agreement on the project of LLP "Tengizchevroil" (TCO) was signed on 2 April 1993 between the Republic of Kazakhstan and Chevron. The hydrocarbon exploration and production licence was issued to TCO in 1993 for a term of 40 years.

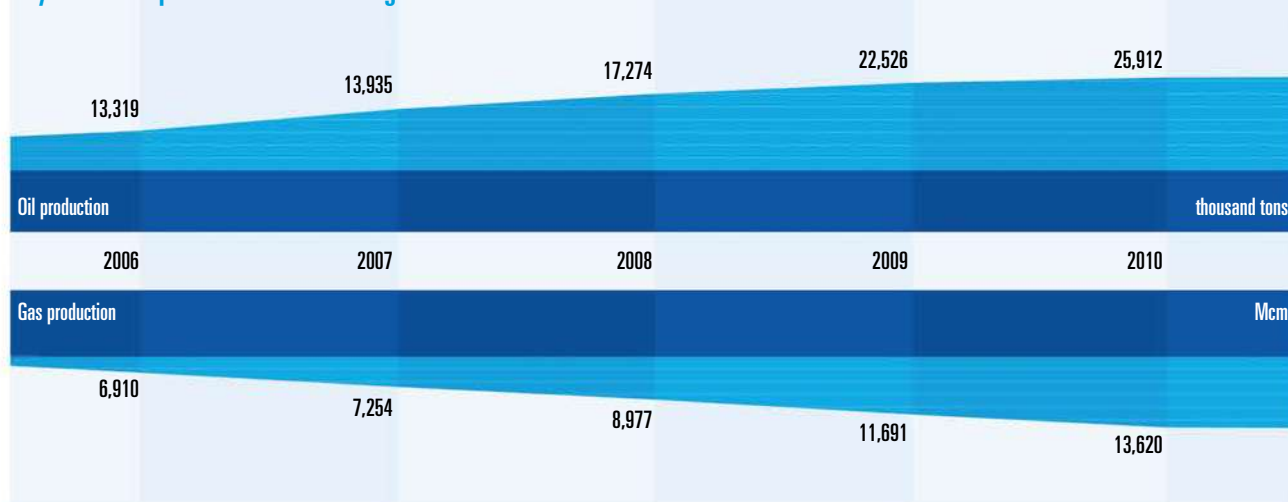
TCO's core business is exploration, production and sales of hydrocarbons from the Tengiz and Korolevskoye deposits.

Currently, TCO's Partners are: Chevron (50 %), ExxonMobil (25 %), JSC NC "KazMunayGas" (20 %) and LUKArco (5%).

As part of the production capacity expansion, TCO implemented phased commissioning of the Second Generation Plant (SGP) in 2008. The principal objective of the project is increasing the field producing capacity and refining capacity to the level of 25 mn tons of crude annually.

In 2010 the total oil production by TCO amounted to 25.9 mn tons, gas production – 13.6 bn cubic meters.

Hydrocarbon production on the Tengiz field in 2006-2010



NORTH-CASPIAN PROJECT

The North Caspian Production Sharing Agreement (PSA) was signed on 18 November 1997.

Pursuant to the PSA, the contract area of the consortium is comprised of four oil-bearing structures: Kashagan, Kalamkas, Ak-toty, Kairan, Kashagan South-West. North-Caspian Project C₁ proven recoverable reserves as of 1 January 2010 are 781.8 mn tons of oil, and taking into account the participatory interest of NC "KazMunayGas" – 131.4 mn tons.

Participatory interests in the PSA are distributed among KazMunayGas, ENI, Total, ExxonMobil, Shell – 16.81% apiece, ConocoPhillips – 8.40 %, Inpex – 7.56%.

According to the new operational model, North Caspian Operating Company B.V. has assumed the responsibilities of the Operator of the North-Caspian Project since 22 January 2009.

In 2010 planned works to implement the project for pilot commercial development of the Kashagan field were conducted.

The Memorandum of Understanding between NCPOC and the Teniz-Service LLP for Engineering and Construction of the North-Caspian Oil Spills Response Environmental Base (NCERB) was signed on 2 July 2010.

Currently, in respect of Stage II of the Kashagan development, the works on the selection and optimization of the concept are underway, various scenarios of Stage II are being considered.

1994



On 13 June 1994 the RoK Ministry of Energy and Fuel Resources was divided by a Decree of the President of the Republic of Kazakhstan into the Ministry of Energy and Coal-Mining Industry and the Ministry of Oil and Gas Industry. In July, 1994 Kazakhstan presented the draft Convention on the Legal Status of the Caspian Sea to the international public, representing its fundamental views on the matters of development and production of the Caspian natural resources.



GEOLOGIC EXPLORATION PROJECTS

GEOLOGIC EXPLORATION PROJECTS ON THE CASPIAN SHELF

JSC NC "KazMunayGas" links further buildup of the hydrocarbon feedstocks reserves to the resource potential of the Kazakhstan sector of the Caspian Sea.

Exploration projects on the Caspian and coastal areas are one of the top-priority business areas of JSC NC "KazMunayGas" and its subsidiaries – JSC OOC "KazMunayTeniz" and the N Operating Company LLP.

Successful search for and exploration of hydrocarbons will enable the company to ensure increasing of the consolidated oil reserves up to 1.6 bn tons by 2020, i.e. more than twofold of the current level, and the consolidated oil uplift – up to 40 mn tons annually.

KazMunayGas, jointly with foreign companies, is carrying out a set of prospecting and research works on a whole group of blocks of the Caspian Sea, including Khvalynskoye, Centralnaya, Zhemchuzhiny, Tuyb-Karagan, Zhambai, Zhambyl, N project, and other areas.

In 2010 planned seismic prospecting and drilling was conducted on the contract areas, work on preparation to signing new subsoil use contracts with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan was performed.

On the "Khvalynskoye" project, efforts were made to actualize the calculations of the economic viability indicators for adoption of the Investor's common position, for the purpose of further negotiations with the RF's Ministry of Energy, establishment of the Interdepartmental Commission on the part of the RF on development of the terms of subsoil use and preparation of the draft PSA is anticipated.

On the "Centralnaya" project, the parties were coordinating the text of the draft PSA and a work release for preparation of the feasibility study on the PSA terms. The matter of the legal form of cooperation on the project is being considered.

8 prospects have been allocated within the "N" project as a result of the performed exploration works: Rakushechnoe-more, Nursultan, Al-Farabi, Samal, Ulytau, and others. Field shooting in the amount of 5,700 lin.km and drilling of 1 exploration well on the Rakushechnoe More structure with the depth of 2,600 m were conducted in 2010. Based on the results of the production log tests, potentially oil-bearing reservoir beds were identified in the Lower Cretaceous and Upper Jurassic accumulations.

3D seismic prospecting in the amount of 900 km² on the "Zhemchuzhiny" project was completed in 2010. Construction of appraisal

well No.3 on the Khazar structure in the amount of 2,049 lin.m was completed, and oil flow obtained. Geophysical work on 3D data processing (Khazar), soil surveying were carried out. Construction of the Tulpar-1 wildcat in the amount of 2,376 lin.m was completed. Analytical work on the materials of all drilled wells were done.

On the "Zhambyl" project, 2D seismic prospecting in the amount of 700 lin.km was carried out in 2010. Under the agreements with the Korean party, the Korean National Oil Company held the tender for construction of the Jack-up Drilling Rigs. Completion of the drilling rig construction – May, 2012. Winning bidder – Daewoo Shipbuilding & Marine Engineering Co. Ltd.

On the "Satpayev" project, project documents on the exploration works was developed, autumn-winter baseline environmental studies were carried out under the contractual obligations.

On the "Tyub-Karagan" project, works on preparation of 2011 construction of the Tyub-Karagan exploration well No.2 were done in 2010. Approval of the RoK Ministry of Oil and Gas for extension of the exploration period by 2 years (2011-2012) in accordance with the PSA terms was received.

On the "Atash" project, report works based on the results of the exploration period and preparatory works on return of the contract area due to the expiry of the exploration period on 29 December 2010 were done.

A new "Oil and Gas Exploration Project on the Kurmangazy Contract Area" was developed for the "Kurmangazy" project, where the directions of exploration works were elaborated. Approvals were obtained on additional seismic surveys beyond the Kurmangazy block, for updating the allocated prospects.

Seismic prospecting in the amount of 115 lin.km on the Kalniyaz was carried out, geochemical surveys, electrical exploration and integrated interpretation of all acquired geologic-geophysical data were performed. A number of local objects were identified and pre-justified, and their resources were calculated.

Measures on extending the exploration period by 2 years, under the PSA terms, are planned.

On the "Zhambai" project, preparatory works for drilling of the first exploration well No.1 on the Yedil North structure were performed.

ONSHORE EXPLORATION PROJECTS

On the Teresken (Block P-24) project, detailed 2D CDPM seismic prospecting was carried out in order to render more precise location of 2 wildcats, provided in the Work Program.

On the “Myortvyi Kultuk” project, the Ministry of Oil and Gas of the Republic of Kazakhstan, in its letter No. 14-05-7360 of 15 October 2010, advised KMG of termination of Contract No. 2722 of 24 July 2008. Implementation of the “Myortvyi Kultuk” project was suspended in connection with the failure on the part of the second participant – LLP “Caspian Tristar” – to present the financial guarantee pursuant to the Joint Operating Agreement (JOA) and, as a consequence, the incapability to finance the obligations under the Contract and JOA by LLP “Caspian Tristar” of its participatory interest in the project. KMG is carrying out the return of the contract area to the RoK Authorized Body.

JSC NC “KazMunayGas” associates the buildup of reserves with the resource potential of the Urikhtau oil-and-gas-condensate deposit. This onshore project appeared to be one of the high-priority business areas of JSC NC “KazMunayGas” and its subsidiary – LLP “Urikhtau Operating”.

In 2010 the construction of the U-1 exploration well in the southern part of the Urikhtau deposit began for the purpose of supplementary exploration of the KT-1 horizon and exploration of the KT-2 horizon. In 2010 the U-1 well reached 2,964 lin.m and was being drilled at the beginning of 2011, with the target depth of 4,000 m.



OIL AND GAS UPSTREAM

KAZMUNAIGAS EP JSC (EMBAMUNAYGAS PB AND UZENMUNAYGAS PB)

JSC NC "KazMunayGas" links further buildup of the hydrocarbon reserves to the supplementary exploration of the licence blocks by its subsidiary KazMunaiGas Exploration Production JSC.

"Liman" Project

Well No.G-1 on the Novobogatinsk S-E structure (supra-cornice) was completed with the total depth of 1,300 m. Testing of object I was completed and testing of object II is underway. Flow of hydrocarbons to the surface was obtained. Presence of another two producing reservoirs is forecast in the penetrated well columns. Works on reprocessing and re-interpretation of the 2D-CDPM seismic data in the amount of 200 lin.km at the Novobogatinsk S-E (supra-cornice) are underway.

"P-9" Project

2 wells at the Koykara and Kulsary S-W were completed, with the total depths of 1,850 and 1,600 m, respectively. Wells were abandoned due to geological problems. 3D-CDPM field shooting is underway. 245.3 sq. km out of the planned 400 sq. km were completed. Architectural analysis of the Jurassic and Triassic accumulations of the south-eastern zone of Caspian Sea region is being performed based on the results of the drilled wells integrated with seismic materials.

"Taisoigan" Project

The report on calculation of C1 oil reserves of the Uaz deposit was approved in the RoK State Reserves Committee – in-place reserves – 2.960 thousand tons, recoverable – 838 thousand tons. The report on assessment of the oil reserves of the Kondybai was successfully submitted to the RoK State Reserves Committee. Due to the insufficient information, the report was adopted as a quick look report. Meanwhile, the proven recoverable reserves grow twofold, amounting to 282 thousand tons.

Besides, the KazMunaiGas EP JSC is performing supplementary exploration work at the producing fields: S. Nurzhanov, Makat East, West Prorva, Kenbai (Moldabek East and Kotyras North areas), Zhanatalap.

S. Nurzhanov Deposit

Drilling of exploration wells No.507 and No.700 was completed with the total depths of 3,500 and 2,000 m, respectively. 2 pay zones were identified. Testing of target I is being performed in well No.507, based on the results of testing target I oil flow to surface was obtained in well No.700. Drilling of exploration well No.508 with the target depth of 3,500m is underway. Field gravity study in the amount of 12,400 sq. km was completed and works on processing and interpretation of the acquired field data began.

Makat East Deposit

Drilling of exploration well No.101 with the target depth of 1,500m was completed. Based on the well logging, two zones were identified for testing.

West Prorva Deposit

Drilling of exploration well No.400 to the target depth of 3,500m was completed. Based on the well logging, two zones were identified for testing.

Kenbai Deposit

3D-CDPM field shooting in the amount of 128 sq. km completed. Works on processing and interpretation of the acquired data are closing to an end.

Zhanatalap Deposit

3D-CDPM field shooting was underway. Out of the 300 sq. km planned for 2010, 205.4 sq. km were completed

JSC “MANGISTAUMUNAIGAZ” (JSC “ATYRAUMUNAYGAS” PROJECTS)

“Makhambet” Project – 2D seismic prospecting in the amount of 1,500 lin.km was carried out in the reporting year.

“Bobek” Project – the technical design basis for 2D seismic prospecting was prepared.

In 2010 the KMG NC JSC obtained the subsoil use right to the following onshore projects:

1. Contract No.3577 of 16 Jun 2010 was signed between the RoK Ministry of Oil and Gas and KMG NC JSC for Exploration for Hydrocarbons in the Post-Salt and Pre-Salt Deposits of the Karaton-Sarkamys Block in the Atyrau oblast.
2. Contract No.3578 of 16 Jun 2010 was signed between the RoK Ministry of Oil and Gas and KMG NC JSC for Exploration for Hydrocarbons in the Temir Area in the Aktobe oblast.

3. Contract No.3579 of 16 June 2010 was signed between the RoK Ministry of Oil and Gas and KMG NC JSC for Exploration for Hydrocarbons on the Territory Adjacent to the Uzen-Karamandybas Fields in the Mangistau oblast.

In accordance with the address of the KazMunaiGas Exploration Production JSC and resolution of the RoK IDC (Inter-Departmental Committee), works are underway on transferring the subsoil use right to the Teresken, Karaton-Sarkamys, Uzen-Karamandybas projects to the KMG EP JSC.

Efforts are being made to transfer 25% share in the subsoil use right on the “Satpayev” project to OVL (India).

KAZTRANS GAS JSC

Amangeldy Project

2D seismic surveying in the amount of 230 lin.km was done at the Sultankuduk and Koskuduk. Processing and interpretation of data was conducted. Based on the results of the seismic surveys, the location of the datum horizons was rendered more precise and drilling a well on the Sultankuduk structure with the depth of 2,500 m was recommended.

**1995**

In March, 1995 the agreement on splitting the production at the Karachaganak field was signed between the Republic of Kazakhstan represented by Kazakhgas, and the companies Agip (Italy), British Gas (UK) and Gazprom (Russia).

REFINING

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ҚазМұнайГаз
NATIONAL COMPANY УЛТТЫҚ КОМПАНИЯСЫ

OIL REFINING

The company's consolidated oil refining throughput grew to 14.8 mn tons in 2010, comparing with the 12 mn tons in 2009.

Oil Refining Volumes in the Refineries of the KazMunayGas Group

thousand tons

Name	2010	2009	2008	2007	2006	2005
Atyrau Refinery	4,300	4,004	3,925	3,701	3,746	3,514
Shymkent Refinery	2,292	2,004	2,154	1,011 ¹	-	-
Petromidia Refinery	3,367	3,878	4,237	-	-	-
JSC PPCP	4,807	2,185	-	-	-	-
TOTAL	14,766	12,071	10,316	4,712	3,746	3,514

¹ The consolidated figure - taking into account the 49.72% interest and the refining volume in the Shymkent Refinery and the period since the acquisition in July, 2007.



ATYRAU REFINERY

Atyrau Refinery (AR) was commissioned in 1945. The oil refining capacity is 4.3 mn tons annually. After the full-scale modernization and reconstruction of the refinery (the first stage of the refinery reconstruction project was completed in 2006), the oil processing depth increased up to 61 percent. Sulfur content has seen a considerable decrease, in gasolines – from 1,000 ppm to 30 ppm, in diesel – from 2,000 ppm to 50 ppm, oil content in the effluent

water – from 205 thousand tons per year to 154 thousand tons per year, water consumption from the river of Ural from 99,500 thousand cubic meters per year to 3,500 thousand cubic metres per year.

AR accounted for 31% of Kazakhstan' total oil refining volume in 2010.

Production of main oil products

thousand tons

Name	2010	2009	2008	2007	2006	2005
Gasoline	601	553	493	470	493	509
Diesel	1,259	1,191	1,175	1,019	995	958
Jet fuel	66	51	47	21	5	21
Fuel oil	1,953	1,698	1,566	1,096	1,343	1,345
Other products	254	205	330	747	569	466
TOTAL	4,133	3,698	3,611	3,353	3,405	3,299

The plans are to implement the following projects within the framework of the second stage of the Atyrau Refinery reconstruction:

- reconstruction of the vacuum block of the CDU-AVDU-3 unit and the delayed coker – will allow increasing the primary and secondary processing capacity, the processing depth – up to 72 %, and production of additional volumes of target added value oil products;
- construction of the aromatics production complex – aimed to improve the environmental attributes of motor gasolines by means of extracting benzene and aromatic hydrocarbons from the gasoline cut. It is proposed to use the aromatic hydrocarbons received (benzene and paraxylene) as basic petrochemical feedstock for the "Petrochemical Complex Based on Benzene and Paraxylene" project;

At the third stage implementation of the project for construction of the deeper oil conversion complex will begin. This project will allow transforming residual heavy oil products into high quality motor fuels, meeting the Euro-4 and Euro-5 standards, and increasing the processing depth up to 87%.

REFINING

SHYMKENT REFINERY

Shymkent Refinery was commissioned in 1985. Shymkent Refinery is controlled by LLP "PetroKazakhstan Oil Products" (PKOP), 49.72 % in which are held by JSC "KazMunayGas – Refining & Marketing" since July, 2007. The oil refining capacity is 5.25 mn tons annually. PKOP accounted for 34% of Kazakhstan' total oil refining volume in 2010.

Production of main oil products

thousand tons

Total	2010	2009	2008	2007	2006	2005
Gasoline	978	828	843	853	837	843
Diesel	1,337	1,276	1,408	1,381	1,287	1,276
Jet fuel	234	240	275	159	183	133
Fuel oil	931	694	635	552	565	767
Other products	947	765	886	853	905	656
TOTAL	4,427	3,803	4,047	3,798	3,777	3,675

Within the framework of executing the Program for Development of RoK Oil and Gas Sector for 2010-2014, the project for reconstruction and modernization of the Shymkent Refinery is being implemented, the main objectives of which are recovery of the designed oil distillation capacity to 6 mn tons annually, increasing the processing depth to at least 90%, improvement of the quality and environmental indexes of the Euro-4 and Euro-5 motor fuels .

PAVLODAR PCP

Pavlodar PC Plant was commissioned in 1978.

On 4 August 2009 JSC "KazMunayGas – Refining and Marketing" (through TH "KazMunaiGaz N.V.") signed the Agreement on Sale and Purchase of the 100% participatory interest in the authorized capital of the Refinery Company RT LLP, which owns the property complex and is a holder of 58% of shares in JSC "Pavlodar Petrochemical Plant". The owner of 42% of JSC "Pavlodar Petrochemical Plant" is JSC NC "KazMunayGas".

PPCP accounted for 35% of Kazakhstan' total oil refining volume in 2010.

Production of main oil products

thousand tons

Name	2010	2009	2008	2007	2006	2005
Gasoline	1,314	1,225	1,155	1,287	1,015	996
Diesel	1,478	1,328	1,314	1,425	1,107	1,056
Jet fuel	190	82	80	77	80	90
Fuel oil	887	747	794	752	1,242	1,251
Other products	598	438	392	371	218	316
TOTAL	4,467	3,820	3,735	3,912	3,662	3,709

Within the framework of executing the Program for Development of RoK Oil and Gas Sector for 2010-2014, the project for reconstruction and modernization of the Pavlodar PC Plant is being implemented, the main objectives of which are recovery of the designed oil distillation capacity to 7.5 mn tons per year, increasing the processing depth to at least 90%, improvement of the quality and environmental indexes of the Euro-4 and Euro-5 motor fuels.



INTERNATIONAL OPERATIONS IN THE OIL REFINING SECTOR

The production operations of the Romanian oil and gas company The Rompetrol Group (TRG), finally acquired by JSC NC "KazMunayGas" in 2009, are on.

Rompetrol includes two refineries (Petromidia and Vega), a petrochemical complex (Rompetrol Petrochemicals) and over 1,000 service stations in the European countries (Romania, France, Spain, Moldova, Ukraine, Bulgaria, Georgia). Rompetrol supplies oil products to Turkey, Ukraine, Croatia and Moldavia. Rompetrol is a leading producer of polyethylenes and polypropylenes both on Romania's domestic market, and on the Eastern European market. The company's headquarters are in the Netherlands, the majority of operations and assets are located in Romania, France, Spain and South-East Europe. At present Rompetrol has over eight thousand highly-knowledgeable employees in 13 countries of the world.

Petromidia Refinery is TRG's key asset, the biggest and most integrated refinery in Romania. The refinery's designed processing capacity is 5.0 mn tons annually, which is around 29 percent of Romania's total refining capacity; the refinery is capable of processing heavy oils with high sulfur content. The refinery was built in 1974-1979, upgraded in the 90s and in 2005, it is located on the coast of the Black Sea, 225 km from Bucharest and 20 km from Romania's biggest port – Constanta. It has one of the highest Nelson complexity indexes – 12.

3,367 mn tons of crude oil were processed in the refinery in 2010. Commercial output of products meeting the 2009 standards of the European Union (Euro-5 standard) has been set up. The refinery produces diesel – 90 percent and mogases – 70 percent.

Vega Refinery is a specialized refinery, located over an area of 70 ha in the vicinity of Bucharest in the city of Ploesti. Built in 1905, upgraded in the 70s. The designed refining capacity is 500 thousand tons per year. Vega is specialized in processing alternative feedstocks (naphtha, heavy hydrocarbon fractions, fuel oil). The refinery's technology allows producing a wide range of solvents according to the specified properties, various bitumens and other specialized products.

The products turned out are used in the chemical, petrochemical, rubber, textile and footwear industry.

PCC Petrochemical – the Petrochemical petrochemical complex is integrated with the Petromidia Refinery. The existing facilities of the complex produce polypropylene, HDPE (high-density polyethylene) and LDPE (low-density polyethylene) of various brands. The source of feedstock is propylene produced in the Petromidia Refinery and purchased ethylene.

Within the framework of joint activities, National Company "KazMunayGas" is interested in building a common vertically integrated international level company, carrying out both production, and refining of oil, relying on TRG's experience on the European oil products market.

KazMunayGas and TRG intend to effect cooperation in the sphere of oil production and refining services, services in KMG's production assets, actively engage highly-knowledgeable specialists.

TRG's priority areas of development are expansion of the oil products retails sales network and implementation of the Petromidia modernization project (Project-2010) with the launch of a new hydrotreating facility. Implementation of this project will enable TRG to meet the new environmental standards of the European Union to motor fuels, being introduced in the EU since 1 January 2009 (Euro-5) and achieve well-balanced operation of process units with the refinery's maximum capacity up to 5.0 mn tons per year.



INVESTMENT PROJECTS TO DEVELOP THE REFINERIES

In compliance with the Program for Development of RoK Oil and Gas Sector for 2010-2014 approved by Resolution No.1072 of 18 Oct 2010 of the RoK Government, investment projects for development and modernization are being implemented in all three refineries of the republic.

Objectives of projects: Full satisfaction of Kazakhstan's requirement for high-octane gasolines, jet fuel, and diesel will be fully satisfied. Organization of basic petrochemistry products production.

As a result of reconstruction and modernization, the oil refining capacity will be increased up to 19 mn tons annually by 2016, and production of the main types of oil products will exceed their consumption, new products will emerge – benzene, paraxylene.



MODERNIZATION AND RECONSTRUCTION OF THE ATYRAU REFINERY

- Design-and-estimate documentation (DED) on the “Reconstruction of the CDU-AVDU-3 Unit Vacuum Block and Delayed Coker” project has been developed and approved by the state expert review. Construction works were performed in 2010, the project is at the finishing stage.
- An EPC-contract on a turnkey basis on the project “Construction of Aromatics Production Complex” was made with Sinopec Engineering (China) on 29 October 2009. Financing of the Project will be carried out under the master loan agreement signed by and between the Development Bank of Kazakhstan JSC and Eximbank of PRC on account of a tied loan (with the participation of Chinese companies). The Contractor is performing con-

struction works, development of the engineering documentation, works on purchase of equipment have commenced.

- Feasibility study prepared based on the process technology of the Axens licensor (France) on the “Construction of the Aromatics Production Complex” project has been developed and approved by the state expert review. Public hearings on the preliminary environmental impact assessment were held. Agreement on design and survey works at the “Technical Project” stage made with OJSC “Omskneftekhimprojekt” (RF) in 2009. The plans are to complete and gain approval of the Design-and-Estimate Documentation from the RoK State Expert Review until August, 2011.

MODERNIZATION AND RECONSTRUCTION OF THE PKOP REFINERY (SHYMKENT REFINERY)

Technip S.p.A. (Italy) is preparing the FS for the Shymkent Refinery reconstruction and modernization project. At the stage of the project FS preparation a marketing study of the oil products market has been carried out, the baseline scenario of the Project for further implementation has been determined, the opportunity to

output motor fuels meeting the Euro-4 and -5 standard, and the related changes in the timeline and total costs of the project have been considered. The plans are to complete the development and approval of the project FS in 3Q 2011.

MODERNIZATION AND RECONSTRUCTION OF THE PAVLODAR PC PLANT

Based on the signed Memorandum of Cooperation and Understanding in respect of industrial infrastructure investment in the Republic of Kazakhstan between JSC NC “KazMunayGas” and

the Italian “Eni SpA”, works on development of the Development Programme of JSC “Pavlodar PC Plant” started from October, 2009. FS completion time – 3Q 2011.

REFINING

OPERATIONS IN GAS REFINING

Under the Agreement between LLP “KazRosGas” and LLC “GazProm Dobycha Orenburg”, processing of sour gas from the Karachaganak field, in the amount of about 8 bcm annually, is carried out by the Orenburg Gas Processing Plant (OGPP). Commercial gas is transferred to the domestic market of Kazakhstan and for exports as well.

Under the Agreement on Cooperation of 3 October 2006 between the Governments of the Republic of Kazakhstan and the Russian Federation, a joint venture (JV) on the basis of the OGPP was intended to be established for processing gas and condensate from the Orenburg (Russia) and Karachaganak fields.

One of the conditions necessary for creation of the JV was achievement of the annual volume of sour gas delivery to the Orenburg GPP of not less than 16 bcm annually, which had been

envisaged in case of transition to stage 3 of the Karachaganak Field development.

Due to the revision of the further development concept of the Karachaganak field by the Contractor of KPO B.V. and failure to provide a notice of confirmation of the transition to stage 3, the measures on the establishment of the JV on the basis of the Orenburg GPP have been suspended.

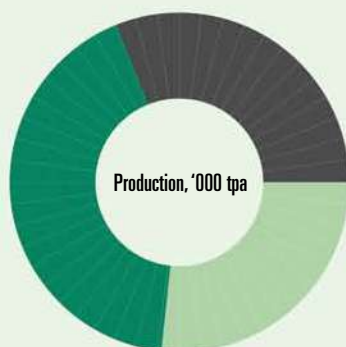
Owned by OJSC “Gazprom”, the Orenburg Gas-Processing Plant has been created on the basis of the Orenburg gas-condensate deposit, discovered in 1966. The main conversion products are stripped gas, stable condensate and stabilized oil, technical sulfur, broad fraction of light hydrocarbons, odorizer, liquefied gas, and fuel gas.

PETROCHEMISTRY PROJECTS

Within the framework of the Republic of Kazakhstan Petrochemical Industry Development Programme approved by Resolution of the Government of the Republic of Kazakhstan, the projects for road bitumens production and construction of the first integrated gas-based petrochemical complex are being implemented.

The projects being implemented are aimed to use the available volumes of feedstock (oil and gas) in order to expand the product range and create in the long term the petrochemical sector to produce petrochemicals.

Road bitumens production in the Aktau Plastic Plant as for November, 2012



225.4 / Petrol-diesel fraction
330.3 / Vacuum gas oil
406.5 / Road bitumen

The project provides for production of high quality road bitumens in order to satisfy the republic's requirements for road construction, and is implemented on the production site of the existing plastic plant in the city of Aktau in the Mangistau oblast.

On 3 June 2010 the EPC Contract for the construction of the Project facilities was signed with the consortium of Contractors – JSC “OGCC “KazSroyService” and LLP “CITIC Construction”.

On 28 September 2010 a loan agreement with the Bank of China to the amount of \$232 mn (34.8 bn tenges) was signed.

JSC “KING” performed adaptation of the DED, developed by NJPEC institute, to correspond to the RoK legislation and on 23 November 2010 it received a positive opinion from RSOE “Gos-Expertiza”.

The construction works on overhaul of the existent off-plot facilities and the construction of zero cycles for tank farms and administration and on-site facilities were commenced at the site of the bitumen plant.

IMPLEMENTATION OF SPBIID PROJECTS

Reconstruction and Modernization of the Atyrau Refinery

«CONSTRUCTION OF THE DEEPER OIL CONVERSION COMPLEX»

ANTICIPATED EFFECT:

- Increase in the refinery's balanced capacity up to 5.5 MMtpa.
- Increase in the production of high-octane gasoline, jet fuel and diesel.
- Increase in the processing depth up to 87%.
- Achievement of the Euro-4, Euro-5 standard quality of the motor fuels.

PROJECT COSTS: 11,500 mn USD (tentatively, at the design-and-estimate documentation (DED) stage)

CURRENT STATUS:

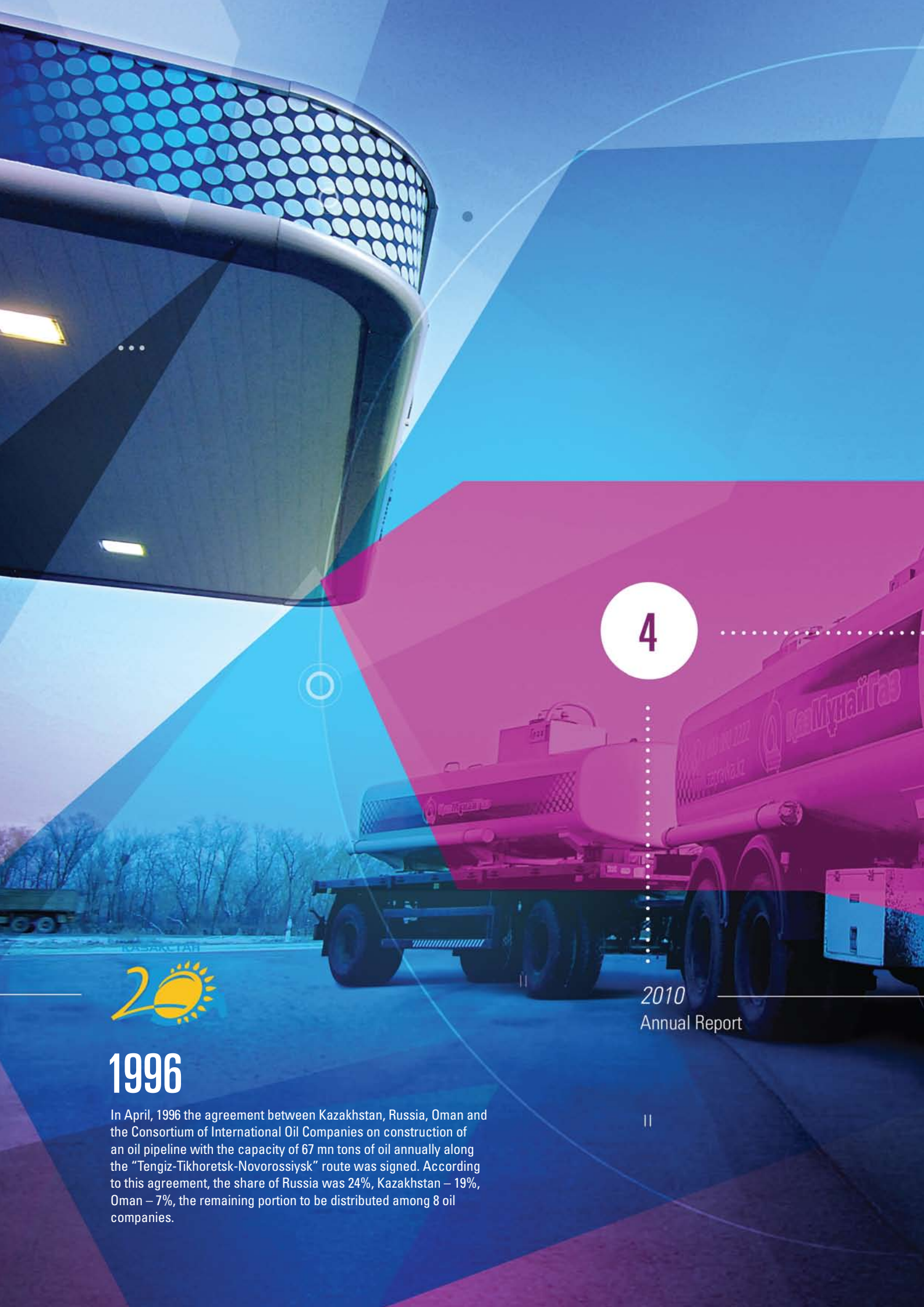
- Agreement for development of the design-and-estimate documentation for the Project signed with the Omskneftekhimproyekt OJSC (RF) (ONHP) on 15 Dec 2009.
- Licence Agreements between ONHP and Axens on 9 process flows signed on 25 Feb 2010.
- ONHP is performing works on the DED for the project .

PLANS FOR 2011:

- June – completion of development of the project DED.
- September – approval of the project DED by the RoK State Expertise Review.
- III-IVQ – identification of the sources of financing, contractor selection and signing of an "EPC contract".

ANTICIPATED RESULTS OF RECONSTRUCTION

Name	2010 (fact)	2015	Variance (+/-)
Oil refining	4,300	5,500	+1,200
Gasolines	579	1,719	+1,140
Benzene	-	133	+133
Paraxylene	-	496	+496
Jet fuel	61	241	+180
Diesel	1,254	1,702	+448
Fuel oil	1,920	180	-1,740
Processing depth, %	51	87	36% increase



4



1996

In April, 1996 the agreement between Kazakhstan, Russia, Oman and the Consortium of International Oil Companies on construction of an oil pipeline with the capacity of 67 mn tons of oil annually along the "Tengiz-Tikhoretsk-Novorossiysk" route was signed. According to this agreement, the share of Russia was 24%, Kazakhstan – 19%, Oman – 7%, the remaining portion to be distributed among 8 oil companies.

2010
Annual Report

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II

MARKETING AND SALES

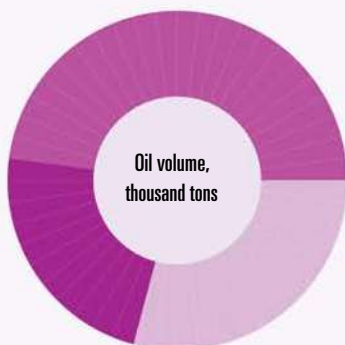
II

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КазМұнайГаз
NATIONAL COMPANY УЛТТЫҚ КОМПАНИЯСЫ

Key directions of oil exports by KazMunaiGas EP JSC



2,546.419 / CPC / Exports

1,811.084 / Atyrau Refinery / Domestic market

4,201.500 / Novorossiysk / Exports

OIL AND OIL PRODUCTS

Marketing and sales of oil and oil products to the domestic or external markets is carried out by a subsidiary of JSC NC "KazMunaiGas" – JSC "KazMunaiGas – Refining & Marketing" (KMG-RM).

The bulk of KMG-RM's export shipments is crude, produced by the KazMunaiGas Exploration Production JSC. Virtually all KMG-RM's export deliveries are made through the Russian system of main oil pipelines of OJSC "Transneft" and the oil pipeline of the Caspian Pipeline Consortium (CPC). These routes are most optimum from the perspective of the economics of oil transportation to the world energy markets and full use of the available oil pumping quotas. KMG-RM's total oil export volumes were 6,747 thousand tons in 2010.

Retail sales of oil products on the domestic market are made through the network of service stations of KMG-RM, located in the cities of Astana, Almaty, Western, Northern and Eastern regions of Kazakhstan. KMG-RM sells a wide range of oil products, including high quality gasolines, diesel and jet fuel.

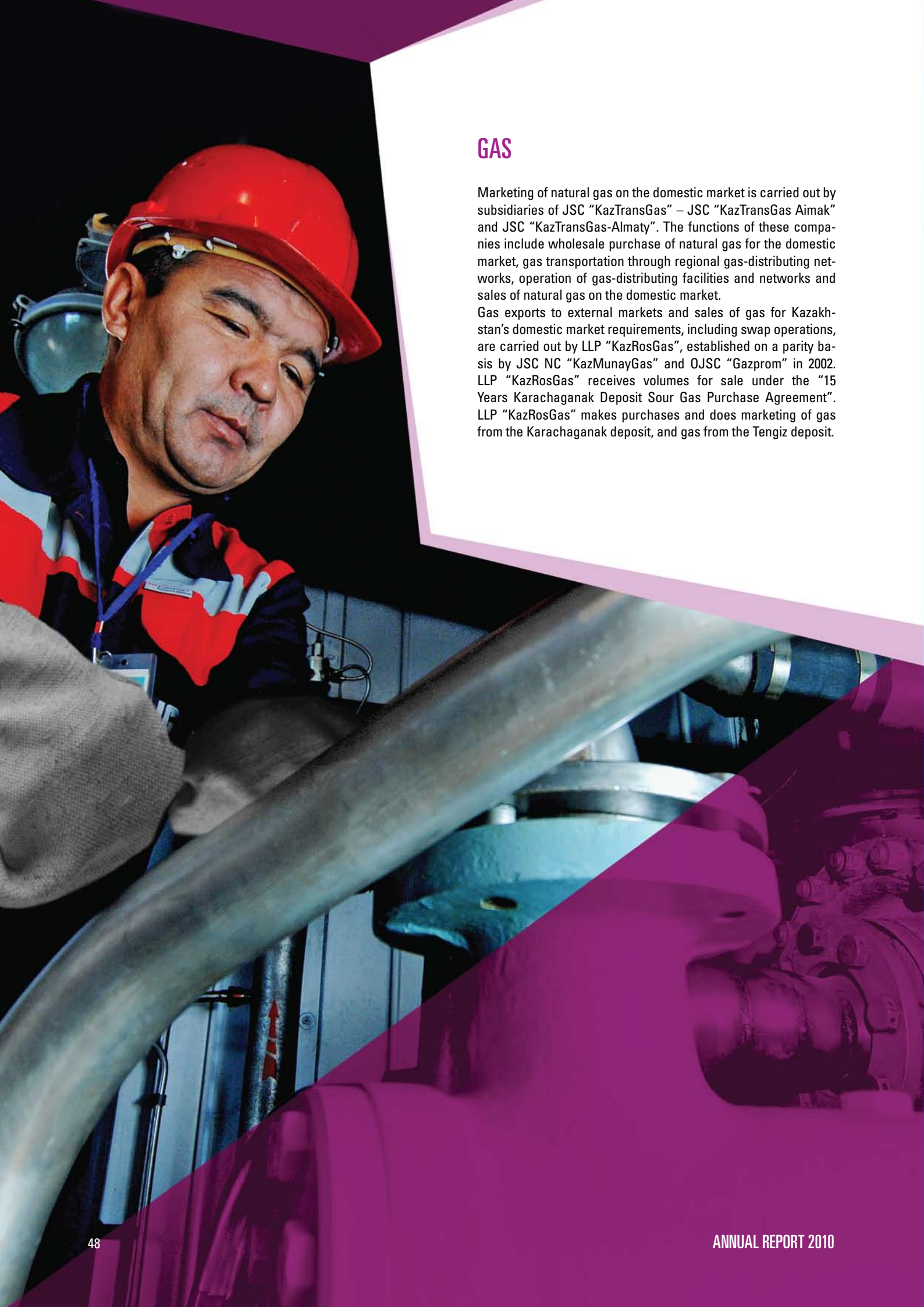
Implementation of the own retail network expansion programme under the KazMunaiGas trade mark is underway, and as at 31 December 2010 KMG-RM owned 279 service stations.

The program of the own retail network expansion under the KazMunaiGas trade mark is carried out both through construction of new service stations, and through acquisition and reequipping of the existing stations. In construction of service stations KazMunaiGas applies the best world practice: modular complexes, up-to-date fuel-dispensing units, leading-edge software are installed. This allows increasing the labour efficiency and improving the quality of consumer service. The plans are to increase KMG-RM's retail network to 323 service stations by 2011.

Annually, during the spring sowing and harvesting works, supply of POLs at reduced prices is made to agricultural producers. 422 thousand tons of diesel were supplied for the needs of the agricultural industry in 2010.

Sales pattern of the Atyrau Refinery products by JSC “KazMunayGas – Refining & Marketing” in 2010

	Volume, thousand tons	Domestic market	Exports
Petrol, total:	204.94	100%	-
<i>Ai-80 petrol</i>	<i>91.04</i>	<i>100%</i>	-
<i>Ai-92 petrol</i>	<i>110.1</i>	<i>100%</i>	-
<i>Ai-95 petrol</i>	<i>3.8</i>	<i>100%</i>	-
Diesel	483.3	100%	-
Fuel oil	758.4	100%	-
Calcined coke	20.15	100%	-
TS-1 jet fuel	3.85	100%	-
Fuel oil	19.4	100%	-
White spirit	2.97	100%	-
Propane	8.51	100%	-
Sulphur	0,7	100%	-
TOTAL	1,502.22	100%	



GAS

Marketing of natural gas on the domestic market is carried out by subsidiaries of JSC "KazTransGas" – JSC "KazTransGas Aimak" and JSC "KazTransGas-Almaty". The functions of these companies include wholesale purchase of natural gas for the domestic market, gas transportation through regional gas-distributing networks, operation of gas-distributing facilities and networks and sales of natural gas on the domestic market.

Gas exports to external markets and sales of gas for Kazakhstan's domestic market requirements, including swap operations, are carried out by LLP "KazRosGas", established on a parity basis by JSC NC "KazMunayGas" and OJSC "Gazprom" in 2002. LLP "KazRosGas" receives volumes for sale under the "15 Years Karachaganak Deposit Sour Gas Purchase Agreement". LLP "KazRosGas" makes purchases and does marketing of gas from the Karachaganak deposit, and gas from the Tengiz deposit.

IMPLEMENTATION OF SPBIID PROJECTS

RECONSTRUCTION AND MODERNIZATION OF THE SHYMKENT REFINERY

ANTICIPATED EFFECT:

- Recovery of the designed refining capacity to 6 mn tons annually.
- Increase in the crude processing depth up to 90%.
- Bringing the oil products quality to the Euro-4, Euro-5 standards.
- Reduction in atmospheric emissions of pollutants.

PRELIMINARY ESTIMATE OF THE PROJECT: 1,199 mn USD (at the FS stage)

CURRENT STATUS:

- Technip Italy S.p.A. is developing the FS of the project.
- Marketing studies of the oil products market and development of the stage I of the FS accomplished. The Project configuration with construction of the catalytic cracking unit determined.
- The project FS report will be presented in September, 2011.
- Tender for development of the DED for stage I of the project was announced (on the isomerization unit, naphtha hydrotreating unit with fractionator, sulphur recovery unit with off-plant facilities).

PLANS FOR 2011:

- Approval by the RoK State Expertise Review of the FS and transition to development of the DED for stage II of the project;
- Selection of licensors for process technologies;
- Identification of sources of financing.

PROJECT IMPLEMENTATION PERIOD: 2010-2015

ANTICIPATED RESULTS OF RECONSTRUCTION

Name	2010 (fact)	2015	Variances (+/-)
Oil refining	4,580	6,000	+1,420
Gasolines	978	2,161	+1,183
Jet fuel	234	400	+166
Diesel	1,337	2,013	+676
Vacuum gas oil	786	-	-786
Fuel oil	847	696	-151
Processing depth, %	76	90	14 % increase



1997

On 4 March 1997 the RoK Ministry of Oil and Gas Industry was abolished and National Oil & Gas Company "Kazakhoil" was incorporated that was assigned all rights for Kazakhstan's participation in the largest oil & gas projects and enterprises of the industry.

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OIL AND GAS TRANSPORTATION

II

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OIL TRANSPORTATION BY MAIN OIL PIPELINES

Oil transportation by Kazakhstan's main oil pipelines is carried out through the systems of JSC "KazTransOil" (KTO) and the Caspian Pipeline Consortium (CPC).

In 2010 the consolidated volume of oil transportation by main pipelines amounted to 65.83 mn tons, which exceeds the planned value by 4 percent, and is 3 percent higher than the level of 2009. The oil throughput volume amounted to: through Atyrau-Samara – 15.3 mn tons (a 13% decrease vs 2009), CPC – 29.9 mn tons (a 7% increase), including the system of JSC "KazTransOil" – 4 mn tons (a 3.5% increase), Kazakhstan-China – 10.1 mn tons (a 31% increase).

JSC "KazTransOil" managed to exceed the planned figures owing to:

- an increase in the oil output and oil sales by hydrocarbon feedstocks producers to the oil pipeline system;
- measures taken by KTO to increase the efficiency of operation of the pipeline network, including use of turbulent viscosity reducing additives.

On the whole, KTO's main oil pipeline network is comprised of over 5.3 thousand kilometres, the company has a tank farm with the total volume of over 1.3 mn cubic meters, 38 pump stations, 4 production loading facilities. The length of the CPC oil pipeline is 1,510 km, the length of the Kazakhstan section being 452 km.

JSC "KazTransOil" is a shareholder in the following oil-transportation companies: JSC "North-West Pipeline Company "MunaiTas" ("Kenkiyak-Atyrau" oil pipeline), LLP "Kazakhstan-China Pipeline" ("Atasu-Alashankou" and "Kenkiyak-Kumkol" oil pipelines, and "Batumi Industrial Holdings Limited" and "Batumi Capital Partners Limited" (Batumi oil terminal).

JSC "KazTransOil" consolidated oil transportation volume

mn tons

Name	2010	2009	2008	2007	2006	2005
KazTransOil (100%)	52.51	50.88	47.46	45.68	43.26	38.18
Kazakhstan-China Pipeline (50%).	5.05	3.85	3.06	2.4	0.88	-
MunaiTas (51%)	2.16	3.04	2.95	2.75	2.71	2.8
Batumi oil terminal (100%)	6.12	6.41	7.16	-	-	-
TOTAL:	65.83	64.18	60.63	50.83	46.85	40.96

1998



On the initiative of President N.Nazarbayev, the Foreign Investors' Council was established, which included the leaders of all major oil companies operating in Kazakhstan.

DEVELOPMENT OF OIL SUPPLY EXPORT DIRECTIONS



DEVELOPMENT OF OIL SUPPLY EXPORT DIRECTIONS

Diversification of the Kazakhstan oil transportation directions is of particular concern to KMG, since it enables the company to select the most cost-effective routes of hydrocarbon resources transportation to the world markets and serves as a safeguard to ensure energy security.

KAZAKHSTAN CASPIAN TRANSPORTATION SYSTEM

In April, 2010 the development of design and estimate documentation for the construction of the Yeskene-Kuryk oil pipeline was started, with the estimated completion of construction by 2014.

On 27 June 2010 the representatives of ExxonMobil, authorised on behalf of the G6 Group of companies, held a presentation with the participation of KazMunayGas on the long-term production and distribution balance of the West-Kazakhstan Oil for Mr. S. Mynbayev, Minister of Oil and Gas of the Republic of Kazakhstan. Following the results of the presentation it was concluded that, taking into account the complete expansion of the CPC pipeline by the end of 2014, the need for the KCTS projects will arise not earlier than 2018-2019.

Due to the above-said, implementation of the terms of the Memorandum of Understanding between KazMunayGas and the French company Spiecapag on the "Eskene Kuryk" oil pipeline, signed in October, 2009 became unpractical for the Kazakhstan party.

In October, 2010 KazMunayGas and Spiecapag signed a new Memorandum of Understanding, under which Spiecapag reserves its right to submit its offer to present a proposal on implementation and financing of the project for consideration of KazMunayGas in the future. The terms of the new Memorandum do not impose limitation on the rights of KazMunayGas to study any other project alternatives.

Due to the postponement of the project to a later date, and the absence of the substantiated source data for engineering in terms of transportation volumes and quality of oil, it has been resolved to stop the design works and divide them into 2 stages. The first stage is to be completed in 2011, the second one will be resumed as soon as the substantiated source data are received.

Work on the Trans-Caspian Project was conducted together with SOCAR under the prior agreements.

Stage 1 of the tender (prequalification) for selection of the contractor to prepare the TCP Feasibility Study, announced in June, 2010, failed due to non-compliance of the candidates with the requirements of the tender documentation.

KCTS project schedule will be generally adjusted as far as the key decisions on the Kashagan development schedule are made (phase 2, 3).



CASPIAN PIPELINE CONSORTIUM

The CPC oil pipeline 1,510 km in length runs from the “Tengiz” oil field to the Yuzhnaya Ozerevka oil terminal on the coast of the Black Sea (next to the port of Novorossiysk). Since the start of the oil pipeline operation (2001) 248 mn tons, where 208 mn tons is Kazakhstan oil, and in 2010 - 36 mn tons, where 29.9 mn tons is Kazakhstan oil, were transported by it.

In the context of the increasing oil uplift at the Tengiz and Karachaganak oil deposits and the scheduled placing in operation of the Kashagan deposit, one of the actual issues of the CPC Project is the oil pipeline capacity expansion.

During 2010 the appropriate work was carried out on preparation of the CPC expansion project for implementation and on 15 December 2010 the CPC shareholders came to a unanimous final investment decision. As part of the decision, the financial-and-economic and technical parameters of the Expansion Project were determined, including the matters of industrial safety and environmental protection. The project provides for the increase in the CPC oil pipeline capacity from 28.2 MMtpa to 67 MMtpa, including Kazakhstan's oil – to 52.5 MMtpa.

The beginning of the construction works under the CPC Expansion project has been scheduled for 2011. The plans are to carry out expansion on a phased basis with breakdown into three stages, the full nameplate capacity to be achieved by early 2015.

KAZAKHSTAN-CHINA OIL PIPELINE

Construction of the Kazakhstan-China oil pipeline is carried out in two stages by the Kazakhstan-China Pipeline LLP, established on parity basis between JSC “KazTransOil” and China National Oil and Gas Exploration and Development Corporation.

Within the framework of the first stage the Atasu-Alashankou oil pipeline was built and put into operation (first start-up – in 2006, completion – 2008).

10.1 mn tons were transported by the Atasu-Alashankou oil pipeline in 2010.

Realization of the first line of the second stage of the project – construction and commissioning of the Kenkiyak-Kumkol oil pipeline – was fully completed in December, 2010. The length of the oil pipeline is 794 km, the throughput capacity at the first stage is 10 mn tons of oil annually, Capex – \$1 bn.

As part of the implementation of the second line of the second stage, in 2010 the construction of oil pumping station 11 (OPS 11) of the Atasu-Alashankou pipeline was commenced – the design and estimation documents were developed, the order on delivery of the long-lead items was placed and the construction contract was concluded. The plans are to complete the construction in September, 2011. The commissioning of OPS 11 will make it possible to increase of the oil pipeline capacity to 12 MMtpa.



MARINE OIL TRANSPORTATION

Marine oil transportation is effected by JSC "National Marine Shipping Company "Kazmortransflot" (a wholly-owned subsidiary of JSC NC "KazMunayGas").

At year-end of 2010 KMTF transported 7,082 thousand tons of oil or 100% of the plan (7,078 mn tons of oil), if compared to 2009, the oil transportation amounts to 96% (7.36 mn tons). The decrease is explained by the failure to perform oil shipments from the port of Aktau in the direction of Iran (Neka), owing to the economic sanctions introduced in respect of this country.

Oil transportation was carried out from the port of Aktau in the direction of the ports of Makhachkala, Neka, Baku and on the Black Sea.

In 2010 the own fleet of JSC "NMSC "KazMorTransFlot" increased by 2 tankers and is now comprised of 6 oil tankers of with the DWT of 12 and 13 thousand tons, 5 tow boats for rock transportation and 8 cargo barges.

TRANSPORTATION AND DELIVERY OF NATURAL GAS

JSC “KazTransGas” is within JSC “National Company “KazMunayGas” and controls the country’s main network of transporting pipelines with the length of over 11 thousand kilometres with the annual throughput up to 190 bn cubic meters. Natural gas transportation by main gas pipelines was 99.4 bn cubic meters in 2010.

Gas transportation volumes by main gas pipelines for 2006-2010

bcm

Transit type	2010	2009	2008	2007	2006
International transit	77.5	73.2	97.7	97.9	107.6
Kazakh gas transportation for exports	13.5	10.0	9.6	8.3	7.8
Gas transportation for domestic consumers	8.5	7.9	9.4	8.0	6.5
TOTAL¹:	99.4	91.1	116.7	114.2	121.9

¹ in case of rounding, the values may differ

The total gas transportation by the main gas pipelines of JSC “InterGas Central Asia” from 2001 to 2010 amounted to 1,132.4 bcm. JSC “KazTransGas” (through its subsidiaries – JSC “KazTransGas Aimak” and JSC “KazTransGas Almaty”) supplies gas to the consumers of Zhambyl, South-Kazakhstan, Kyzylorda, West-Kazakhstan, Aktobe, Almaty and Kostanai oblasts, and the city of Almaty.

Zhambyl (partially), South-Kazakhstan, Kostanai, Almaty oblasts and the city of Almaty are supplied with imported natural gas, purchased from OJSC “Gazprom” and its affiliates under the Agreement on Counter-Delivery of gas of 27 December 2006. The remaining regions are supplied with Kazakh gas.

The gross volume of gas deliveries to the market of the Republic of Kazakhstan was around 8.5 bcm in 2010. Of them KazTransGas Aimak sold 4.8 bcm of gas, KazTransGas Almaty sold 1.1 bcm of gas.

EXPORT GAS PIPELINES PROJECTS

KAZAKHSTAN-CHINA GAS PIPELINE

The Kazakhstan-China Gas Pipeline construction project ensures transportation of the transit gas from Turkmenistan across the territories of Uzbekistan and Kazakhstan to PRC, increases the transit potential, allows diversifying export routes of the Kazakh gas, and improves the country's energy security through provision of the domestic market with the own gas.

Implementation of the project for construction of the Kazakhstan-China gas pipeline is effected by special purpose vehicle Asian Gas Pipeline LLP (AGP LLP), established on parity basis by JSC "KazTransGas" and Trans-Asia Gas Pipeline Limited (CNPC's affiliate) on 15 February 2008.

On 9 July 2008 construction of the gas pipeline commenced, the

first stage of which was completed ahead of the work schedule, in record-setting time for the international practice.

1st line of the Kazakhstan-China main gas pipeline 1,308 km in length was launched on 12 December 2009.

In June, 2010 the construction of the 2nd line of the main gas pipeline was completed, and the 2nd line of the main gas pipeline was commissioned in July, 2010.

Over 9 thousand people were engaged in the construction.

The gas pipeline's capacity is planned to be brought to 30 bcm per year by the end of 2012. Further development of the gas pipeline to 40 bcm per year will be implemented in package with the "Beineu-Shymkent" Main Gas Pipeline Construction project.

BEINEU-SHYMKENT GAS PIPELINE

For the purpose of sustainable meeting of the requirements for gas of the RoK's southern regions, lowering the dependence on the imported gas and ensuring the RoK's energy security, implementation of the "Beineu-Shymkent" main gas pipeline construction project is envisaged.

The gas pipeline route runs across the territories of Mangistau, Aktobe, Kyzylorda and South-Kazakhstan oblasts and has the following technical specifications: throughput – up to 6 bcm/year (First phase - 2011-2012), 10 bcm/year (Second phase - 2014-2015), length – 1,475 km, diameter – 1,067 (1st line).

For the purposes of the project, the following documents were signed in 2010:

- Memorandum on performance of preparatory work on the project of Second section of the Kazakhstan-China gas pipeline between KMG and CNPC of 4 February 2010.
- Heads of Agreement on construction and operation of the Kazakhstan-China gas pipeline during the official visit of Chairman of PRC Hu Jintao to Kazakhstan of 12 June 2010.
- The meeting of founders of the Special Purpose Vehicle was held on 16 December 2010, where the matters of establishing the Special Purpose Vehicle, determining the size of its authorized capital, entering into the foundation agreement, approval of the articles of association, election of General Director and Senior Deputy General Director, and the matters of registration with the governmental authorities of the Republic of Kazakhstan were resolved.

IMPLEMENTATION OF SPBIID PROJECTS

RECONSTRUCTION AND MODERNIZATION OF THE PAVLODAR PCP

PROJECT OBJECTIVE:

- Increase in the refinery's designed capacity up to 7.5 MMtpa.
- Increase in the crude processing depth up to 90%.
- Bringing the oil products quality to the Euro-4, Euro-5 standards.
- Reduction in atmospheric emissions of pollutants.

PROJECT COSTS: PRELIMINARY – 1,900 mn USD

CURRENT STATUS:

- "Cooperation Agreement" signed between KMG and ENI (Italy) on 5 Nov 2009. The subject of the Agreement includes development of the FS for the PPCP Modernization Project.
- The stage of the FS adaptation to Kazakhstan's standards completed.
- Direction of Under-Construction Enterprises KMG submitted the FS for consideration by PPCP, KMG-RM, KMG on 10 June 2011.
- PPCP, KMG-RM, KMG recommended the FS to be submitted for approval by the governmental bodies.

PLANS FOR 2011:

- Making decision on further work with ENI required.
- 3Q – approval by the RoK State Expertise Review of the project FS and transition to development of the DED.
- Selection of licensors for process technologies.
- Identification of sources of financing.

ANTICIPATED RESULTS OF RECONSTRUCTION: 2010-2013

ANTICIPATED RESULTS OF RECONSTRUCTION

Name	2010 (fact)	After implementation of the project	Variances (+/-)
Oil refining	4,800	7,500	+2,700
Gasolines	1,292	2,688	+1,396
Jet fuel	184	302	+118
Diesel	1,456	2,270	+814
Fuel oil	766	689	-77
Processing depth, %	75	90	15 % increase



1999

On 12 August 1999 OKIOC began drilling the first wildcat "Kashagan East-1" on the Kazakhstan's Caspian Sea shelf.

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DEVELOPMENT OF SERVICE PROJECTS

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DEVELOPMENT OF SERVICE PROJECTS

Implementation of the State Program for Development of the Kazakhstan sector of the Caspian Sea during 2010

Without creating a powerful coastal service infrastructure for servicing offshore oil upstream projects, successful exploitation of the Caspian shelf wealth is impossible.

As part of implementation of the State Program for Development of the Kazakhstan sector of the Caspian Sea (KSCS), creation of the top-priority infrastructure facilities for coastal support of offshore operations was completed.

At the request of the RoK Ministry of Oil and Gas, information on the implementation of the section "Creation of Infrastructure for Coastal Support of Offshore Operations" of the Action Plan for 2006-2010 (II stage) to Implement the State Programme for development of KSCS, approved by resolution No. 673 of 13 July 2006 of the RoK Government was prepared throughout the year.

By instruction of the RoK Minister of Energy and Mineral Resources, proposals on changing the scheme to create the KSCS coastal infrastructure facilities were prepared in late 2009. These proposals were approved at the meeting held by the Prime Minister of the Republic of Kazakhstan on 7 December 2009.

In 2010 proposals on the development of the coastal infrastructure to the Program for Development of Oil and Gas Sector in the Republic of Kazakhstan for 2010-2014, and the lists of the high-priority and potentially feasible coastal infrastructure facilities in the Kazakhstan sector of the Caspian Sea were prepared.

By instruction of the Ministry of Oil and Gas of the Republic of Kazakhstan, during 2010 JSC NC "KazMunayGas" conducted work on updating the Integrated Plan for Development of the Coastline of the Kazakhstan Sector of the Caspian Sea.

Project: Construction of the drilling muds plant in the township of Bautino (KAZ M-I LLP)

In 2010 the KAZ M-I LLP (a JV of the TenizService LLP and MI SWACO) started construction of the "Drilling Muds Plant" on the territory of the offshore oil operations support base of the TenizService LLP in the township of Bautino.

On 19 November 2008, a subsidiary of JSC NC "KazMunayGas" – LLP "TenizService" – and a foreign partner – MI SWACO—signed the constituent documents of the KAZ M-I LLP joint venture for implementation of the "Drilling Muds Plant" project.

The drilling muds plant will render it possible to produce oil-based drilling muds, and salt drilling muds in the amount of 84,000 tons annually. The target sales market is Kazakhstan. Supply of drilling muds and specific reagents will be ensured for the needs of drilling operations on the Caspian Sea shelf.

Project: Construction of the production site In the township of Bautino

The TenizService LLP began construction of the production site for a steelworks in the township of Bautino in 2009. In 2010 the TenizService LLP completed the construction of the production site for location of the coastal infrastructure facilities.

Project: Construction of the North-Caspian Oil Spills Response Environmental Base

Undoubtedly, one of the important aspects in the development of the Kashagan and other deposits of the northern Caspian is ensuring environmental safety during production activities.

Currently, TenizService is implementing the project for construction of the North-Caspian Oil Spills Response Environmental Base (NCERB) near the township of Damba, Atyrau oblast, that is dedicated to ensure protection of the sensitive ecosystem of the northern Caspian during the Kashagan deposit development.

The Memorandum with NCPOC (agency company of the North-Caspian Project operator – NCOC) on construction and use of NCERB during commercial development of the Kashagan deposit was signed in 2010.

Furthermore, in 2010 the TenizService LLP proceeded to development of the project documents on NCERB. According to the implementation schedule, the plans are to complete construction of the facility until the end of 2012, by the time of first commercial production on Kashagan.

Industrial infrastructure project being implemented jointly with Eni S.p.A.

As part of implementing cooperation, and execution of the Cooperation Agreement, the first meeting of the Joint Management Committee was held in Milan on 25-26 February 2010.

Under the Cooperation Agreement between JSC NC "KazMunayGas" and Eni signed in November, 2009, studies on the following matters are provided for:

- Pavlodar Refinery modernization project;
- Gas-processing plant construction;
- Studies on optimization of gas disposal;
- Projects for construction of a dry dock/shipyard and a gas turbine power plant in the RoK;
- Upstream projects (Issatai and Shagala).

Key 2010 events:

- The work of the Joint Working Groups on the matter of evaluation of the estimated costs of projects organized
- Work on conciliation of Eni's and KMG's positions on the estimation of capital expenditures done.
- Adaptation of the project documents as per the requirements of the RoK standards performed.
- Baseline configuration cases and locations on all projects determined.
- Preliminary configuration of the primary equipment and materials determined.
- In December, 2010 Eni/Technomare presented the results of the calculation on the analysis of the economic viability of the projects. Comments on the presented results prepared and the assessment criteria for further calculations determined.
- Work on the preparation of FSs for the GTPP and Shipyard projects in accordance with the schedule of implementation dynamics of the projects started.

Project: "Purchase of Business-Class Jets"

(JSC "Airline "Euro-Asia Air")

The Challenger 870 and Challenger 850 business-class jets that arrived in Astana on 31 December 2009 were entered in the aircraft register of the Republic of Kazakhstan in 2010. The jets carry out flights in accordance with the Airlines' operating program.

Project: "Purchase of Two Agusta Westland-139 Helicopters"

(JSC "Airline "Euro-Asia Air")

The airline has made a contract with the manufacturing plant for purchase of two Agusta Westland-139 helicopters. The objective of the project is to increase the company's value by entering the market of air service to offshore operations. Arrival of the aircraft in Kazakhstan took place in May, 2010. Now, after all necessary procedures, the operation of the new helicopters on the offshore has commenced since September, 2010.



7



2000

The most important event of 2000 in Kazakhstan was the discovery of a large-scale deposit on the Caspian Sea shelf (the Kashagan deposit).

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DEVELOPMENT OF KAZAKHSTAN CONTENT

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DEVELOPMENT OF KAZAKHSTAN CONTENT

For the purpose of informational support to domestic manufacturers on the scheduled procurement of goods, works and services in the short-term and long-term the procurement, plans for goods, work and services for the forthcoming year are regularly posted on the corporate web-sites of the KMG group of companies, including the catalogue of goods planned for purchase in 2011-2015.

A group of KazMunayGas specialists held a number of meetings with business representatives almost in all regions of the country. During these meetings the cooperation issues were discussed and information on the Procurement Rules and existing preferences for the domestic manufacturers was presented.

Implementation of the "Program of Assistance by JSC NC "KazMunayGas" to Development of the Petroleum Mechanic Engineering in the Republic of Kazakhstan" continued in 2010. The

purchases from Kazakhstan machine-building enterprises stipulated in the Program were carried out in full. 52 Kazakhstan enterprises – manufacturers of the saleable products for the oil and gas industry have been involved in the Program.

In accordance with the Program, Kazakhstan's plants year over year set up production of new types of oil and gas equipment, machinery and materials, which have never been produced in Kazakhstan earlier. Since the beginning of implementation of the first Program in 1998, Kazakhstan's plants have set up production of over 300 items of equipment on the largest positions.

As part of the Program the purchases of oil and gas equipment, machinery and materials in 2010 amounted to over 28 bn tenges. The share of equipment purchases by the KMG Group of companies from the machine-building enterprises, specializing in manufacturing products for the oil and gas complex, increases yearly.



1,502 mn tenges / 37% JSC "WEST-KAZAKHSTAN
2,558 mn tenges / 63% MACHINE-BUILDING COMPANY"

Notably, in 2010 the volume of the KMG Group's purchases from JSC "West-Kazakhstan Machine-building Company" amounted to 1.5 bn tenges or 37 percent of the total production volume of the enterprise.



9,313 mn tenges / 40% LLP «KSP STEEL»
13,748 mn tenges / 60%

The share of KMG's purchases from LLP «KSP Steel» amounted to 40%, the procurement of the pipe products from this enterprise amounting to 9.3 bn tenges.



1,396 mn tenges / 48% JSC "PETROPAVLOVSK PLANT
1,508 mn tenges / 52% OF HEAVY MACHINE BUILDING"

The purchases from JSC "Petropavlovsk Plant of Heavy Machine Building" amounted to 1.3 bn tenges or 48% of the total production volume of the plant.



1,263 mn tenges / 21% LLP "PRIKASPIISKY
4,763 mn tenges / 79% MACHINE-BUILDING PLANT"

The share of purchases from LLP "Prikspiisky Machine-Building Plant" amounted to 79% or 4.8 bn tenges.



375 mn tenges / 13% "AKTYUBINSK OIL EQUIPMENT PLANT"
2,574 mn tenges / 87%

The share of purchases from JSC "Aktyubinsk Oil Equipment Plant" amounted 87%, which amounts to 2.5 bn tenges.



3 mn tenges / 0% JSC "MUNAYMASH"
1,653 mn tenges / 100%

JSC "Munaymash" executes the orders for virtually exclusively for KMG in the amount of 1.6 bn tenges.

In 2010 the local content in the total volume of purchases by KazMunayGas of goods, works and services in the amount of 1.5 bn. tenges amounted to 51%. Without regard to the procurement of Russian oil, purchased for refining in the Pavlodar Petrochemical Plant, the local content is 65%.

Basic areas of implementation of JSC NC “KazMunayGas” Program for development of the local content:

Increase the purchased volumes of products, set up for commercial production in previous years and output serially now

Assist domestic goods producers in organizing output of new types of commercial products, imported at the moment

Increase the Kazakhstan content during implementation of major oil and gas projects

Establish a business development center

Organize service and machine-manufacturing assets

A new stage in the development of cooperation with the domestic manufacturers is entering into long-term contracts with them. In this regard in November, 2010 the Technological Agreement on Production of New Types of Oil and Gas Equipment was signed between the Ministry of Industry and New Technologies of the Republic of Kazakhstan and KazMunayGas.

KAZAKHSTAN CONTENT IN MAJOR OIL AND GAS PROJECTS

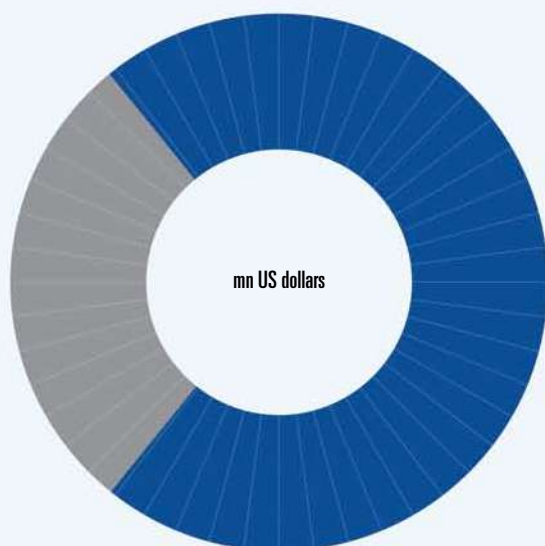
As a result of the conducted work, in 2010 the total amount of payments to Kazakhstan companies for services and goods in the TCO project was 1,354 mn USD or 68%.

TCO's Payments for Purchases of Kazakh Goods and Services During 2010

'000 US dollars

Types of payments	Categories	2010 to date	% of KC
Services	Total expenses in the RoK	1,791,704	75.3
	Amount for KC	1,348,608	
Goods	Total expenses in the RoK	203,471	2.5
	Amount for KC	5,179	
Total	Total expenses in the RoK	1,995,175	67.9
	Amount for KC	1,353,787	

TCO's Costs in Kazakhstan



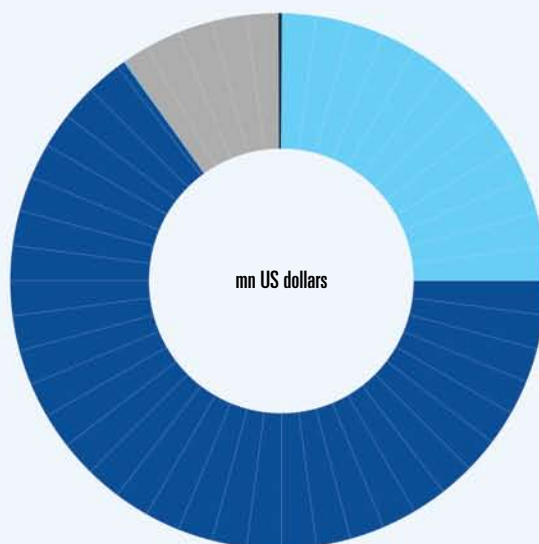
1,354 mn US dollars / 68% / Kazakhstan content
641 mn US dollars / 32% / Without Kazakhstan content



1,349 mn US dollars / 99.6% / Services of Kazakh suppliers
5 mn US dollars / 0.4% / Goods of Kazakh manufacturers



TCO's Annual Costs for Goods and Services



Services — 90% of the total costs

443 mn US dollars / 25% / Expenses for the foreign suppliers' services
1,349 mn US dollars / 75% / Expenses for the Kazakh suppliers' services

Goods — 10% of the total costs

198 mn US dollars / 97% / Expenses for the foreign suppliers' goods
5 mn US dollars / 3% / Expenses for the Kazakh suppliers' goods



2001

On 2 May 2001 National Company for management of main oil & gas pipelines "Oil & Gas Transportation" (OGT) was established by a decree of Kazakhstan's Government. The state-owned shareholding in the KazTransOil CJSC and KazTransGas CJSC were transferred to the new company.

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..... CORPORATE SOCIAL RESPONSIBILITY

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CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility means accomplishment of voluntarily assumed obligations which correspond to the interests of the society, state and business.

National Company "KazMunayGas" deems its social responsibility as a voluntary contribution to the development of the society in social, economic and environmental spheres, as related directly to the main activity of the Company and realized beyond the minimum requirements established by the law in accordance with the company's capacity.

KazMunayGas, as a socially responsible company, is committed to the ongoing implementation and improvement of the quality of social activities in the following main directions:

- Internal Social Responsibility:
 - Development of HR Potential
 - Motivation System
 - Healthcare
 - Work Safety.
- External Social Responsibility:
 - Charity and Sponsorship
 - Environment Protection.
- Social Partnership:
 - Participation in the implementation of state and sector social programs, general Republic level activities
 - Participation in International Initiatives
 - Development of Regions.

The strategy of the KazMunayGas company in the sphere of corporate social responsibility and relations with parties concerned consists in securing long-term and mutually beneficial cooperation in the implementation of the most actual and socially significant projects aimed for social-and-cultural and social-and-living development of the regions of the republic.

IMPLEMENTATION OF SPBIID PROJECTS

PRODUCTION OF ROAD BITUMENS IN THE AKTAU PP

ANTICIPATED EFFECT:

- Production of no less than 400 thousand tons of high quality road bitumen per year.
- Jobs creation – 900 during the plant construction and 549 new jobs after commissioning.

PROJECT COSTS: 290 mn USD

PROJECT PARTICIPANTS:

Kazakhstan Petrochemical Industries JSC, CITIC Group (PRC), both are participants of LLP “JV “Caspi Bitum”.

FINANCING STRUCTURE:

- 80% through tapping a loan facility from the Bank of China under a corporate guarantee of CITIC Group.
- 20% – funds of the JV’s participants – JSC “KPI” and LLP “CITIC Kazakhstan” on a parity basis.

CURRENT STATUS:

- EPC contract for construction of the Project facilities between the JV and the consortium of Contractors – JSC OGCC KazStroyService and LLP “CITIC Construction” – was signed on 3 June 2010.
- For the purposes of financing 20% of the Project costs (\$58 mn), the JV participants formed the JV’s authorized capital on 22 June 2010.
- Credit agreement between the JV and Bank of China for an amount of \$232 mn (34.8 bn KZT) signed on 28 September 2010.
- At the bitumen plant construction site the disassembly works have been completed, construction and assembly works for capital repair of the existing off-plant facilities, construction of tank farms and construction of the groundwork of the new facilities of the plant are underway.

PLANS FOR 2011:

- Development of the engineering documentation on the process units and OPFs, completion date – September, 2012.
- Placement of orders for processing facilities and long-lead items.
- Performance of construction and assembly works for the new facilities.

IMPLEMENTATION PERIOD: 2010-2012



SOCIAL PARTNERSHIP AND SPONSORSHIP

Policy in the sphere of sponsorship and charity work provides for the following basic principles:

- objective necessity and advisability;
- transparency and responsibility in decision-making;
- practical efficiency of measures;
- positive effect on the improvement of the Company's image;
- control over the funds to be spent as per their intended purpose.

Sponsorship (charity) was rendered in 2010 in the view of the Company's priorities in the sphere of social responsibility. KazMunayGas annually spends considerable funds for the social sphere and for the support to the socially vulnerable groups of the population. Among the significant events in the social policy of KazMunayGas in 2010 there was celebration of the 65th Anniversary of the Victory in the Great Patriotic War of 1941-1945.

National Company "KazMunayGas" actively participated in the implementing of the Action Plan for Preparation and Celebration of the 65th Anniversary of the Victory in the Great Patriotic War of 1941-1945, approved by Decree of Government of the Republic of Kazakhstan No 94 of 15 Feb 2010. Together with the "KazEnergy" Association of Oil and Gas and Energy Sector Entities and Social Fund "Munaishi" named after N. Murabayev, a formal reception for 140 veterans from Astana city and Atyrau region was held, target material assistance rendered in the amount of 100,000 tenge for each veteran and mementos presented. In addition, as part of this anniversary celebration KazMunayGas implemented a number of projects, including: with the support of the Embassy of the Republic of Kazakhstan in the Russian Federation, teleconference bridge "Astana-Moscow" – "Kazakhstan and Russian Veterans' Meeting: 65 Years On" was organized, thanks to the sponsorship of KazMunayGas, the book "Oil and Gas Industry during the Great Patriotic War" was published, the action "Heirs of the Victory" was held, in which veterans of the Atyrau oblast and over 7 thousands Kazakhstan's citizens participated. Other socially important events were held. In total National Company "KazMunayGas" assigned more than 27 mn tenge for the targeted social assistance to veterans of war, implementation of the program for refurbishment of the their flats, and maintenance of the current activities of the veterans' organizations.

Key Areas of Sponsorship and Beneficent Assistance by KazMunayGas, its Subsidiary and Dependent Entities in 2010

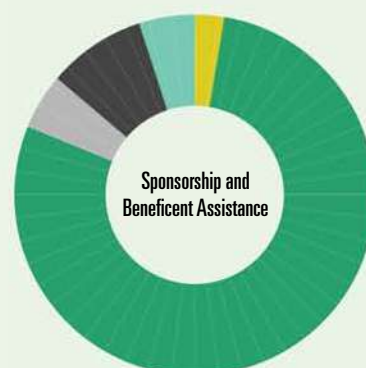
82% / Social projects, individual sports

8% / Support to the articles of association activities of social non-profit organizations

4% / Miscellaneous

4% / Measures at the international and republic level

2% / Emergency response





Within the framework of the support to other socially vulnerable groups of the population KazMunayGas renders material assistance to the veteran workers of the petroleum industry via the "Munaishi" Social Fund.

Disabled people, pensioners, low-income citizens, orphaned children and other socially vulnerable groups of population receive target assistance from the Company. Thus, in 2010 sponsorship and beneficiary aid was provided to Children Orphanage "Svetoch" (Astana), the Society of Disabled Children of Astana, the Aktobe Oblast Corporate Social Fund "Shapagat", CF "Lex" Consulting Center", Social Fund "Voluntary Society "Miloserdie", Social Well-Being Fund "Sharapat" of Astana, Kazakhstan Confederation of the Disabled and many other charity social organizations and individuals.

In the sphere of the development of social partnership, KazMunayGas actively participates in different activities, joint projects and programs of social partnership of regions, renders support to the creation of the modern engineering and transport infrastructure in the administrative centers. The National Company provided sponsor support to the V KAZENERGY Eurasian Forum, IX Eurasian Media Forum, III Astana Economic Forum, World Intellectual Culture Forum and other significant events at the national level to foster the prestige and image of our country in the international arena.

In 2010 National Company "KazMunayGas" signed a Memorandum of Understanding with the Akimat of the Aktobe oblast, under which the Company renders financial assistance to a number of social and beneficent programs in the Aktobe oblast, new jobs are created and measures on training the local manpower are taken. KazMunayGas and its subsidiaries took an active part in the measures on mitigation of the consequences of the emergencies in the East-Kazakhstan and the Aksu region of the Almaty oblast, by channelling beneficent aid for the recovery of the social facilities and residential houses in the disaster-stricken areas. The team of the KazMunayGas Group of companies also did not stand idly and organized collection of applications on voluntary transfer of money from their salaries in favour of those stricken by the flood. Over 281 mn tenges in total were transferred for the above-said purposes in 2010.

In order to support culture, science and art, in 2010 KazMunayGas continued the contest in journalism "Power of the Pen", the purpose of which was regeneration of the best traditions of the Kazakh journalism, improvement of the creativity and journalistic art in the mass media, as well as promotion of the awareness among the general public about important but not very well

known events, interesting facts, and remarkable persons in the history of the oil and gas industry. Due to the sponsor assistance of KazMunayGas, holding a number of other educational projects was ensured, including: "S. Utebayev Scholarship", within the framework of which the best students and professors of higher education institutions, studying and teaching oil and gas disciplines were awarded scholarships named after Safi Utebayev, a series of "open lessons" on petrochemistry and equipment of the chemistry classroom in the Kazakh-Turkish Lyceum, the purpose of which is to carry out occupationally oriented work among talented children, generation of the students' interest in the chemistry and research activities.

Recognizing the relevance and importance of assistance, further development and stimulation of knowledge and creativity of talented youth, the Company rendered sponsorship to the children dancing group "Tumar", television project "Intellectual Olympiads", the publication project "Big Atlas of Kazakhstan" and a number of other projects and individuals.

As part of the development of the capital of the Republic of Kazakhstan and the support to the state initiative on cultural and historical heritage, in 2010 KazMunayGas commenced implementation of the project for construction of "The Historical Museum of Kazakhstan" in Astana.

The National Company pays great attention to the development and support to sports and healthy lifestyle, by providing annual sponsorship assistance to the National Federations of Tennis, Football and Judo of the Republic of Kazakhstan, and one-time support to other sports organizations and sporting events. Apart from the sponsorship assistance, in order to promote healthy lifestyle, the National Company and its subsidiaries hold sport competitions and contents dedicating them to holidays. To create favourable conditions for recreation and health improvement, the Company assigned significant funds for the construction of an environment and mud sanatorium on the shore of the Balkhash Lake.

The JSC NC "KazMunayGas" Program for Construction of Multifunctional All-season Sports Grounds is continuing. Construction of 10 sports grounds in Astana, the sports and recreation centre in the village of Akkistau of the Atyrau oblast, 10 sports grounds in Zhana-Ozen of the Mangistau oblast, 3 sports grounds in Shymkent and 5 in Pavlodar has been completed. 29 facilities in all have been commissioned.

All in all, in 2010, KazMunayGas and its subsidiary and dependent entities rendered sponsorship assistance (charity) for the amount of over KZT10 bn.



MOTIVATION SYSTEM

Engagement, retention and motivation of the KazMunayGas employees are the main objectives the company establishes in the sphere of HR Management. Currently, KMG's employee motivation includes the following components:

- **Compensation** – monetary funds paid by the employer to the employee for the services rendered;
- **Benefits** – programs used by the employer as additional compensation paid to the employee;
- **Performance and recognition** – employee performance contains approval and subsequent assessment of actions of individual employees, teams and the company as a whole in achieving business goals leading to the company's success;
- **Development and career opportunities** – development includes training aimed at the expansion and deepening of skills and competences of employees. Career opportunities mean planning which helps employees in achieving their goals of career building.

The system for motivation of KazMunayGas employees has been built in accordance with the legislation of the Republic of Kazakhstan, and the policies and practices developed by the Sole Shareholder – JSC "National Welfare Fund "Samruk-Kazyna".

DEVELOPMENT OF HR POTENTIAL

KazMunayGas pays special attention to the issues of training and human resource development. For the development of the corporate training, the Company uses the resources of training centers of the KazMunayGas Group of companies and collaborates with long-term partners for joint development of human resources. A set of actions, aimed at acquisition of knowledge and skills by the employees of the KazMunayGas Group of companies, instead of the traditional individual training, has made it possible to train 25,494 people for the total amount of 2,298,205 thousand tenge, with the average cost of training amounting to 90,146 tenge 91 tiyns per 1 person.

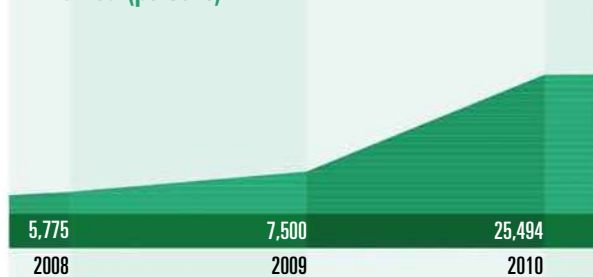
In addition, in 2010 trainings for the employees of the KazMunayGas Group of companies were held mainly on the territory of the Republic of Kazakhstan for the purposes of the Kazakhstan content development in the services purchased and support to the domestic training suppliers. Workshops and courses in the engineering specialties in the absence of similar offers from the domestic suppliers, programs for the development of the succession pool and discharge of obligations on long-term agreement were an exception.

Taking into account the structure of employees of the KazMunayGas' Group of companies, the majority of the training activities were designed for the operational personnel – 64% of the total number. The capabilities of such corporate training centres as Educational and Courses Centre of "Intergas Central Asia", Training Centre of the "OzenMunayGas" PB and LLP "Embaokuortalygy" were used for re-training and development of competence of the operation personnel.

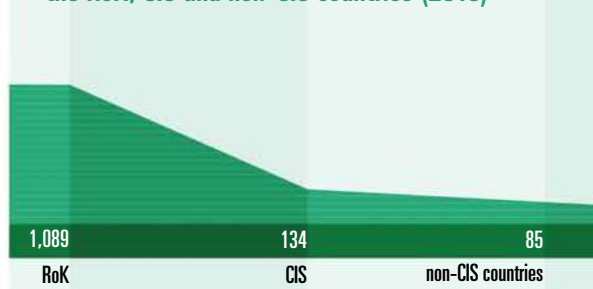
A significant assistance to the solution of this issue is provided by PE "Corporate University "Samruk-Kazyna" (earlier named PE "Unified Human Resource Development Center"), which organizes training for the employees of the KazMunayGas Group of companies, and develops its own training programs both for KazMunayGas, and other national companies, which are part of JSC NWF "Samruk-Kazyna". Development of universal curricula, especially related to managerial skills, allows forming unified requirements towards the knowledge and skills of the administrative and managerial personnel, as well as engineers and technology employees.

Besides systematic implementation of short-term training and re-training programs, a constant work is done on training the succession pool for managerial positions. For this purpose, such methods of human resource development as secondment and traineeship are actively used. Employees are seconded under the

Number of KMG Group of Companies employees trained (persons)



Number of Training Events on the Territory of the RoK, CIS and non-CIS countries (2010)



projects which are jointly implemented with international partners (Tengizchevroil) and to the newly created structures and operating companies (KazakhOil-Aktobe, CPC and others). Every year, under the partnership on these projects, as well as within the framework of the relations established with oil companies in foreign countries (JCCP, JOGMEC, Chevron etc.), employees are sent for traineeship to international offices of the partner companies for the exchange of experience with the leading oil and gas companies. The employees, who are sent for secondment or traineeship, enjoy the possibility to learn the experience of the leading oil and gas companies.

The work is being continued on forming the Common Administrative Succession Pool for the KazMunayGas Group of companies applying up-to-date methods of assessment of the nominees by means of staged selection (testing, essay analysis, assessment center). An individual career plan has been developed for each employee enrolled on the administrative succession pool for gradual preparation of the succession candidate to the assignment to a key executive position within the KMG Group of companies. At the same time, as part of the project, NWF "Samruk-Kazyna" is forming a management candidates' pool for the development of succession plans for occupation of the key management positions within the group of companies of the "Samruk-Kazyna" Holding Company.

SAFETY, HEALTH AND ENVIRONMENT

In accordance with KMG's Policy in the sphere of health and safety, the main priorities are as follows: protection of the health of the personnel and population, ensuring environmental safety for sustainable development.

KMG's SDEs conduct their production activities in accordance with the requirements of the environmental legislation of the Republic of Kazakhstan, the Company's Safety, Health and Environment Policy, the Uniform Occupational Safety Management System (UOSMS), Comprehensive Environmental Program (CEP) and approved action plans of KMG's SDEs.

The issues related to health and environment safety are monthly announced at the meetings of KMG's Management Board and the Board of Directors, which increases the responsibility of KMG's managers and specialists.

Certification reaudit conducted by an independent audit firm TUV Thuringen on 2-4 March 2010, confirmed compliance of management with the requirements of ISO 9001, ISO 14001 and OHSAS 18001 international standards.

On 4 June 2010 the 11th annual meeting on the matters of safety, health and environment, industrial and fire safety, civil protection and emergencies was held in Astana with the participation of the management and specialists of KMG's SDEs. Problem issues the safety and environment services of the KMG's SDEs face were discussed, and the corresponding decisions on improvement of organization and safety were made at the meeting.

Every year, SDEs of KMG spend sufficient financial funds for the measures to provide safety of labor and to decrease the number of accidents at work. The Company spent over KZT2.8 bn in 2010. KMG has a system in place for management of health, safety and environment, industrial and fire safety and emergencies to identify, assess, control and eliminate harmful occupational hazard and exposure.

In order to prevent accidents and breakdowns, and to improve the safety conditions and work safety, KMG's SDEs are recommended to continue their work in the following directions:

- Eliminate the risks of occupational accidents, prevent violation of regulatory health and safety procedures at operational sites and increase personal responsibility of all managers and officials for accidents and emergencies at the place of production;
- Improve control over ensuring the compliance with the labor legislation, standards, rules and regulations on safety by employees, and compliance of the production technology and operating equipment with the requirements of safety standards, rules and regulations in SDEs of KMG. Improve control over the MACs work of the 1st to 3rd levels of control;
- Increase control over ensuring safety during operation of vehicles and special machinery;
- Ensure control over adherence by the contracting (service) organizations, operating on the territory and in the facilities of KMG's fields, to the legislative requirements of the Republic of Kazakhstan on health, safety and environment, industrial and fire safety, sanitary norms and regulations, KMG's Uniform Occupational Safety Management System;
- Implement of the system for prevention of occupational accidents and injuries during the performance of every specific type of works.
- Create a system for automated collection, maintenance, search, analysis, classification, processing and storage of data of KMG SDEs on health, safety and environment protection, industrial and fire safety, and emergencies based on information technologies to take prompt and appropriate measures at the corporate level.

Expenses for Health and Safety Activities

mn tenge



2002



In order to increase the level of ensuring efficient and transparent development of the oil and gas complex and protection of the interests of the Republic of Kazakhstan in the oil and gas sector of the country's economy, Joint Stock Company "National Company "KazMunayGas" with 100% government stake was established by the Decree of the President of the Republic of Kazakhstan of 20 February 2002. KazMunayGas NC is the legal successor of the Kazakhoil NOC CJSC and Oil & Gas Transportation NC CJSC.

ENVIRONMENT PROTECTION

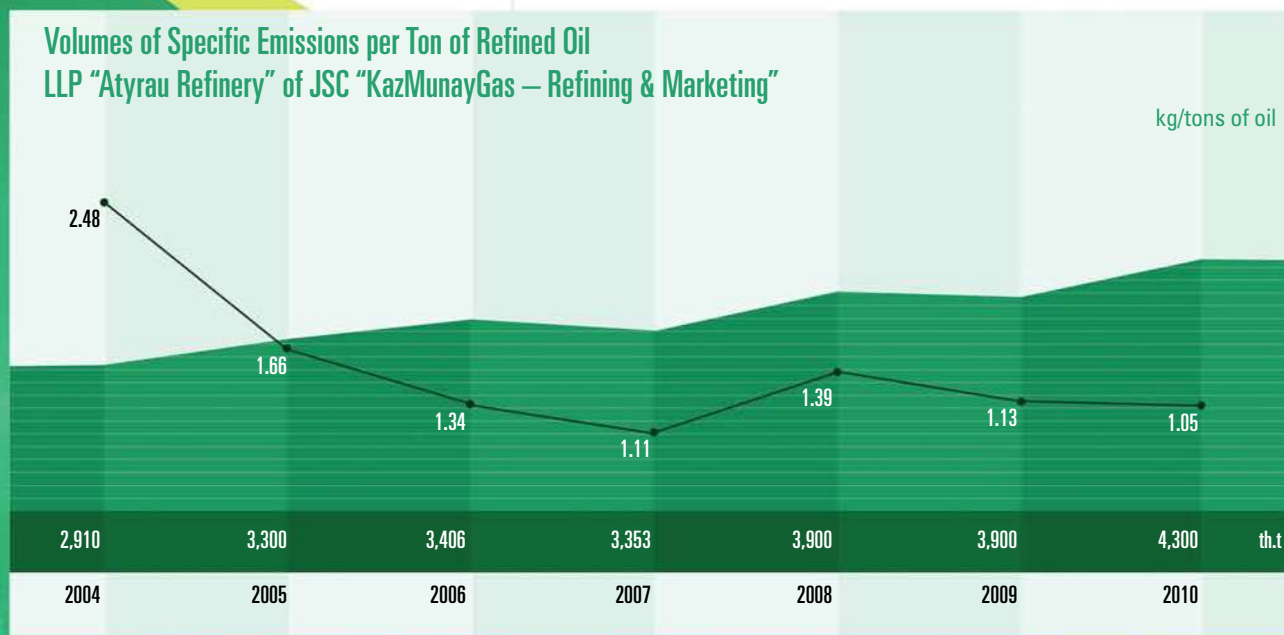
ENVIRONMENT PROTECTION

KMG's Policy is aimed at the reduction of negative impact on the environment and improvement of the ecological situation in the territories of the corporate responsibility.

In spite of the increasing production over recent years, there is a stable decrease in the specific emissions during oil production and refining and transportation of oil and gas.

Thus, for example, in LLP "Atyrau Refinery" of JSC "KazMunayGas – Refining & Marketing", the specific emissions during oil refining have decreased from 1.13 to 1.05 kg per ton of the refined oil.

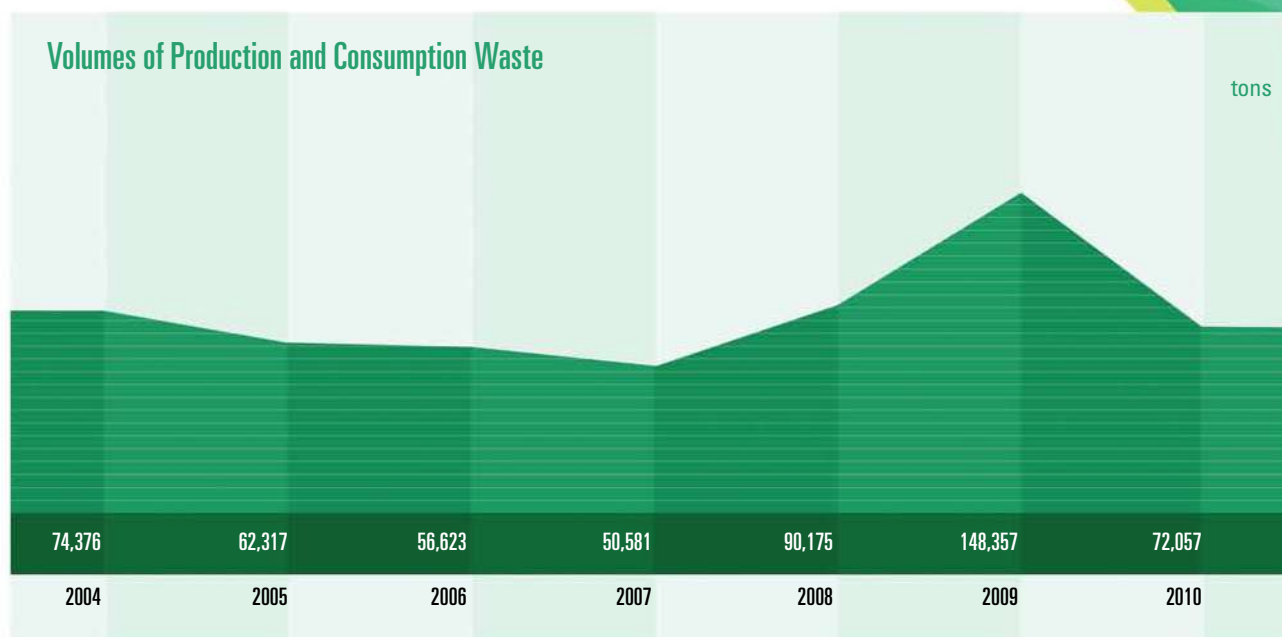
Volumes of Specific Emissions per Ton of Refined Oil
LLP "Atyrau Refinery" of JSC "KazMunayGas – Refining & Marketing"



The volume of industrial and consumer waste decreased by 76,300 tons or by 51.4 %, year-on-year. The work on elimination of the oil-polluted areas and contaminated soil remediation is underway. 1,040 mn tenges were assigned during the reporting period for these purposes.

Volumes of Production and Consumption Waste

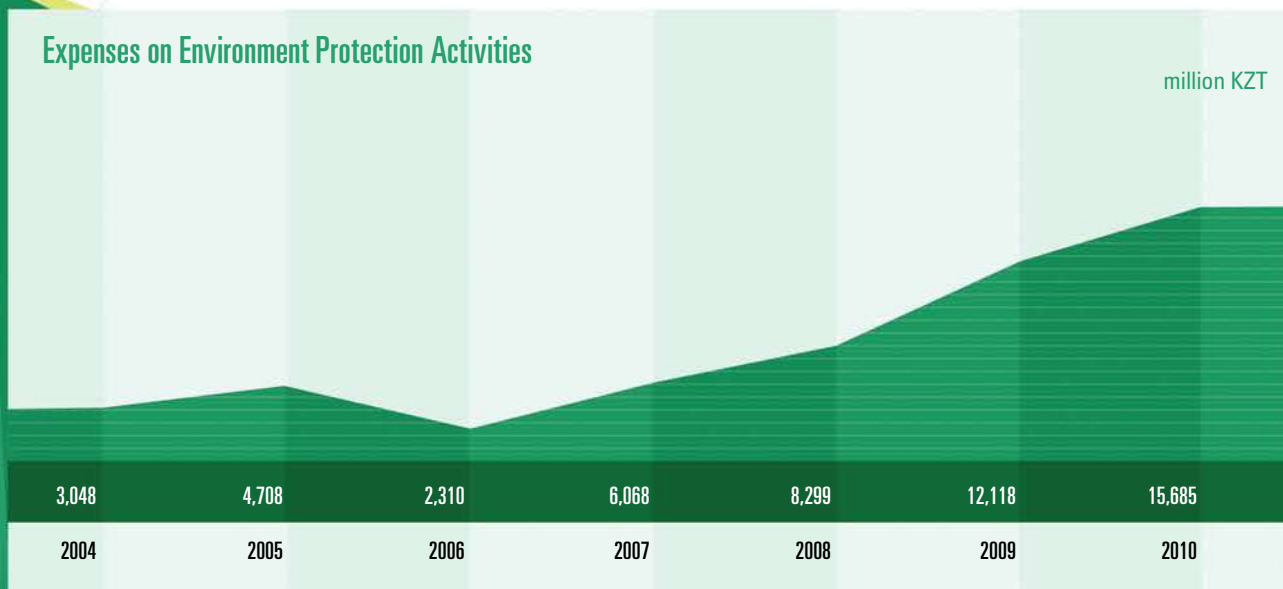
tons



Within the framework of KMG's current waste management system, one of the core directions is implementation of the modern low waste technologies and use of high-performance equipment. For example, as a pilot project, the KazMunaiGas Exploration Production JSC is restoring oil polluted territories using the zeolite-microbiological method, which uses special hydrocarbon-destructing bacteria for restoring the fertile properties of the soil. High-performance equipment is used for processing hard-to-destruct oil, as well as installations for processing oil sludge, using the method of thermal desorption. To conduct liquidation with minimal negative impact on the environment, the Company uses high-technology mobile complexes for processing oil polluted soil and oil sludge, with the productivity of 30 tons per hour.

Expenses on Environment Protection Activities

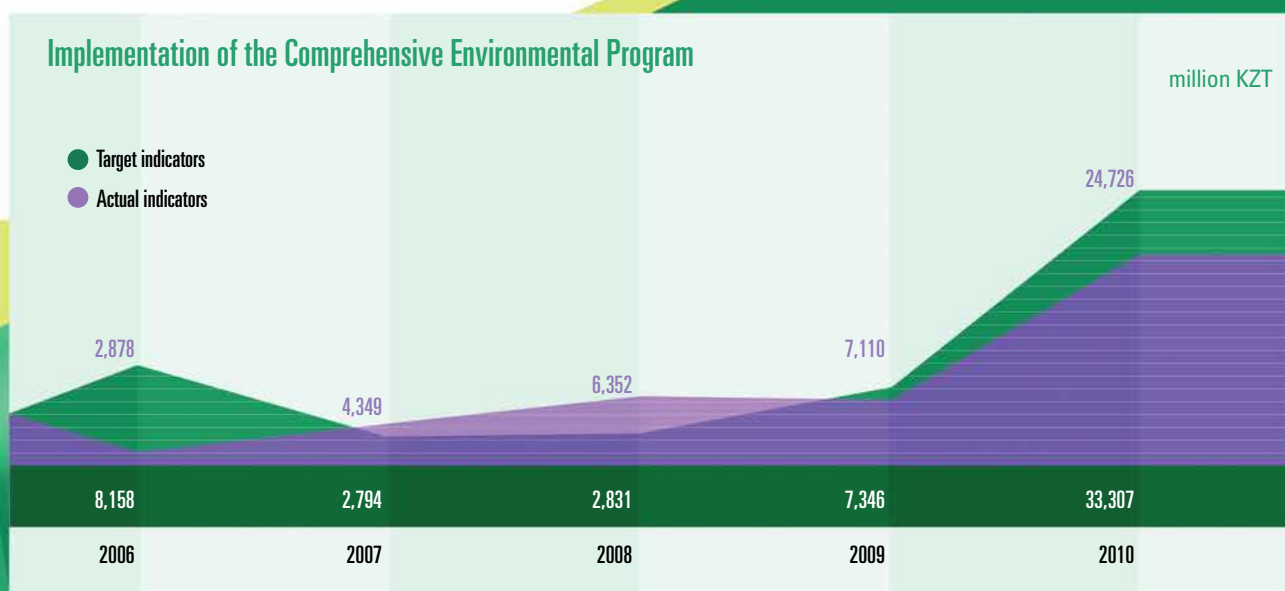
million KZT



KMG annually spends a considerable amount of finance for the realization of environment protection activities. KMG's SDEs spent over KZT15 bn for the implementation of environment protection activities in 2010.

COMPREHENSIVE ENVIRONMENTAL PROGRAM

In accordance with KMG's Development Strategy, a Comprehensive Environmental Program of JSC NC "KazMunayGas" was developed and approved by the Management Board for 2006-2015 (CEP), the main objective of which is to ensure a systemic approach to environment protection in the KMG group of companies. The Program is being successfully implemented, and in 2010, the Plan of Environment Protection of CEP was adjusted in accordance with KMG's priority business areas.



The total amount of financial expenditures for implementation of the CEP, assigned by the SDEs in 2010, amounted to 24,726 mn tenges, against the planned 33,307 mn tenges, where the execution amounted to 74.2 percent.



CORPORATE INDUSTRIAL ENVIRONMENTAL MONITORING SYSTEM

The critical element of the environmental management system is operational environmental monitoring.

Work is continued for the creation of an efficient KMG's Corporate Operational Environmental Monitoring System, which has been determined as one of the main priorities of the Company's strategy and was approved by KMG's Board of Directors on 19 January 2009.

Since 2005, the Company has developed and has been using the aerospace environmental monitoring system, as an integral part of KMG's Corporate Industrial Environmental Monitoring System, in order to automatically trace any changes in the environment on the whole territory of corporate responsibility of KMG, as well as to ensure taking adequate managerial measures on environmental protection.

This aerospace environmental monitoring system is based on the application of geo-information technologies, utilization of modern special equipment and mathematic software for receiving and processing space photographs, and it allows collecting, analyzing and generalizing all environmental data constantly, as well as modeling the environmental situation, which also allowed creating a continuously updated electronic environmental map.

In 2010, on the basis of a new effective platform of geo-information system, the Company developed a new improved version of the aerospace environmental monitoring system, which has greater capabilities and allows solving a wider range of tasks.

The primary objectives of KMG's aerospace environmental monitoring are:

- identify air pollution sources, including operating associated petroleum gas flares;

- identify oil spills and sources of the KSCS pollution;
- determine the risk areas of the extra-hazardous sections of the main oil and gas pipelines;
- determine and map oil-contaminated areas, monitoring the dynamics of elimination of oil contamination and large sludge storages, in the area expression;
- monitor the ice situation in the KSCS;
- classify and store information in the database;
- cooperate with the parties concerned.

As noted above, one of the actual objectives of KMG's aerospace environmental monitoring system is identification of oil spills and contamination sources in the Kazakhstan Sector of the Caspian Sea, including oil spills and forecast of their spreading for the next 120 hours, using the accurate oil spill risk assessment model. The relevance of this objective is obvious in the light of the environmental impact of the breakdown in the Gulf of Mexico.

The generated system and modern technologies may be effectively implemented in the strategic detection and monitoring via methods of remote sensing of emergencies, such as natural and technogenic fires, oil and gas pipelines accidents.

On 30 June 2010, as part of the Report "On the Measures Taken by KMG in the Sphere of Prevention of Oil Spills on Waters and Ensuring Preparedness to Mitigate Their Consequences", the system was introduced at the meeting of the National Oil Spill Response Commission and approved by it.

The KMG's experience in creation of the aerospace environmental monitoring system has been included in the report of the Japan International Cooperation Agency (JICA) on the study of the Caspian region in accordance with the inter-governmental Agreement between Japan and Kazakhstan.



OTHER ACTIVITIES FOR PROTECTION OF ENVIRONMENT

In 2010, large work was carried out by KMG SDEs on implementation of the Programs for Associated Petroleum Gas Disposal, approved by the Competent Authorities of the Republic of Kazakhstan. In most of SDEs the Programs for Disposal Of The Associated Gas have been already completed.

Implementation of the Programs by the end of 2011 will enable KMG's SDEs to achieve full disposal of the associated petroleum gas at the fields and eliminate gas flaring. Furthermore, it would not only eliminate the penalties for gas flaring, but also allow receiving profit on sales of the saleable products.

Taking into account that the major prospects of increasing the volumes of extracted hydrocarbons in Kazakhstan are connected with the development of the Caspian shelf, KMG makes active efforts for the creation of an infrastructure for response to any possible anthropogenic emergencies.

In accordance with the State Program for Development of the Kazakhstan Sector of the Caspian Sea and the Action Plan (II stage) on Implementation of the State Program for Development of the Kazakhstan Sector of the Caspian Sea, KMG is implementing the project for construction of the North Caspian Environmental Oil Spills Response Base (NCERB) in the Atyrau oblast. This project is included in the list of KMG's priority investment projects.

NCERB will be a Centre for Response to potential oil spills during development of offshore fields, environmental and meteorological monitoring, rehabilitation of the animal world.

The Project's objective is to render services on urgent oil spill response in the northern area of the Kazakhstan Sector of the Caspian Sea.

The NCERB will consist of the following key infrastructure facilities: jetty and mooring basin, storage buildings for the Oil Spill Response (OSR) equipment, buildings and facilities for servicing of air-cushion vehicles (ACV), buildings of the animal world rehabilitation centre, buildings of the environmental and meteorological monitoring centre, utility structures and a helicopter pad.

The main purpose of the NCERB is to protect the Ural river mouth and the reed along the coast of the northern area of the Caspian Sea.

As it is well known, today, one of the major ecological problems is the global climate change in connection with the considerable growth in greenhouse gases emissions.

In 2010 KMG developed a corporate system for control over greenhouse gases emissions, which is based on the use of flexible economic vehicles of the Kyoto Protocol.

Besides, in 2010 KMG's corporate Energy Efficiency Program and Action Plan on energy and resources saving and implementation of clean technologies and equipment were developed.

Within the framework of implementation of the corporate greenhouse gases emissions control system and the Energy Efficiency Program, KMG together with its foreign partners are considering the opportunity of implementation of certain projects for reduction of greenhouse gases emissions by means of "carbon" vehicles. This refers to disposal of the associated gas in the gas-transportation system and oil refining. The implementation of these projects with the carbon component is expected to attract additional investments through the sale of certified volumes of reduction of greenhouse gases emissions on the external market.

Based on the set priorities, KMG will focus on the implementation of the following strategic tasks:

- Implementation of the Company's Comprehensive Environmental Program for 2006-2015, with adjustment of the plan of environmental actions and inclusion of new enterprises.
- Aerospace environmental monitoring and actualization of environmental database.
- Implementation of programs and events for energy and resources saving and introduction of environmentally clean technologies and equipment, as part of the corporate energy efficiency program.
- Development of the corporate greenhouse gases emissions control system, based on the use of the Kyoto Protocol vehicles, and foundation of the Company's Carbon Fund.
- Ensuring the safety of offshore oil operations and creation of a specialized oil spill response and mitigation entity.



2003

The State Program for Development of the Kazakhstan sector of the Caspian Sea (KSCS) was approved on 16 May 2003.

2010
Annual Report

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II

CORPORATE GOVERNANCE



www.kmg.kz



КазМұнайГаз
NATIONAL COMPANY ұлттық компаниясы



CORPORATE GOVERNANCE

The system of corporate governance of JSC NC “KazMunayGas” is based on the respect to the rights and legitimate interests of the Sole Shareholder and the key stakeholders - the state, strategic partners, employees of the Company, and is oriented to lowering investment risks, increasing investment attractiveness, decreasing the cost of debt and own capital and increasing the Company's value.

The major principles of corporate governance in JSC NC “KazMunayGas” are as follows:

- protection of rights and interests of the Sole shareholder;
- efficient management of the Company by the Board of Directors and the Management Board;
- independent functioning of the Company;
- transparency and objectiveness of the disclosed information about the Company's activities;
- legality and etiquette;
- efficient dividend policy;
- efficient human resource policy;
- environment protection;
- corporate conflicts and interest conflicts management policy;
- responsibility.

In 2010, KMG became the winner in the “Best Corporate Website” nomination. The rating of websites was conducted by RFCA Ratings jointly with the Kazakhstan Association of Independent Directors. KMG's website received the highest score among 500 companies in Kazakhstan. An updated corporate website (www.kmg.kz) was launched in March, 2010. When it was created, such factors as its ease of use (structuring information, using information presentation technologies, user scenarios), informational content and openness were taken into account. The new version reflects KMG NC's long-term development strategy on the 5 key business areas (upstream, oil transportation, gas transportation and marketing, petroleum refining and petrochemicals, implementation of service projects and development of the Kazakhstan content). Work to improve the corporate website aims to increase openness and transparency of KMG's activities in accordance with the international principles and standards, as well as the recommendations of rating agencies. In creating the website, modern technologies and design solutions were used. As a result of work carried out, KMG's website traffic increased 2 times, the user spends on the site an average of 8 minutes, and opens up to 6.5 pages.

KazMunayGas was pronounced the winner in the “Senim 2010” contest and was given the “Best Managing Company-Employer” award. The competition was held with official support from the Ministry of Labour and Social Protection of the Republic of Kazakhstan and the National Economic Chamber of Kazakhstan “Soyuz Atameken”. In order to determine the best employer company in 14 regions of Kazakhstan, in the cities of Almaty and Astana, a sociological study “Change in Living Standards, Job Satisfaction and Social Well-being of the Population of the Republic of Kazakhstan” was carried out (3,000 respondents interviewed). Questionnaires of company-nominees (employer questionnaire)

and a survey of employee loyalty (loyalty questionnaire) were collected and analyzed. In this regard, in companies with employees less than 250 people 20% of employees were interviewed, with more than 250 people – 15% of employees. The expert jury recognized the high level of human resource management in JSC NC “KazMunayGas”, including the policies developed and successfully implemented in the company, related to recruitment, assessment and development of personnel, as well as motivation systems, work with the succession pool, building the corporate culture.

For the due observance and adherence to the principles of corporate governance, JSC NC “KazMunayGas” is guided in its work by a number of internal documents: the Charter, Code of Corporate Social Responsibility, Regulations on the Corporate Secretary, Board of Directors, Audit Committee, Appointment Committee, Remuneration Committee, Management Board, Rules for Disclosure of Information, Information Policy and other documents.

In June 2010, the Board of Directors of JSC NC “KazMunayGas” approved the Code of Business Ethics, later the Management Board of KazMunayGas passed a resolution to appoint an ombudsman - a person who contributes to the implementation and enforcement in KMG of business ethics principles.

In 2010, the corporate governance rating of JSC NC “KazMunayGas” has been revised by Standard & Poor's to GAM-MA 4+.

JSC NC “KazMunayGas”, realizing the importance and significance of the corporate governance rating for the company's development, has taken into account all recommendations of Standard & Poor's and developed an Action Plan to comply with comments and recommendations.

IMPLEMENTATION OF SPBIID PROJECTS



«BEINEU-SHYMKENT» GAS PIPELINE

LENGTH: 1,475 km.

GAS PIPELINE CAPACITY DEVELOPMENT STAGES:

- Stage I (Bozoy-Shymkent section) - up to 6 bcm annually.
- Stage II (Beineu-Bozoy section) - with the expansion up to 10 bcm annually.

JV CREATION: JANUARY, 2011.

BEGINNING OF CONSTRUCTION OF THE LINEAR PART: 3Q 2011.

INCEPTION OF PROJECT FINANCING: 3Q 2011.

COST OF CONSTRUCTION: 3.66 bn USD

AUTHORIZED CAPITAL (50/50): 1.0 bn USD

DEBT FINANCING: up to 3 bn USD

COMPLETION OF CONSTRUCTION (STAGE I): 3Q 2013.

CORPORATE GOVERNANCE BODIES

Board of Directors of JSC NC "KazMunayGas" is responsible to the Sole Shareholder for effective management and proper control over the activity of the Company and for ensuring a proper dialog with the Sole Shareholder. The Board of Directors determines the directions of strategic development of the Company, considers and passes resolutions related to the issues of potential acquisitions and other significant financial issues.

In 2010, the Company's Board of Directors was composed of six members, including two independent directors. Under the Board of Directors the Audit Committee, Appointment Committee and Remuneration Committee were formed.

Committees of the Board of Directors of JSC NC "KazMunayGas"

Audit Committee	Considers the issues related to the internal and external audit, the issues of financial accountability. In 2010, the Audit Committee held 19 meetings.
Appointment Committee	Prepares qualification requirements for nominees to be independent directors, the head of the Internal Audit Service and Corporate Secretary, provides to the Board of Directors recommendations on different issues in accordance with instructions of the Board of Directors and/or provisions of the Company's internal documents. In 2010, the Appointment Committee held 4 meetings.
Remuneration Committee	Develops recommendations on policy and structure of remuneration of the members of the Board of Directors, members of the Management Board, Head of the Internal Audit Service, Corporate Secretary and other employees of the Company. In 2010, the Remuneration Committee held 4 meetings.

The Management Board is responsible for the implementation of the strategy and for the current activity of the Company. The Management Board reports to the Board of Directors about the performed work for the achievement of the Company's objectives. The Management Board of JSC NC "KazMunayGas" has five Committees on different business directions: "Upstream", "Transportation of Oil", "Service Projects", "Gas Projects", "Oil Refining and Marketing". The Committees preliminarily consider and analyze the issues within the competence of business directions and SDEs, which are to be submitted for consideration of the Company's Management Board, in order to make justifiable and effective decisions on the matters of strategy and corporate governance, on business planning, investment projects, on the matters of asset management, on human resource management, on SDEs' matters etc.

Beginning from 2008, JSC NC "KazMunayGas" has a common Internal Audit Service which was formed by uniting the internal audit services of the subsidiaries.

The common internal audit service reports and is accountable to the Board of Directors of JSC NC "KazMunayGas" and is supervised by the Audit Committee under the Board of Directors of JSC NC "KazMunayGas".

The main task of the Internal Audit Service is to provide to the Board of Directors independent and objective information, intended for ensuring effective management of JSC NC "KazMunayGas", by means of evaluating the internal control, risk management, and corporate governance.

Corporate Governance Bodies of National Company “KazMunayGas”

SOLE SHAREHOLDER

JSC “National Welfare Fund “Samruk-Kazyna”
Supreme body

Board of Directors

responsible for general management and operations of KMG,
and exercises control over the activities of the Management Board

Management Board

Collegial executive body, managing the company's current
activities and implementing the strategy, determined by the
Board of Directors and the Sole Shareholder

Internal Audit Service

Economic activities of the company and other entities of the
KMG group of companies, included in the Fund's Group by
virtue of Law of the Republic of Kazakhstan «On National
Welfare Fund», evaluation in the sphere of internal control,
risk management, execution of documents in the sphere of
corporate governance, and consulting in order to improve
the company's operations



CORPORATE GOVERNANCE

INTERACTION WITH SHAREHOLDERS

As of the 31st of December 2009, the Sole Shareholder of JSC NC “KazMunayGas” is JSC National Welfare Fund “Samruk-Kazyna”, which holds 100 percent of shares of JSC National Company “KazMunayGas”.

KMG’s Board of Directors understands the importance of the permanent and effective communication with the Sole Shareholder.

The Company provides to the Sole Shareholder timely and complete information about its activities, which involves the interests of the Sole Shareholder in the order stipulated by the Charter and internal documents of the Company.

Resolutions of the Sole Shareholder, made under his competences, are mandatory for the Board of Directors of the Company.

INTERACTION WITH SUBSIDIARY AND DEPENDENT ENTITIES

Interaction with subsidiary and dependent entities (SDEs) is done using approved corporate procedures through corresponding bodies of the company and SDEs.

The main objectives of the Company’s interaction with subsidiary and dependent entities are:

- Ensuring sustainable financial development, profitability, improvement of investment attractiveness of the Company and its SDEs;
- ensuring the protection of rights and legally protected interests of the Sole Shareholder and the shareholders of the SDEs;
- harmonization of relations between the shareholders, officials and employees of the Company and its SDEs, taking systemic measures to prevent any conflicts between them and inside the said groups;
- development and implementation of a well coordinated and effective strategy and investment policy of the Company and its SDEs.

SDEs Corporate Governance Mechanisms

- building a vertical system of management of subsidiary and dependent entities by means of organizing corporate governance via creation of managing companies and the institution of hierarchical accountability;
- implementation of common corporate standards in SDEs;
- providing nominees to the administration bodies of SDEs;
- assignment of the persons in charge, ensuring fair voting for the representatives on discussed issues on the basis of recommendations given to the representatives of JSC NC “KazMunayGas” in the boards of directors of SDEs on agenda items;
- organization of control over the activities of SDEs via representatives in management bodies and champions, revision of the financial and economic activities, selection of auditors etc.

Dividends

- following the results of 2009, on the basis of the extract from the Minutes of the Management Board of JSC NWF “Samruk-Kazyna” No. 47/10 dated 13 Aug 2010, and No. 51/10 of 27 Aug 2010, dividends on the common shares for a total of 16,940,104,200 tenge (tax was not deducted) were paid to the Sole Shareholder on 30 September 2010.

2004



In October, 2004 the construction of the “Atasu-Alashankou» oil pipeline (Kazakhstan-China) started. The oil quality bank was created in Kazakhstan the same year. The database of hydrocarbons of the companies engaged in production in Kazakhstan, makes it possible to identify batches of oil at various stages of its transportation, transshipment and storage.



**INITIATIVES
UNDER UN GLOBAL COMPACT**



INITIATIVES UNDER UN GLOBAL COMPACT

Realization of Initiatives and Participation in the United Nations' Global Compact

JSC NC "KazMunayGas" has participated in the UN Global Compact since 7 February 2006.

By joining the Global Compact, JSC NC "KazMunayGas" declares that it shares the conviction that the business practice propped by the universal principles promotes more sustainability, fairness and representativeness of the global market and it helps to create prospering and successful societies. Joining the Global Compact is to the company's top management and employees, and to other stakeholders, a good indicator that the company's obligations related to corporate citizenship are a working and strategic priority.

KazMunayGas became the third representative of Kazakhstan's business of the 10 business participants of the Global Compact (there is a total of 19 participants from Kazakhstan). Along with that, KazMunayGas is the only company from Kazakhstan's oil and gas sector, represented in the Global Compact.

The key factors of KMG's success in implementing the principles of the Global Compact, among other things, are:

- clear obligations of the company's management;
- informing the whole organization, from the top managers to line employees about the obligations that the Company assumes in order to support the principles as widely as possible;
- forming specific targets and creation of a transparent communication system describing the achieved progress;
- special focus on practical activity;
- instant readiness of the company to conduct dialog with stakeholders.

From the moment of entering into the Global Compact, KazMunayGas is committed to and initiates using its principles in its activity in the sphere of environmental protection, labor standards, human rights and fight against corruption.

Human rights

In its personnel work, the KazMunayGas group of companies provides its employees with equitable and favourable labour conditions, making great effort to protect the personnel from unemployment in case of changes in the organizational structure and/or lay-offs. The remuneration system is aimed to ensure decent existence to the company's employee itself and to its family. Every employee of the company performs its activities in compliance with the working hours stipulated by the legislation, and has the right to annual paid leave.

Internal social responsibility of KazMunayGas is aimed to provide the company's personnel with such living standard, including food, clothes, housing, medical treatment and necessary social service, that is necessary for health support and well-being of the employee itself and its family, as well as to provide it for an event of unemployment, illness, disability, widowhood, old age, or other loss of means of living due to circumstances beyond its control.

Labor Relations

The company does not employ forced or compulsory labour in any form^[1]; child labour is not used in any way, there is no discrimination in remuneration for the labour of equal value on the grounds of race, skin colour, sex, religion, political opinions, foreign or social origin, leading to elimination or violation of the equal opportunities or treatment in the sphere of labour and occupation^[2], and any other difference, non-admission or preference, leading to elimination or violation of such equal opportunities and treatment, adherence to vocational training is ensured.

KazMunayGas has created a trade union of the company's workers, intended for protection of their interests.

Environment Protection

Implementing the Comprehensive Environmental Program for 2006-2015 (CEP), KazMunayGas ensures systemic approach to environmental activities in the whole group of companies. Adjustment of the Environmental Action Plan of CEP in compliance with the top-priority business areas is conducted.

The Corporate Industrial Environmental Monitoring System using geo-information technology, including the Kazakhstan sector of the Caspian Sea, is continuing to improve. The production facilities of the newly acquired assets are included in the electronic ecological map of the production operations territories.

In the Uzen region of Mangistau oblast, KazMunayGas takes measures to manage waste and clean oil-polluted soils. The subsidiaries of KazMunayGas continue work on implementation of the governmental Program for Disposal of Associated Petroleum Gas. The initiative of Agip KCO and Tengizchevroil to create the West-Kazakhstan Association for Oil Spills Response has been supported. The on-going reconstruction of the company's refining divisions allows implementing up-to-date technology of oil refining, reducing the volumes of harmful environmental emissions by many times.

As part of working on the issues related to the greenhouse gases problem, pilot green house gases emission inventory has been conducted in KazMunayGas' subsidiaries, assisted by the specialists of the Coordination Centre on Climate Change. Measures to implement energy-saving technology and equipment are taken.

Fight against corruption

Purchase of goods, works and services in the group of companies is made in compliance with the Procurement Regulations of the sole shareholder – "National Welfare Fund "Samruk-Kazyna" – that are based on the publicity, transparency and fair competition among potential suppliers. Information on the company's activities and all material facts of its operations are posted in the media and on the corporate web-site in a timely manner.

The ethical principles and standards of the company's internal documents are aimed at the right, fair and appropriate conduct of business by the company's employees and preventing a conflict of interests.

Furthermore, the main producing entities of KazMunayGas participate in the Extractive Industries Transparency Initiative (EITI).

The above mentioned activities are carried out as part of the transition to the principles of sustainable development, which are one of the top-priority goals of KMG's long-term development strategy. Following the requirements of the UN Global Compact, the Company publishes information in accordance with the principles of Global Compact. Thus, following the results of 2007, information was presented as part of social responsibility of JSC NC "KazMunayGas", and for the purposes of posting the company's Annual Report 2008 and 2009 on the corporate web-site, procedures for provision by the company of the regular "Progress Report (www.unglobalcompact.org/participant/6810-National-Company-KazMunayGas-) were accomplished.

¹ Any work or service, demanded from any person under the threat of any punishment, to do which this person has not proposed its services voluntarily (Convention concerning Forced or Compulsory Labour, 1.05.1932).

² Access to vocational training, access to labour and various occupations, and payment and labour conditions (Convention on Discrimination in the Field of Employment and Occupation, 15.06.1932)

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2005

The ceremony of acceptance of the "Astana" oil tanker was held in May, 2005 in Aktau, marking the beginning of creation of Kazakhstan's maritime fleet.

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RISK MANAGEMENT

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NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ



RISK MANAGEMENT

JSC NC “KazMunayGas” implements risk management system on a consolidated basis taking into account covering risks in its subsidiary and dependent entities, by means of creating a corporate risk management system (CRMS).

The methodology of CRMS corresponds to the recognized international practice of oil industry risk management, which is based on the methodology of the Committee of Sponsoring Organizations of the Treadway Commission.

Implementation of an effective CRMS which allows identifying, forecasting and managing material risks implies staged realization of measures, as well as regular implementation of the process of corporate risk management, which includes:

- development of the internal environment of the corporate risk management system;
- identifying goals and tasks of CRMS;
- integration of risk management in other business processes;
- identification and assessment of risks;
- development of effective measures for risk management;
- implementation of measures for risk management and risk monitoring;
- ongoing improvement of the CRMS procedures.

In 2010, the Company implemented a number of measures for improvement of the corporate system of insurance protection, development and implementation of the internal control system, risk identification and assessment, integration of risk management into business processes of investment planning.

Main Measures for Implementation of CRMS and Internal Control in 2010

Date	Measure
February	The Board of Directors of JSC NC "KazMunayGas" developed the Methodology for Investment Projects Risk Assessment and Identification.
February-July	The Company established separate structural subdivisions for internal control and risk management in its material subsidiaries: JSC "KazTransGas", JSC "KazTransOil", JSC "KazMunayGas – Refining & Marketing", JSC NMSK "Kazmortransflot".
April	As part of implementing the internal control system, risk matrix of controlling the processes of financial statements preparation were approved within the Operating Instruction on Application of KMG's Accounting Policy.
May-June	KMG's Internal Audit Service conducted an audit of KMG's risk management and internal control system.
September-December	Identification and assessment of risks was conducted taking into account covering risks in its subsidiary and dependent entities, the Risk Management Program of KMG and Its Subsidiaries for 2011 was developed.
November	The Board of KMG was assigned the responsibility for compliance with the level of risk appetite.



2006

The solemn ceremony of completion of the Atyrau Refinery reconstruction project and launch of new units of the refinery was held in Atyrau with the participation of the Head of the State on 12 May 2006.

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..... MAIN 2010 EVENTS

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ҚазМұнайГаз
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

MAIN 2010 EVENTS

On 25 March 2010, the Prime Minister of Russia signed a decree approving the draft intergovernmental joint operating agreement between Russia and Kazakhstan on the geologic survey and exploration of the cross-border Imashevskoye gas-condensate field.

KazMunaiGas Exploration Production JSC (KMG EP) and BG Group signed an agreement to farm-in into the BG Group operated license in the United Kingdom Central North Sea – a production license, which contains the White Bear prospect. KMG EP has received a 35% share in the license.

KazMunaiGas Exploration Production JSC won the tender to develop the Akkas gas field located in the Republic of Iraq together with the Korea Gas Corporation (KOGAS). The structure of assets under the terms of the tender is as follows: 25% – Iraq's state company, KMG EP and KOGAS will hold 37.5% each.

For the purposes of the minutes of the Interdepartmental Commission on Oil and Gas and Energy Sectors Development, chaired by Prime Minister of the Republic of Kazakhstan K. Massimov, No. 17-24/007-863.07-50 dated 11 June 2010, a subsidiary of KazMunayGas was established on 25 May 2010 – limited liability partnership "PSA". (extract from the minutes of KMG's BD No.6/2010 of 25 May 2010)

Trust management of the PSA LLP on behalf of KazMunayGas as a sole participant is provided by the Ministry of Oil and Gas of the Republic of Kazakhstan on the basis of the relevant trust agreement. The nature of business of the partnership is:

- 1) in accordance with the established procedure, pursuant to the power of attorney of the governmental authority, which performs management in the oil and gas industry, safeguarding or assisting in safeguarding the interests of the Authorized Body under production sharing agreements (contracts) (hereinafter - PSAs);
- 2) rendering advisory services to entities engaged in the managing business of the parties' to PSAs, including conduct of analytical works to determine the economic and technical feasibility and effectiveness of decisions made, as well as making recommendations with regard to decisions made and other legally significant acts executed in the order of performance under PSAs.

On 3 June 2010, KMG signed memoranda of cooperation in carrying out exploration in the Caspian Sea with Total E&P Activities Petroliers and Statoil ASA. The memoranda were signed in Almaty within the framework of the Kazakhstan Investment Summit.

On 12 June 2010, Kazakhstan and China within the state visit of President of the People's Republic of China Hu Jintao to Astana signed a number of new major agreements. In particular, agreements were signed between the two governments on cooperation in peaceful uses of nuclear power, the basic principles of design, financing, construction and operation of the second stage of the "Kazakhstan-China" gas pipeline.

On 15 June 2010, the Contract for Exploration and Production in the Satpayev Area in the Atyrau oblast was signed with the Ministry of Oil and Gas of Kazakhstan.

On 16 June 2010 a Contract for exploration and production of hydrocarbons pre-salt and post-salt deposits in the Karaton-Sarkamys block in Atyrau oblast was signed with the Ministry of Oil and Gas of Kazakhstan.

On 16 June 2010, the Contract for exploration for hydrocarbons in the Temir area in the Aktobe oblast was signed with the RoK Ministry of Oil and Gas.

On 16 June 2010, the Contract for exploration for hydrocarbons on the territory adjacent to the Uzen-Karamandybas fields in the Mangistau oblast was signed with the RoK Ministry of Oil and Gas.

On 17 June 2010, JSC "Trade House "KazMunayGas" was renamed to "KazMunayGas – Refining & Marketing". The decision to rename the company was adopted by the Board of Directors on 25 May. On 16 June "KazMunayGas – Refining & Marketing" received the certificate of the state re-registration of a legal entity. On 12 July 2010, an agreement was signed with KMG NC on purchase by KMG EP of a 50% interest in LLP "Kazakhoil Aktobe" (KOA), 51% in LLP "Kazakhturkmunai" (KTM) and 50% interest in Mangistau Investments BV (MIBV), which owns 100% shares in JSC "Mangistaumunaigas" (MMG), in the manner prescribed by law.

On 21 July 2010, the RoK Ministry of Oil and Gas early terminated the contracts with LLP "Tolkynneftegaz" and LLP "Kazpolmunay". On 22 July 2010, in order to ensure continuous process flow, JSC NC "KazMunayGas" was appointed trust manager of the Tolkyn and Borankol fields.

On 23 July 2010, KMG NC and Shell Kazakhstan Development B.V. ("Shell") within the framework of the North-Caspian Project signed the shareholders' agreement under which KMG joined the production and operation company – NC Production Operations Company B.V. (NCPOC) – as a partner on the equal terms with Shell.

On 22 September 2010, KMG repaid junior coupon bonds at the nominal value for an amount of 190 bn tenges (NIN KZ2C0Y35D528), owned by JSC NWF "Samruk-Kazyna" according to the Agreement on Sale and Purchase of KMG's Bonds dated 03 July 2009, No. 142-31, together with the corresponding payment of interest accrued before the date of prepayment.

In accordance with resolution of KMG's BD, as a payment for KBTU's shares, 100% block of shares of JSC "D.V. Sokolsky Institute of Organic Catalysis and Electrochemistry", 100% block of shares of JSC "A.B. Bekturov Institute of Chemical Science" were transferred to KMG, that, in turn, has been transferred by JSC "Samruk-Kazyna" to the authorized capital of JSC "KazMunayGas" in November, 2009.

On 22 October 2010, the KazMunayGas Exploration Production JSC discovered the Novobogatinskoe SW oil and gas field (supracornice) at the Liman Block. According to the results of drilling well No. 1 (Middle Triassic) an oil flow was obtained at the rate of 25 m3/day. According to the preliminary data, the recoverable reserves (C1 + C2) are 8.5 million tons.

On 29 October 2010, LLP "AstanaGas KMG" was established pursuant to KMG BD's resolution. The partnership was established for the purpose of the implementation of the project "Gasification of the northern regions of Kazakhstan", which will provide natural gas to the consumers in Astana, Kokshetau, Karaganda and Petropavlovsk. In 2010 an agreement was concluded with JSC "KING" to develop a feasibility study of the project, under which basic financial and economic parameters of the project and cost of design estimates will be identified.

On 30 November 2010, the BeineuMunayGas LLP was registered in the village of Beineu of the Mangistau oblast with transferring for temporary possession and use of the contract territory and property in order to ensure continuous process flow in the Tolkyn and Borankol fields in the Mangistau oblast, until the assets are transferred to a new subsoil user.

On 10 December 2010, full placement of the discount bonds of JSC NC "KazMunayGas" for an amount of 100 bn tenges took place.

On 14 December 2010, in accordance with the resolution of JSC "National Welfare Fund "Samruk-Kazyna", 42% block of shares of JSC "Pavlodar Petrochemical Plant" was transferred to the authorized capital of JSC "KazMunayGas" (minutes of the Management Board of JSC "Samruk-Kazyna" No. 61/10 of 1 November 2010). 58% block of shares of JSC "Pavlodar Petrochemical Plant" is owned by the Refinery Company RT LLP, which is a subsidiary of JSC "KazMunayGas – Refining & Marketing" (a wholly-owned subsidiary of JSC NC "KazMunayGas").

On 21 December 2010, JSC NC "KazMunayGas" fully repaid a RE-PO operation for an amount of 105,450,000,000 tenges.

December, 2010, based on the results of drilling exploration well No.1 Rakushechnoe More, petroleum potential of the offshore N block was confirmed.



2007

The transaction on acquisition of the 50 percent block of shares of Nafttrans Capital Partners Ltd. (in the structure of Batumi Industrial Holdings Limited), owning 62 percent of the Batumi Oil Terminal, was completed on January 11. The transaction value was 64 mn US dollars. Batumi Oil Terminal became the first foreign oil transshipment asset of Kazakhstan with access to the open sea.

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..... INDEPENDENT
AUDITOR'S OPINION

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NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

INDEPENDENT AUDITOR'S OPINION



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of joint stock company «National Company «KazMunayGas»

We have audited the accompanying consolidated financial statements of joint stock company «National Company «KazMunayGas» and its subsidiaries? which comprise 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 our opinion about these consolidated financial statements based on our audit. We conducted the audit in accordance with International Standard on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 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 audit opinion.

INFORMATION ON EXTERNAL AUDITOR

The Ernst & Young company has been the external auditor of JSC NC «KazMunayGas» starting 2002. In 2010, following the results of the open tender held by JSC NC «KazMunayGas», the agreement was signed with Ernst & Young on the financial reporting audit services for 2010-2012. The fee amount under this agreement is 162,276 thousand tenge, which includes by years:

- for 2010 - 54,092 thousand tenge;
- for 2011 - 54,092 thousand tenge;

- for 2012 - 54,092 thousand tenge.

Ernst & Young is an international leader in the sphere of audit, taxation and law, consulting support to transactions and consulting on the business conduct matters. The Ernst & Young company strives to make its positive contribution into development of companies, markets and society as a whole.

Over the time of cooperation KMG and Ernst & Young have gone a hard way of the development of financial accounting, especially



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of joint stock company «National Company «KazMunayGas» as of 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International reporting Standards.

Ernst & Young LLP


 Gulmira Turmagambetova
 Auditor
 Auditor Qualification Certificate No.
 0000374 dated 21 February 1998


 Evgeny Zhemaletdinov
 General Director
 Ernst & Young LLP

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

25 March 2011

during KMG's transition to the International Financial Reporting Standards (since 2002). During these year Ernst & Young invested into the development of its professionals in order to render audit services on a high-quality level to KMG, whose structure was changing and getting more complicated together with the period of Kazakhstan's economic development. Apart from the financial reporting audit services, Ernst & Young rendered the following advisory services in 2010:

- advisory services on making amendments to the Corporate Accounting Policy and the Corporate Chart of Accounts, as well as to the accounting policy and the Working Chart of Accounts of the Corporate Centre. Agreement value - 13,440 thousand tenges;
- services on the agreed procedures related to the Eurobonds issue. Agreement value - 67,500 thousand tenges.



2008

The transaction on acquisition of the 100% block of shares of Batumi Industrial Holdings Limited, owning the Batumi Oil Terminal and the port of Batumi was completed. The transaction value was 325 mn US dollars.

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..... CONSOLIDATED FINANCIAL STATEMENTS

For the year ending 31 December 2010

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ҚазМұнайГаз
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

CONSOLIDATED FINANCIAL STANDING REPORT

In thousand tenges

as at 31 December

	Note	2010	2009*
ASSETS			
Long-term assets			
Fixed assets	8	2,548,764,464	2,297,548,223
Exploration and appraisal assets	9	150,799,153	116,606,505
Intangible assets	10	184,721,292	185,951,239
Long-term bank deposits	11	4,521,195	18,464,389
Investment into joint ventures and associated companies	12	696,881,032	646,058,095
Deferred tax assets	32	10,605,467	12,643,897
VAT reimbursable		34,806,222	7,049,861
Advance payments for long-term assets		68,442,089	18,647,080
Bonds receivable from related party	33	36,397,864	62,520,986
Note receivable from joint venture participant	13	19,153,089	20,268,928
Note receivable from an associate	6	17,987,259	16,075,399
Loans to related parties	33	115,043,574	8,028,231
Miscellaneous long-term assets		10,071,096	10,300,115
		3,8898,193,796	3,420,162,948
Current assets			
Inventories	14	185,104,413	161,665,218
VAT reimbursable		34,731,601	38,260,134
Income tax down payment	32	21,498,642	11,979,760
Trade receivables	15	164,733,410	142,179,614
Short-term financial assets	16	626,365,151	716,335,000
Note receivable from joint venture participant	13	1,203,834	1,082,100
Dividends receivable from an associate	12	19,456,800	14,687,640
Miscellaneous current assets	15	161,827,377	66,777,764
Cash and its equivalents	17	637,917,383	564,241,185
		1,852,838,611	1,717,208,415
Assets classified as intended for sale	9	1,366,686	378,378
		1,854,205,297	1,717,586,793
TOTAL ASSETS		5,752,399,093	5,137,749,741

	Note	2010	2009*
EQUITY AND LIABILITIES			
Equity			
Authorized capital	18	326,435,861	159,647,488
Additional paid capital	18	2,266,580	2,248,079
Miscellaneous capital		5,176,205	4,910,393
Reporting currency recalculation reserve	18	173,330,751	183,362,434
Retained earnings		1,664,778,234	1,530,243,896
Related to the parent company shareholder		2,171,987,631	1,880,412,290
Non-controlling participatory interest	18	559,364,977	476,802,220
Total capital			2,357,214,510
Long-term liabilities			
Loans	19	1,478,428,399	1,384,933,040
Due for acquisition of additional interest in the "North-Caspian Project"	20	314,566,180	312,052,116
Due for acquisition of a subsidiary	6	9,136,704	8,405,223
Reserves	21	66,321,563	56,809,538
Deferred tax liabilities	32	144,909,656	137,762,093
Miscellaneous long-term liabilities		13,756,075	16,966,349
		2,027,118,577	1,916,928,359
Current liabilities			
Current portion of loans	19	479,138,938	452,741,110
Reserves	21	56,590,062	40,881,940
Income tax payable	32	2,402,176	32,437,423
Trade payables	22	255,592,177	156,470,367
Other taxes payable	23	87,642,996	81,196,798
Derivatives		764,054	240,707
Miscellaneous current liabilities	22	111,797,505	99,638,527
		993,927,908	863,606,872
Total liabilities		3,021,046,485	2,780,535,231
TOTAL EQUITY AND LIABILITIES		5,752,399,093	5,137,749,741

* certain amounts listed in this column do not correspond to the amounts in the consolidated financial statements for 2009, as they reflect the adjustments made, details of which are disclosed in Note 6.

CONSOLIDATED TOTAL INCOME STATEMENT

In thousand KZT

For the years ending 31 December

	Note	2010	2009*
Proceeds from sold goods and rendered services	24	2,098,942,624	1,589,548,621
Cost price of sold products and rendered services	25	(1,409,001,419)	(1,050,462,991)
Gross profit		689,941,205	539,085,630
General and Administrative Expenses	26	(139,146,723)	(120,114,255)
Transportation and selling expenses	27	(238,738,340)	(168,984,918)
Goodwill depreciation	10	-	(1,306,548)
Depreciation of fixed assets and exploration and appraisal assets	8, 9	(10,823,657)	(10,364,236)
(Loss) / income from fixed assets retirement, net		(3,272,491)	18,147,528
Income from retirement of a subsidiary	28	-	5,787,667
Miscellaneous operating income		4,209,941	12,416,564
Miscellaneous operating loss		(15,989,074)	(14,606,411)
Profit from operating activities		286,180,861	260,061,021
Foreign exchange loss, net		(5,740,393)	(8,180,332)
Financial income	29	58,671,374	84,867,177
Financial expenses	30	(152,577,480)	(140,825,733)
Unrealized (loss) / gain from oil hedging operations		-	(3,336,487)
Share in the income of joint ventures and associates	31	343,175,752	172,475,310
Profit before income tax		529,710,114	365,060,956
Income tax expenses	32	(132,675,259)	(178,602,996)
Profit for year from continuing activities		397,034,855	186,457,960
Discontinued activities			
Profit for year from discontinued activities, less tax	7	-	2,127,620
Profit for year		397,034,855	188,585,580
Due to:			
Parent company shareholder		305,309,217	110,904,206
Minority interest		91,725,638	77,681,374
		397,034,855	188,585,580
Miscellaneous aggregate (loss)/income			
Exchange difference resulting from the translation of the foreign subsidiaries financial statements		(10,512,953)	226,015,888
Miscellaneous aggregate income for period, less income tax		(10,512,953)	226,015,888
Total aggregate income for period, less income tax		386,521,902	414,601,468
Due to:			
Company's shareholder		295,277,534	322,065,604
Non-controlling participatory interest		91,244,368	92,535,864
		386,521,902	414,601,468

* certain amounts listed in this column do not correspond to the amounts in the consolidated financial statements for 2009, as they reflect the adjustments made, details of which are disclosed in Note 6.

CONSOLIDATED CASH FLOW STATEMENT

In thousand KZT

For the years ending 31 December

	Note	2010	2009*
Cash flow from operating activities:			
Profit before income tax from continuing activities		529,710,114	365,060,956
Profit before income tax from discontinued activities	7	-	3,001,876
Profit before income tax		529,710,114	368,062,832
Adjustments against:			
Ageing, depletion and amortization	25,26,27	131,521,998	108,901,246
Share in the income of joint ventures and associates	31	(343,175,752)	(172,475,310)
Financial expenses	30	152,577,480	140,825,733
Financial income	29	(58,671,374)	(84,867,177)
Depreciation of fixed assets and exploration and appraisal assets	8,9	10,823,657	10,364,236
Goodwill depreciation	10	-	1,306,543
Unrealized gain from oil hedging operations		664,547	3,336,487
(Loss) / income from fixed assets retirement, net		3,272,491	(18,147,528)
Income from retirement of a subsidiary	28	-	(5,787,667)
Reserves	21	8,623,031	12,485,405
Allowance for doubtful debts	26	13,135,998	2,462,345
Allowance for inventories		(801,961)	(1,978,391)
Recognition of expense on the option plan		376,245	248,106
Disposal of equity instruments		(49,809)	(164,690)
Unrealized foreign exchange loss		493,276	45,186,725
Miscellaneous non-cash operating expenses		-	5,017,821
Profit from operating activities before changes in the floating capital		448,499,941	414,776,721
Change in inventories		(22,408,215)	(71,814,599)
Change in VAT reimbursable		(24,227,828)	642,444
Change in trade receivables		(25,615,945)	(37,375,254)
Change in miscellaneous current assets		(95,186,773)	(24,786,429)
Change in other taxes payable		(1,394,939)	41,178,589
Change in trade payables		93,644,332	4,794,784
Change in miscellaneous current liabilities		(2,814,877)	49,640,953
Cash inflow from operating activities		370,495,696	377,057,209
Income tax paid		(163,043,395)	(177,220,368)
Fee received		48,827,538	79,085,953
Interest paid		(124,952,358)	(109,386,477)
Oil hedging operations payments, net		(783,033)	(1,585,454)
Net cash inflow from operating activities		130,544,448	167,950,863

CONSOLIDATED CASH FLOW STATEMENT

	Note	2010	2009*
Cash flow from investment activities:			
Placement of deposits in banks, net		129,308,418	(50,709,257)
Acquisition of subsidiaries, less cash received	6	(8,614,935)	(193,716,542)
Extinction of put option liability	6	-	(15,043,000)
Acquisition of fixed assets and intangible assets		(474,987,934)	(371,120,375)
Cash inflow from sale of fixed assets and intangible assets		11,599,300	34,275,107
Payments received from joint ventures and associates	12	289,585,072	139,493,404
Contribution to joint venture	12	(3,750,000)	-
Cash of a subsidiary the Group has lost control over	28	-	(279,563)
Cash of subsidiaries retired from the Group	7	-	(1,527,080)
Operating revenues		378,378	-
Loans provided to related party	33	(69,571,436)	5,028,218
Repurchase of the own stock by a subsidiary		(24,531,975)	(21,381,199)
Net cash flow, used in investment activities		(150,585,112)	(474,980,287)
Cash flow from financial activities:			
Proceeds of loans		1,291,592,905	555,604,996
Repayment of loans		(1,290,534,781)	(197,979,803)
Acquisition of non-controlling participatory interest		(18,032,903)	(2,166,317)
Dividends paid to the non-controlling interest shareholders		(20,589,632)	(19,949,064)
Dividends distributed to the Company's Shareholder	18	(18,565,388)	(29,268,027)
Share issue	18	160,500,000	-
Repayment of convertible debt instrument	19	(10,463,778)	-
Net cash inflow from financial activities		93,906,423	306,241,785
Effect of change in exchange rates on cash and its equivalents		(189,581)	73,217,078
Net increase in cash and its equivalents		73,676,198	72,429,439
Cash and its equivalents as of the beginning of the year	17	564,241,185	491,811,746
Cash and its equivalents as of the end of the year	17	637,917,383	564,241,185

* Non-cash transactions, including the following, were excluded from the consolidated cash flow statement:

- during 2010 the proceeds of fixed assets include 2,289,823 thousand KZT, which relate to a change in reserves (2009: 670,980 thousand KZT)
- as at 31 December 2010, accounts payable for the acquired fixed assets increased by 14,970,451 thousand KZT (2009: 7,565,377 thousand KZT)
- In 2009 the amount of indebtedness of 10,830,585 thousand KZT under the terms of the pre-export financing was repaid with crude oil (2010: nil)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousand KZT	Due to the Company's shareholder					Total	Non-controlling participatory interest	Total
	Authorized capital	Additional paid-in capital	Miscellaneous capital	Reporting currency recalculation reserve	Retained earnings			
Note	18	18	18	18	18	18	18	18
As at 31 December 2008	158,049,442	9,013,516	1,385,035	(27,798,964)	1,468,030,832	1,608,679,861	421,294,451	2,029,974,312
Profit for year (Recalculated)*	—	—	—	—	110,904,206	110,904,206	77,681,374	188,585,580
Miscellaneous aggregate income	—	—	—	211,161,398	—	211,161,398	14,854,490	226,015,888
Total amount of aggregate income for the year	—	—	—	211,161,398	110,904,206	322,065,604	92,535,864	414,601,468
Contribution to the authorized capital (Note 18)	1,598,046	—	—	—	—	1,598,046	—	1,598,046
Dividends (Note 18)	—	—	—	—	(29,268,027)	(29,268,027)	(19,949,064)	(49,217,091)
Distributions to the Company's Shareholder (Note 18)	—	(6,765,437)	—	—	(16,795,354)	(23,560,791)	—	(23,560,791)
Recognition of payments based on equity instruments in subsidiaries	—	—	248,106	—	—	248,106	—	248,106
Disposal of equity instruments in subsidiaries	—	—	(164,690)	—	—	(164,690)	—	(164,690)
Exercise of payments based on equity instruments in subsidiaries	—	—	5,638	—	203,266	208,904	—	208,904
Repurchase of the own stock from the market by a subsidiary (Note 18)	—	—	—	—	(1,593,431)	(1,593,431)	(19,787,768)	(21,381,199)
Amalgamation of business (Note 6)	—	—	3,436,304	—	—	3,436,304	3,637,458	7,073,762
Changes in the subsidiaries ownership ratio - acquisition of a non-controlling participatory interest in the subsidiaries of Rompetrol Group N.V. (Note 6)	—	—	—	—	(1,237,596)	(1,237,596)	(928,721)	(2,166,317)
As of 31 December 2009 (Recalculated)*	159,647,488	2,248,079	4,910,393	183,362,434	1,530,243,896	1,880,412,290	476,802,220	2,357,214,510
Profit for year	—	—	—	—	305,309,217	305,309,217	91,725,638	397,034,855
Miscellaneous aggregate income	—	—	—	(10,031,683)	—	(10,031,683)	(481,270)	(10,512,953)
Total amount of aggregate income for the year	—	—	—	(10,031,683)	305,309,217	295,277,534	91,244,368	386,521,902
Contribution to the authorized capital (Note 18)	166,788,373	18,501	—	—	—	166,806,874	—	166,806,874
Dividends (Note 18)	—	—	—	—	(16,940,104)	(16,940,104)	(20,589,632)	(37,529,736)
Distributions to the Company's shareholder (Note 18)	—	—	—	—	(85,241,402)	(85,241,402)	—	(85,241,402)
Recognition of payments based on equity instruments in subsidiaries	—	—	309,987	—	54,899	364,886	11,359	376,245
Disposal of equity instruments in subsidiaries	—	—	(49,809)	—	—	(49,809)	—	(49,809)
Exercise of payments based on equity instruments in subsidiaries	—	—	5,634	—	—	5,634	—	5,634
Repurchase of the own stock from the market by a subsidiary (Note 18)	—	—	—	—	(3,997,157)	(3,997,157)	(20,534,818)	(24,531,975)
Changes in the subsidiaries ownership ratio – acquisition of a non-controlling participatory interest (Note 6)	—	—	—	—	1,513,990	1,513,990	(5,236,944)	(3,722,954)
Conversion of convertible debt instrument of Rompetrol Rafinare S.A. (Note 19)	—	—	—	—	(113,467,108)	(113,467,108)	103,003,330	(10,463,778)
Changes in the subsidiaries ownership ratio - acquisition of a non-controlling participatory interest in the subsidiaries of Rompetrol Group N.V. (Note 6)	—	—	—	—	47,302,003	47,302,003	(65,334,906)	(18,032,903)
As at 31 December 2010	326,435,861	2,266,580	5,176,205	173,330,751	1,664,778,234	2,171,987,631	559,364,977	2,731,352,608

* certain amounts listed in this column do not correspond to the amounts in the consolidated financial statements for 2009, as they reflect the adjustments made, details of which are disclosed in Note 6.

REVIEW OF MATERIAL ASPECTS OF ACCOUNTING POLICY

Changes in Accounting Policy and Information Disclosure Principles

The accounting policy adopted when preparing the Group's consolidated financial reporting complies with the accounting policy used in the previous fiscal year, except for the adoption of the Standards and Interpretations given below, effective since 1 January 2010.

- IFRS¹ 2 "*Payments Based on Shares*" (as amended)
- IFRS 3 "*Business Combination*" (restated) and IAS 27 "*Consolidated and Separate Financial Reporting*" (as amended)
- Amendment to IAS 39² "*Financial Instruments: recognition and measurement*": "*Object Permitted for Hedging*"
- Interpretation 17 "*Distribution of Non-monetary Assets among Owners*"

Consolidation Basis

Consolidation Basis since 1 January 2010

The Group's consolidated financial reporting includes the financial statements of the Company and its subsidiaries as at 31 December 2010. The subsidiaries are fully consolidated by the Group since the date of acquisition which represents the date of the Group's gaining control over a subsidiary, and continue to be consolidated until the date of loss of such control. The financial reporting of the subsidiaries was prepared for the same reporting period as that of the parent company based on the consistent application of the accounting policy for all companies of the Group. All intercompany balances, operations, unrealized gains and expenses arising out of conducting transactions within the Group, and dividends are completely excluded.

The losses of a subsidiary shall be classified as the non-controlling participatory interest even in case this leads to negative balance.

Business Combination and Goodwill

Business combinations shall be recorded using the purchase accounting method. The cost of acquisition shall be evaluated as the amount of the transferred compensation, evaluated at fair value as at the date of acquisition, and non-controlling participatory interest in the company acquired. For every business combination transaction, the acquirer shall evaluate the non-controlling participatory interest in the company acquired either at fair value or at the pro rata proportion in the identifiable net assets of the company acquired. Expenditures incurred due to the acquisition shall be included in the administrative expenses.

Interests in Joint Ventures

The group has participatory interest in joint operations in the form of jointly-controlled enterprises, where the joint operations participants enter into contractual agreements, stipulating joint control over the economic activities of the enterprise. The agreement requires from the joint operations participants making unanimous decisions in respect of the financial and operations policy.

The Group shall record its participatory interest in the jointly-controlled enterprises, using the equity method.

Investments in Associated Company

The Groups Investments in its associated company are recorded using the equity method. Associated company is a company the Group exerts significant influence on.

According to the equity method, the Investments into an associated company shall be recorded in the statement of financial position at cost plus the changes occurring after the acquisition in the share of the net assets of the associated company owned by the Group. The goodwill related to the associated company shall be recorded in the present value of the investment and shall not be amortized, and not subject to a separate audit concerning its depreciation.

The financial reporting of an associated company shall be prepared for the same period as that of the Group. If necessary, it shall be adjusted in order to bring the accounting policy into compliance with the Group's accounting policy.

After using the equity method, the Group shall determine the necessity of recognizing the additional impairment loss in the Group's investments in associated companies. The Group shall determine the presence of objective evidence of depreciation of investment in associated companies as at every reporting date. In case of presence of the same, the Group shall calculate depreciation amount as the difference between the recoverable amount of the associated company and its present value, and recognize this amount in the statement of comprehensive income in the "Share in Associated Company's Profits" item.

In case of loss of significant influence on an associated company, the Group shall evaluate and recognize the remaining investment at fair value. The difference between the present value of an associated company at the time of loss of significant influence and the fair value of the remaining investment and the disposal proceeds shall be recognized as part of profit of loss.

Expenses Related to Exploration, Appraisal and Development of Fields

Expenditures Incurred before Obtaining Licences

Expenditures incurred before obtaining licences shall be classified as expenses of the period they were incurred in.

Expenditures for Obtaining Licenses and Property

Expenditures for obtaining licenses and property shall be capitalized and classified as intangible assets. Every exploration target shall be considered on an annual basis concerning the fact that the drilling works have been planned, and it has not depreciated.

Expenditures Related to Exploration and Appraisal

After getting the legal right to exploration, the expenditures for geological and geophysical surveys and expenditures directly related

¹ International Financial Reporting Standards.

² International Accounting Standards.

to an exploration well, shall be capitalized as intangible or tangible exploration and appraisal assets until completion of drilling the well and appraisal of the drilling results. When the proven oil reserves are determined and the decision on continuing the development is made, the corresponding expenditures shall be transformed into petroleum property after the depreciation appraisal and recognition of the impairment loss incurred.

Development Costs

Costs for construction, installation and completion of infrastructure facilities, such as platforms, pipelines and development well drilling, including dry development wells or outpost wells, shall be capitalized as part of the petroleum property.

Petroleum Property and Other Fixed Assets

Petroleum property and other fixed assets shall be recorded at cost minus the accumulated amortization, depletion and depreciation.

Petroleum property shall be amortized using the units of production method, while tangible assets shall be amortized according to the proven developed reserves, and intangible assets – according to the proven reserves. Certain petroleum property with useful life shorter than the residual life of fields shall be amortized using the straight-line basis during the useful life from 4 to 10 years.

Fixed assets, apart from the oil and gas assets, mainly include buildings, machinery and equipment, amortized using the straight-line basis during the following fixed useful lives:

Refinery Assets	4-100 years
Pipelines	10-30 years
Buildings and Constructions	8-100 years
Machinery and Equipment	3-30 years
Means of transportation	5-10 years
Miscellaneous	4-20 years

The contemplated useful life of the fixed assets shall be revised on an annual basis, and as required, changes in the lives shall be adjusted in the subsequent periods.

Intangible Assets

Intangible assets shall be recorded at cost, minus accumulated amortization and accumulated impairment losses. Intangible assets include expenditures for obtaining oil and gas resources exploration licences, software and goodwill.

Intangible assets, other than the goodwill, shall be amortized using the straight-line basis during the estimated remaining useful life.

Present value of intangible assets shall be analyzed for depreciation if and to the extent that events and changes in circumstances indicate that the present value cannot be recovered.

Goodwill shall be tested for depreciation annually (as at 31 December) and where events and circumstances indicate that its present value cannot be depreciated.

Impairment of Non-financial Assets

As at every reporting date, the Group shall determine if there are signs of possible impairment of an asset. If such signs take place, or if an annual check of the asset for impairment is required, the Group shall evaluate the recoverable value of the asset. If the present value of the asset or fair value exceeds its recoverable value, the asset shall be deemed impaired and shall be written-off to the recoverable value.

Impairment of Exploration and Appraisal Assets

The Group shall check its exploration and appraisal assets for impairment, when such assets are transferred to tangible or intangible development assets, or when there are facts and circumstances indicating impairment of assets.

Assets Held for Sale and Discontinued Operations

Assets and disposal groups, classified as held for sales, shall be evaluated on the least of the two values – the present value and the fair value less costs to sell. Assets and disposal groups shall be classified as held for sales, if their present value is refundable, mainly through a selling transaction, and not as a result of continued use. This condition shall be deemed to be observed only to the extent that the likelihood of sale is high, and the asset or disposal group cannot be sold immediately in their current condition. The management should have firm intention to make sale which should be expected to fit the criteria for recognition as a closed sale transaction within one year of the classification date.

Fixed assets and intangible assets after classification as held for sale shall not be subject to amortization.

Asset Retirement Obligation (Decommissioning)

Reserves for decommissioning shall be recognized in full on a discounted basis, when the Group has liabilities on decommissioning and relocation of equipment or a mechanism and restoration of the site where the equipment was located, and where reasonable valuation of such reserve can be made. The amount recognized constitutes the present value of the estimated deferred expenses, determined in accordance with the local conditions and requirements. The corresponding fixed asset, equivalent in size to the reserve amount shall be also recognized. Subsequently, this asset shall be amortized as part of the capital expenditures on the means of production and means of transportation on the basis of the units of production method.

Financial Assets

Financial assets within the scope of IAS 39, shall be classified accordingly as financial assets revaluated at fair value through the profit or loss; loans and accounts receivable; investment held to maturity,

REVIEW OF MATERIAL ASPECTS OF ACCOUNTING POLICY

financial assets available for sale; derivatives set as hedging instruments in case of effective hedging. The Group shall classify its financial assets at their initial recognition.

Subsequent Valuation of Financial Assets

Subsequent valuation of financial assets depends on their classification as follows:

Financial Assets Revaluated at Fair Value Through Profit or Loss

The “financial assets revaluated at fair value through profit or loss” includes financial assets held for trading, and financial assets referred at the initial recognition to the category of those revaluated at fair value through profit or loss. Financial assets revaluated at fair value through profit or loss shall be accounted in the statement of financial position at fair value, and changes in the fair value shall be recognized as part of the financing income or financing expenditures in the statement of comprehensive income.

Loans and Accounts Receivable

Loans and accounts receivable constitute non-derivative financial assets with set of designated payments, unlisted on the active market. After the initial recognition, this kind of financial assets shall be valued at amortized cost, determined using the effective interest rate method, less the impairment loss.

Investment Held to Maturity

Non-derivative financial assets with fixed or determined payments and fixed maturity date shall be classified as investment held to maturity, when the Group has firm intention to and capable of holding them until the maturity date. After the initial valuation, investment held to maturity shall be valued at amortized cost, determined using the effective interest rate method, less the impairment loss.

Financial Investment Available for Sale

Financial Investment available for sale include equity and debt securities. After the initial valuation, the financial Investment available for sale shall be valued at fair value, and unrealized gains and expenses on them shall be recognized as miscellaneous comprehensive income as part of the stock of instruments available for sale, up until the time of derecognition of the Investment, in which the accumulated income or expenses are reclassified from the stock of instruments available for sale, and shall be recognized as financing expenditures.

Derecognition of Financial Assets

A financial asset shall be derecognized in the statement of financial position, if:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation on payment to a third party of the received cash flows in full and without a material delay under a “transit” agreement; and either (a) the Group has transferred practically all risks and benefits from the asset; or (b) the Group has not transferred, nor does it reserve, practically all risks and benefits from the asset, but transferred control over this asset.

Impairment of Financial Assets

The Group shall establish the presence of objective evidence of impairment of a financial asset or a group of financial assets.

Inventories

Inventories shall be accounted at the least of the following two values: production cost and net realizable value according to the FIFO costing method. The value shall include all expenditures incurred in the ordinary course of business, related with the local delivery of inventories and bringing them to the current condition. The cost of crude oil and oil products shall be their lifting cost, including a corresponding part of expenses on depreciation, depletion and amortization, and overheads based on the average volume of production. The net realizable value of crude and oil products shall be based on the estimated selling price, net of the expenses connected with such a sale.

Cash and Its Equivalents

Cash and its equivalents shall include cash in banks and on hand, and short-term deposits with the original maturity of not more than three months.

Convertible Debt Instruments Acquired during Business Combinations

The component of a convertible debt instrument acquired during a business combinations, that has the properties of a liability, shall be recognized in the statement of financial position as a liability, less the transaction costs. The fair value of the liability component shall be determined at the market rate, used for similar inconvertible liabilities; this amount shall be classified as a financial liability, evaluated at amortized cost until repayment in case of conversion or buyback.

Put Options Occurring during Business Combination

If in case of a business combination the Group becomes a party to a put option on the remaining minority interest in the acquired business, the Group shall evaluate if the participation in such an option gives access to the benefits and risks related to the ownership of such a minority interest.

When it is determined that the put option on the remaining shares gives access to the benefits and risks of ownership, the business combination shall be accounted based on the fact that the shares conditioned by the put option have been purchased. The fair value of the liability for the minority shareholders on the put option shall be recognized as part of the business combination costs. Any difference between such cost and the share in the net assets, that would be otherwise considered as related to the minority interest, shall be recorded as part of the goodwill. Any dividends, subsequently announced and paid to such minority shareholders, until the execution of the option, shall be directly recorded in the consolidated statement of comprehensive income.

Subsequently, the financial liability shall be evaluated as per the requirements of IAS 39. Changes in the fair value of the financial liability,

and any financial payments shall be directly recognized in the consolidated statement of comprehensive income.

Financial Liabilities

Financial liabilities within the scope of IAS 39 shall be classified accordingly as financial liabilities, revaluated at fair value through profit or loss, credits and borrowings, and derivatives. The group shall classify as its financial liabilities during their initial recognition at fair value, increased in case of credits and borrowings by the transaction costs directly related thereto.

Subsequent Valuation of Financial Liabilities

Subsequent valuation of financial liabilities depends of their classification as follows:

Financial Liabilities Revaluated at Fair Value Through Profit or Loss

The “financial liabilities revaluated at fair value through profit or loss” includes financial liabilities held for trading, and financial liabilities determined at the initial recognition as those revaluated at fair value through profit or loss.

Income and expenses on the liabilities held for trading shall be recognized in the profits and losses.

Trade and Miscellaneous Accounts Payable

Trade accounts payable shall be initially recorded at fair value, and subsequently evaluated at amortized cost using the effective interest rate method.

Credits and Loans

After the initial recognition interest-bearing credits and loans shall be evaluated at amortized cost using the effective interest rate method. Income and expenses on such financial liabilities shall be recognized in the statement of comprehensive income in case of their derecognition, and as amortization is accrued, using the effective interest rate.

Derecognition of Financial Liabilities

A financial liability shall be derecognized in the consolidated statement of financial position, if the liability is repaid, cancelled, or expired.

Offsetting of Financial Instruments

Financial assets and financial liabilities shall be subject to offsetting, and the net amount shall be subject to be represented in the consolidated statement of financial position if and only if there is an exercisable legal right to offsetting the recognized amounts, and intention to make settlements on a net-basis, or sale assets and repay the liabilities concurrently therewith.

Reserves

Reserves shall be recognized, if the Group has a current liability (legal or voluntarily assumed), occurring as a result of a past event, there is a substantial likelihood that an outflow of economic benefits will be required for the repayment of the liability, and the amount of such a

liability can be accurately determined. If the Group intends to receive reimbursement of a certain portion or all reserves, for example, on an insurance agreement, the reimbursement shall be recognized as a separate asset, but only in case receipt of the reimbursement is beyond exception. The expense related to a reserve shall be recorded in the statement of comprehensive income less the reimbursement. If the effect of the time value of money is material, the reserves shall be discounted at the current rate before taxes, that reflects, where applicable, the risks characteristic of the specific liability. If discounting is used, an increase in the reserve shall be recognized as finance cost over time.

Payments to Employees

Pension Plan

Payments under a predetermined contribution pension program shall be booked to expenses as they are paid. Payments under the public pension system shall be considered as defined contribution plans, when the Group's liabilities under this plan are equal to the liabilities arising under a predetermined contribution pension program.

Recognition of Proceeds

Proceeds shall be recognized if there is a likelihood that the Group will receive economic benefits, and if the proceeds can be reliably evaluated. The proceeds shall be evaluated at fair value of the received compensation, less discounts and other sales taxes or duties. Recognition of proceeds shall take place under the following conditions:

- when a delivery of goods occurs, and the risks and ownership have been transferred to the buyer;
- at the moment of rendering the services.

Recognition of Expenses

Expenses shall be recorded at the moment of occurrence and reflected in the consolidated financial reporting in the period they are related to, based on the accrual method.

Income Tax

Income tax for a year includes the current income tax, the excess profits tax and the deferred tax.

Assets and liabilities on the current income tax for the current and prior periods shall be evaluated at the amount, that will be supposed to be refunded by the tax authorities or paid to them. Tax rates and tax legislation used for the calculation of this amount are the rates and laws adopted and actually adopted as at the reporting date.

The excess profits tax (EPT) is considered as an income tax and form a portion of the income tax expenses.

Deferred tax shall be calculated both for the corporate income tax and for the excess profits tax. Deferred excess profits tax shall be calculated according to the temporary differences for the assets referred to the sub-soil use contracts, at the expected rate of the excess profits tax, subject to payment under the contract.



2009

The transaction of acquiring the 100% block of shares of MangistauMunaiGaz, one of the RoK largest oil-producing companies, was closed in November, 2009. The first stage of the Kazakhstan-China gas pipeline was commissioned in December 2009.

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КазМұнайГаз
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

SUMMARY BUSINESS REPORT OF THE BOARD OF DIRECTORS OF JSC NC "KAZMUNAYGAS" 2010

In 2010 17 meetings of KMG's Board of Directors were held, 11 of them in person, 6 of them by absentee voting on the agenda items. As of 31 December 2010, KMG's Board of Directors considered 162 issues, among them:

23 – matters of strategic nature

45 – corporate matters

4 – matters on KMG's interested-party transactions

28 – personnel matters

62 – matters relating to the activities of the subsidiaries.

Matters of strategic nature include matters relating to such aspects of KMG's and SDEs' activities as, for example: making material transactions; purchase or transfer of shares; increase in the authorized capital, increase in liabilities, etc.

Corporate matters include matters relating to the financial aspects of KMG's activities (for example: approval of the annual reports of KMG and SDEs; annual financial reporting of KMG and SDEs; Development Plans of KMG and SDEs and reports on their execution; etc.), and the matters regulating the internal operation of KMG and SDEs (for example, approval of the corporate accounting policy and the accounting policy of KMG and SDEs, tax accounting policy of KMG and SDEs; dividend policy of KMG and SDEs; KMG's Personnel Policy; the Code of Business Ethics; making amendments to the Articles of Association of KMG and SDEs; the Corporate Governance Code of certain SDEs; etc.).

The Remuneration Committee, Appointment Committee and Audit Committee operate under the Board of Directors, as well as the Work Group on Financial Soundness, comprised both of Independent Directors and representatives of KMG's management. This group is an important instrument of the Board of Directors to ensure flexibility of the financial policy amid volatile oil prices and prices on the commodity markets, and the changes in progress on the capital and securities markets, and to determine the changes required to be made to KMG's Development Strategy. In their activities, the Committees follow the Regulations, approved by resolutions of KMG's Board of Directors. In 2010 the Remuneration Committee held 4 meetings, having formulated recommendations on the policy on remuneration for the labour of KMG employees.

The Appointment Committee held 4 meetings, following the results of which both specific recommendations to the Board of Directors concerning appointment to the executive positions in KMG and its SDEs, and recommendations concerning general principles of the personnel policy in KMG were formulated.

The Audit Committee held 19 meetings on the matters of internal/external audit and the matters of financial reporting.

The Board of Directors of JSC NC "KazMunayGas" passed the following resolutions of strategic nature:

- On making an interested-party transaction of strategic nature – the Agreement on Sale and Purchase of 50% Participatory Interest in the Authorized Capital of Mangistau Investments BV between JSC NC "KazMunayGas", KazMunaiGas EP JSC, Cooperatieve KazMunaiGaz PKI U.A. and Cooperatieve KMG EP U.A.;
- On making an interested-party transaction of strategic nature – the Agreement on Sale and Purchase of 50% stake in the Authorized Capital of KazakhOil-Aktobe LLP between JSC NC "KazMunayGas" and KazMunaiGas EP JSC;
- On making an interested-party transaction of strategic nature – the Agreement on Sale and Purchase of 51% stake in the Authorized Capital of LLP "Kazakhturkmunay" between JSC NC "KazMunayGas" and KazMunaiGas EP JSC.
- Transaction with JSC "KazTransOil" on the provision of aviation services (helicopter) for the Western and Eastern branches No.56\2010\2010-47 of 1 February 2010 for the amount of 2,001,583,289 tenge;
- Transaction with the KazMunaiGas EP JSC on the provision of services No. 663-20/80-31 of 14 April 2010 in the amount of 8,708,530,880.00 tenge.
- Transaction with JSC "KazTransOil" on the provision of aviation services (helicopter) for the central office No.57\2010\2010-46\1 of 1 February 2010 for the amount of 11,200,000 tenge;
- Transaction with JSC "KazTransOil" on the provision of aviation services (airplane) for the Western and Eastern branches No.55\2010\2010-46 of 1 February 2010 for the amount of 56,571,000 tenge;
- Transaction with JSC "Intergas Central Asia" on the provision of delivery flight services on helicopters No.032-01-10R/2010-1 of 5 January 2010 for the amount of 578,417,311 tenge;
- Transaction with JSC "Intergas Central Asia" on the provision of delivery flight services on helicopters No.032-01-10R/2010-2 of 5 January 2010 for the amount of 89,695,903 tenge;
- Transaction with JSC "NWPC "MunaiTas" on the provision of the services of air patrol of the "Kenkiyak-Atyrau" main pipeline No.17-2010\2010-45 of 4 February 2010 for the amount of 62,190,172 tenge.

INFORMATION ON PARTICIPATION OF MEMBERS OF KMG'S BOARD OF DIRECTORS IN MEETINGS OF KMG'S BOARD OF DIRECTOR

Name of Member of KMG's Board of Directors	Number and date of meeting																
	№1 (26.01)	№2 (23.02)	№3 (29.03)	№4 (14.04)	№5 (30.04)	№6 (25.05)	№7 (1.06)	№8 (17.06)	№9 (21.06)	№10 (3.07)	№11 (23.09)	№12 (27.09)	№13 (19.10)	№14 (25.10)	№15 (29.10)	№16 (07.12)	№17 (15.12)
T.A. Kulibayev	+	+	+	+	-	+	+	+	+	+	+	+	+	+	+	+	+
B.U. Akchulakov	+	+	+	+	+	+	+	Removed from the BD									
D.R. Abulgazin											+	+	+	+	+	+	+
N.Ye. Sauranbayev																+	+
F. Kuijlaars	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
P. Lane	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
K.M. Kabyldin	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+

SUMMARY BUSINESS REPORT OF THE MANAGEMENT BOARD OF JSC NC KAZMUNAYGAS 2010

In 2010 the Management Board of JSC NC "KazMunayGas" passed 540 Resolutions, 414 (over 77%) of them were made at formal meetings. 165 minutes of the Executive Body meetings were drawn up.

Over the accounting period the KMG's Management Board submitted 102 issues for consideration of KMG's Board of Directors, including:

- approval of the Programme for Restructuring Assets of JSC "National company "KazMunayGas" for 2010-2014;
- approval of the Action Plan to Improve Corporate Governance System in JSC NC "KazMunayGas" for 2010-2011;
- participation of KMG in establishing limited liability partnership "PSA" with 100% participation in the authorized capital;
- Development Strategy of the "Oil Transportation" Business Area;
- determining terms and conditions of payment of remuneration and compensation expenses to the Board of Directors of JSC "Kazakh Institute of Oil and Gas";
- approval of the Code of Business Ethics of JSC NC "KazMunayGas";
- determining the terms and conditions of KMG's bonds issue;
- approval of the Corporate Accounting Policy of the JSC NC "KazMunayGas" Group of Companies;
- approval of the Tax Accounting Policy of JSC NC "KazMunayGas";
- increase in KMG's liabilities up to 1,500,000,000 (one billion five hundred million) U.S. dollars and the definition of terms of issue and placement of KMG's Eurobonds;
- approval of the Development Plan of KazMunayGas for 2011-2015 and other matters.

During 2010 KMG's Management Board approved the following documents, including:

- Performance Management Concept based on the project approach and principles of its implementation using corporate systems in JSC NC "KazMunayGas" group of companies;
- Rules for providing financial assistance to subsidiaries of JSC NC "KazMunayGas";
- Regulation on Asset Restructuring Committee under The Management Board of JSC NC "KazMunayGas";
- Documents governing operations of LLP "Urikhtau Operating";
- Operational Procedure of Corporate Communications of JSC NC "KazMunayGas" and the Action Plan on the Information and Branding Work of JSC NC "KazMunayGas" for 2010;
- Rules for Management and Maintenance of the Integrated System for Security of Office Buildings of JSC NC "KazMunayGas" and Regulation on the Coordinating Council of JSC NC "KazMunayGas" on the safety matters;
- Rules for Exchange Control in JSC NC "KazMunayGas";
- List of documents governing the internal operations of LLP "Naukograd";
- Rules for Granting Credits (Loans) in JSC NC "KazMunayGas", Regulation on Credit Committee of JSC NC "KazMunayGas", Rules for Keeping Credit History in JSC NC "KazMunayGas", Collateral Policy of JSC NC "KazMunayGas";
- Action Plan to Develop the Professional Standard of JSC "National Company "KazMunayGas";
- Corporate System for Oil Spills Response, Rules for Organization of Work on Localization and Liquidation of Oil Spills on the Sea, Evacuation, Rescue and Survival of Personnel during Oil Operations on the Sea and Methodology for Identification, Evaluation, Analysis and Mitigation of Emergency Risks;
- Rules for Drawing-Up and Monitoring the Development Plan of JSC NC "KazMunayGas";
- Regulation on Strategy Committee of JSC NC "KazMunayGas";
- Scientific and Technological (Innovation-based) Development Program of JSC NC "KazMunayGas" for 2011-2015;
- Overall Plan for Sponsorship and Charity of JSC NC "KazMunayGas" for 2011;
- Budget of JSC NC "KazMunayGas" for 2011;
- List of goods and services purchased prior to the approval of the Plan of Purchases of Goods, Works and Services by JSC NC "KazMunayGas" for 2011, etc.

KMG'S INTERESTED-PARTY TRANSACTIONS

Agreement on Financial Assistance in the amount of 180,000,000 (one hundred and eighty million) tenges with the term until 31 Dec 2010 between KMG and LLP "KMG's Businesses under Construction Directorate";

Supplementary Agreement to Guarantee and Damage Compensation Agreement, made by and between KMG and Deutsche Bank AG London, which is an integral part of the Syndicated Loan Agreement of 4 September 2008 made by and between Deutsche Bank AG London and KazMunaiGaz PKOP Investment B.V.;

Addendum to the Agreement on the Kazakhstan Pipeline Ventures LLC Limited Liability Company of 12 March 1997 between KMG and TMG-CPC Limited;

Supplementary Agreement No.2 to Agreement on Financial Assistance No.34-28 of 24 March 2009 between KMG and JSC "NMSK "Kazmortalot";

- through making additional contribution into the authorized capital of the KMG-Transcaspian LLP in the amount of 7,500,000,000 (seven billion five hundred million) tenges.

Agreement for Eurobond Issue Arrangement (Mandate Letter) between KMG, KazMunaiGaz Finance Sub B.V., lead managers of Eurobond Issue: Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, The Royal Bank of Scotland plc, and Dewey & LeBoeuf LLP;

Supplementary Agreement No.2 and Terms and Conditions of Secondment No.2 to Secondment Agreement No.280-19 of 15 September 2006 between JSC NC "KazMunayGas", LLP "Tengizchevroil" and PE "Corporate University "Samruk-Kazyna"; Amendment No.4 to the Service Agreement made by and between Agip Kazakhstan North Caspian Operating Company N.V., JSC NC "KazMunayGas", JSC "NMSK "Kazmortalot" and the TenizService LLP of 7 March 2003 (hereinafter – the Service Agreement);

Amendment No.5 to the Service Agreement;

Agreement on Trust of 100% Block of Shares of JSC "A.B. Bekurov Institute of Chemical Science" and 100% Block of Shares of JSC "D.V. Sokolsky Institute of Organic Catalysis and Electrochemistry" between JSC NC "KazMunayGas" and the Kazakhstan-British Technical University JSC;

Memorandum of Understanding between JSC "National Company "KazMunayGas", ExxonMobil Exploration North Caspian Onshore Limited and the KazMunaiGaz Exploration Production JSC;

Agreement on Financial Assistance between KMG and JSC "KazMunayGas – Refining & Marketing" in the amount of 132,884,548,500 (one hundred and thirty-two billion eight hundred and eighty-four million five hundred and forty-eight thousand five hundred) tenges;

Agreement between JSC NC "KazMunayGas", JSC "KazMunayGas – Refining & Marketing" and JSC "Development Bank of Kazakhstan" (hereinafter – Bank), with the duration not less than the duration of loan, attracted by LLP "Atyrau Refinery" from the Bank, stipulating liabilities for JSC NC "KazMunayGas" and JSC "KazMunayGas – Refining & Marketing" in all the agreements made by them on increasing and/or prolongation and/or replacement/compensation of their liabilities to third parties, particularly through borrowing, create the condition of cross-default upon a default (failure to fulfill obligations) of LLP "Atyrau Refinery" to the Bank on the loan attracted;

Supplementary Agreements No.1 to Agreements on Financial Assistance No.97-28 of 11 June 2009 and No.204-17 of 18 August 2009 between JSC NC "KazMunayGas" and the Kazakhstan Petrochemical Industries JSC;

Agreement on Financial Assistance between JSC NC "KazMunayGas" and the Kazakhstan Petrochemical Industries JSC for the amount of 4,350,000,000 (four billion three hundred and fifty million) tenges, with the designated purpose being an additional contribution to the authorized capital of "Caspi Bitum" JV LPP, for the implementation of the "Road Bitumen Production in APP" investment project;

Agreement on Financial Assistance between JSC NC "KazMunayGas" and JSC "KazMunayGas – Refining & Marketing" for the amount of 44,400,000,000 (forty-four billion four hundred million) tenges;

Supplementary Agreement No.3 to Agreement on Financial Assistance No.34-28 of 24 March 2009 made by and between JSC NC "KazMunayGas" and JSC "NMSK "Kazmortalot";

Agreement on Substitution of the Borrower under the Agreement on Term Loan Facility in the amount of 300,000,000 (three hundred million) US dollars of 25 February 2010 made by and between Deutsche Bank AG, London, acting as the facility agent of the finance parties, and KazMunaiGaz Sub B.V.;

Supplementary Agreement No.2 to Agreement on Financial Assistance No.139-38/220-2009 of 2 July 2009 between KMG and JSC "KazMunayGas – Refining & Marketing" for the amount of 181,200,000,000 (one hundred eighty-one billion two hundred million) tenges;

Supplementary Agreement No.3 to Facility Agreement No.328-25 of 31 December 2004 between KMG and the Atyrau Refinery LLP;

Agreement on Financial Assistance between KMG and JSC OOC "KazMunayTeniz" in the amount of 5,920,000,000 (five billion nine hundred and twenty million) tenges for the term of up to 12 months in order to make payments for maintenance of current production level, and pay the general and administrative expenses;

es related to the operating activities of the branch of JSC OOC "KazMunayTeniz" in Aktau at the Tolkyn and Borankol fields.

Agreements between KMG and JSC OOC "KazMunayTeniz" on temporary possession and use of property, ensuring continuity of the process flow and industrial safety of operations at the Tolkyn and Borankol fields;

Agreement on Trust of the Participatory Interest of the KazMunaiGas Exploration Production JSC in the authorized capital of the KazMunayGas-Service LLP;

Supplementary Agreement on Transfer of Right and Obligations of the PSA LLP under the Agreement on Purchase of Related Audit Services for Revision of the Reimbursable Expenses of the Contractor's Petroleum Operations Account for 2008 No.177-20//1075-A-P of 24 June 2010 between KMG and the KPMG Audit LLP;

Agreements between KMG and JSC OOC "KazMunayTeniz" on ensuring operations at the Tolkyn and Borankol fields;

Loan Agreement between KMG and JSC "SWF "Samruk-Kazyna" for the amount of over 152,000,000,000 (one hundred and fifty-two billion) tenge;

Supplementary Agreement No.1 to Consulting Services Purchase Agreement No.11-20 of 9 February 2010 between JSC NC "KazMunayGas" and Hill International Inc.;

Supplementary Agreement No.1 to Legal Consulting Services Purchase Agreement No.9-14 of 9 February 2010 between JSC NC "KazMunayGas" and Curtis, Mallet-Prevost, Colt & Mosle LLP;

Agreement on Trust of High, Medium, Low-Pressure Gas Pipelines and Their Installations, Located on the Territory of the West-Kazakhstan Oblast of the Republic of Kazakhstan between JSC NC "KazMunayGas" and the KazTransGas Aimak JSC;

Second Amendment to the CPC Inter-Creditor Subordination Agreement of 16 May 1997 between the Governments of the Republic of Kazakhstan and Russian Federation, shareholders of the CPC-K JSC, CPC-R CJSC;

Agreement in respect of the Global Medium Term Note Program in the amount of 7,500,000,000 US dollars between JSC NC "KazMunayGas" and KazMunaiGaz Finance Sub B.V.;

KMG'S INTERESTED-PARTY TRANSACTIONS

Supplementary Agreement No.4 to Agreement on Financial Assistance No.34-28 of 24 March 2009 between JSC NC "KazMunayGas" and JSC "NMSK "Kazmortransflot";

Supplementary Agreement No.1 on Assignment of Rights and Obligations to the PSA LLP under Agreement on Purchase of Financial and Economic Consulting Services No. 92-20 of 21 April 2010 between JSC NC "KazMunayGas" and Barclays Capital, the investment banking division of Barclays Bank PLC;

Agreement on Financial Assistance between JSC NC "KazMunayGas" and the KazMunayGas-Service LLP for the amount of 7,241,064,225 (seven billion two hundred and forty-one million sixty-four thousand two hundred and twenty-five) tenge for the term of 3 years;

Additional contribution into the authorized capital of the KazMunayGas-Service LLP by through depositing cash in the amount of 351,157,000 (three hundred and fifty-one million one hundred and fifty-seven thousand) tenge; including:

- 154,980,000 (one hundred and fifty-four million nine hundred and eighty thousand) tenge for the development of the design-and-estimate documentation (stage "Project") and conducting state expert review on the construction of the "Five-star Hotel in Shymkent" facility;
- 122,569,000 (one hundred and twenty-two million five hundred and sixty-nine thousand) tenge for the survey of technical condition, development of design-and-estimate documentation, and beginning of the reconstruction of the "Sunkar" health complex in the township of Zerenda, Akmolá oblast;
- 73,608,000 (seventy-three million six hundred and eight thousand) tenge for purchase of medical and kitchen equipment and furniture for the "Sunkar" health complex in the township of Zerenda, Akmolá oblast.

Agreement on Payment of Costs between JSC NC "KazMunayGas" and JSC "KazTransGas" for the amount of 3,505,664 (three million five hundred and five thousand six hundred and sixty-four) tenge 7 tiyns inclusive of VAT;

Agreement on Payment of Costs between JSC NC "KazMunayGas" and the KazMunaiGas Exploration Production JSC for the amount of 3,505,664 (three million five hundred and five thousand six hundred and sixty-four) tenge 7 tiyns inclusive of VAT;

Agreement on Financial Assistance between KMG and JSC OOC "KazMunayTeniz" for the amount of 11,661,732,000 (eleven

billion six hundred and sixty-one million seven hundred and thirty-two thousand) tenges for a term of one (1) year;

Agreement on Financial Assistance between KMG and JSC “KazMunayGas – Refining & Marketing” for the amount of 250,000,000,000 (two hundred and fifty billion) tenges for a term of one (1) year;

Agreements on Sale and Purchase of Bonds of JSC NC “KazMunayGas” between JSC NC “KazMunayGas” and:

- JSC “Development Bank of Kazakhstan” for the amount of up to 6,260,355,000 (six billion two hundred and sixty million three hundred and fifty-five thousand) tenges;
- JSC “Kazkommertsbank” for the amount of up to 1,878,106,500 (one billion eight hundred and seventy-eight million one hundred and six thousand five hundred) tenges;
- JSC “House Construction Savings Bank of Kazakhstan” for the amount of up to 626,035,500.00 (six hundred and twenty-six million thirty-five thousand five hundred) tenges;
- JSC “Halyk Bank of Kazakhstan” for the amount of up to 9,390,532,500 (nine billion three hundred and ninety million five hundred thousand) tenges.

Agreement on Sale and Purchase of Bonds of JSC NC “KazMunayGas” between JSC NC “KazMunayGas” and JSC “Temirbank” for the amount of up to 1,252,777,200 (one billion two hundred and fifty-two million seven hundred and seventy-seven thousand two hundred) tenges;

License Agreement on the Use of the “KazMunayGas” trade mark between JSC NC “KazMunayGas” and JSC “KazMunayGas Onimderi”;

Facility agreement between JSC NC “KazMunayGas” and JSC SWF “Samruk-Kazyna” on the following terms:

- facility amount: up to 23,337,295,000 (twenty-three billion three hundred and thirty-seven million two hundred and ninety-five thousand) tenges;
- facility term: until 25 January 2024;
- rate of fee (interest): 2% (two percent) annually;

- designated purpose of the Facility: financing the project “Construction of the Beineu-Shymkent Gas Pipeline”.

Agreement on Financial Assistance between JSC NC “KazMunayGas” and JSC OOC “KazMunayTeniz” for the amount of 11,661,732,000 (eleven billion six hundred and sixty-one million seven hundred and thirty-two thousand) tenges for a term of one (1) year;

Agreement on Financial Assistance between JSC NC “KazMunayGas” and JSC “KazMunayGas – Refining & Marketing” for the amount of 250,000,000,000 (two hundred and fifty billion) tenges for a term of one (1) year.

In accordance with the Rules for Sponsorship (Beneficent Assistance) by Joint-stock Company “National Company “KazMunayGas”, approved by the resolution of the Board of Directors of CJSC “NC “KazMunayGas” of 9 Mar 2004 (minutes No.7) (as amended by the resolution of Company's Board of Directors of 19 Nov 2004, minutes No.18), over the last year KMG's Management Board adopted 38 resolutions on rendering sponsorship (beneficent assistance).

Pursuant to sub-clause 8-1), clause 2.2 of the Regulation on the Management Board of JSC NC “KazMunayGas”, 70 resolutions were adopted on development of recommendations on agendas of the meetings of the Board of Directors and supervisory boards of the subsidiary and dependent joint-stock companies for the members of the Board of Directors and Supervisory Boards of subsidiaries, who are employees of KMG and represent the interests of the shareholder (participant) – KMG.

As part of the authority to adopt resolutions on the matters referred to the exclusive competence of the general shareholders' (participants') meeting of KMG SDEs, KMG's Management Board adopted 58 resolutions of determination of KMG's position as a participant (shareholder) in the subsidiaries for further voting of KMG's authorised representatives at General Shareholders' (Participants') Meetings.

Chairman of the Management Board



K. Kabyldin



Photos by Vadim Soloviev and Denis Obolenskiy



