

THIS DOCUMENT IS FOR DISTRIBUTION IN KAZAKHSTAN ONLY TO SPECIFIC IDENTIFIED PROFESSIONAL PARTICIPANTS OF THE SECURITIES MARKET, INSTITUTIONAL INVESTORS AND SIMILAR ORGANISATIONS THE PROFESSIONAL ACTIVITIES OF WHICH INCLUDE INVESTING IN SECURITIES AND IS NOT INTENDED FOR DISTRIBUTION GENERALLY. THIS DOCUMENT IS FOR INFORMATION PURPOSES ONLY AND IS NOT TO BE CONSTRUED AS AN ADVERTISEMENT OR AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO PURCHASE OR SUBSCRIBE FOR SHARES. THIS DOCUMENT IS A PROSPECTUS THAT WAS CREATED FOR PURPOSES OF OFFERING AND LISTING THE GDRs REFERENCED HEREIN ON THE LONDON STOCK EXCHANGE. THIS PROSPECTUS IS NOT TO BE RELIED UPON BY INVESTORS IN KAZAKHSTAN. THE RECIPIENT OF THIS DOCUMENT MUST NOT PROVIDE IT TO ANY OTHER PARTY AND MUST KEEP THE INFORMATION CONTAINED HEREIN CONFIDENTIAL. BY RECEIVING AND RETAINING THIS DOCUMENT THE RECIPIENT REPRESENTS THAT IT UNDERSTANDS THAT THE DOCUMENT HAS BEEN PROVIDED TO IT FOR INFORMATION PURPOSES ONLY, THAT THE DISTRIBUTION OF THIS DOCUMENT MAY BE RESTRICTED BY KAZAKHSTAN LAW AND THAT THE RECIPIENT HAS INFORMED HIMSELF OF THE APPLICABLE LEGAL RESTRICTIONS. ABN AMRO ROTHSCHILD, CREDIT SUISSE SECURITIES (EUROPE) LIMITED AND MERRILL LYNCH INTERNATIONAL WILL NOT BE RESPONSIBLE FOR THE PLACEMENT OF SECURITIES INTO KAZAKHSTAN.

НАСТОЯЩИЙ ДОКУМЕНТ ПРЕДНАЗНАЧЕН ТОЛЬКО ДЛЯ РАСПРОСТРАНЕНИЯ В КАЗАХСТАНЕ КОНКРЕТНЫМ ОПРЕДЕЛЕННЫМ ПРОФЕССИОНАЛЬНЫМ УЧАСТНИКАМ РЫНКА ЦЕННЫХ БУМАГ, ИНСТИТУЦИОНАЛЬНЫМ ИНВЕТОРАМ И ПОДОБНЫМ ОРГАНИЗАЦИЯМ, ПРОФЕССИОНАЛЬНАЯ ДЕЯТЕЛЬНОСТЬ КОТОРЫХ ВКЛЮЧАЕТ ИНВЕСТИРОВАНИЕ В ЦЕННЫЕ БУМАГИ, И НЕ ПРЕДНАЗНАЧЕН ДЛЯ ШИРОКОГО РАСПРОСТРАНЕНИЯ. НАСТОЯЩИЙ ДОКУМЕНТ СЛУЖИТ ТОЛЬКО ДЛЯ ЦЕЛЕЙ ИНФОРМАЦИИ И НЕ ДОЛЖЕН РАССМАТРИВАТЬСЯ В КАЧЕСТВЕ РЕКЛАМЫ ИЛИ ПРЕДЛОЖЕНИЯ О ПРОДАЖЕ ИЛИ В КАЧЕСТВЕ ЗАПРОСА ПРЕДЛОЖЕНИЙ НА ПОКУПКУ ИЛИ ПОДПИСКУ НА АКЦИИ. НАСТОЯЩИЙ ДОКУМЕНТ ЯВЛЯЕТСЯ ПРОСПЕКТОМ, ПОДГОТОВЛЕННЫМ ДЛЯ ЦЕЛЕЙ ПРЕДЛОЖЕНИЯ И ЛИСТИНГА УКАЗАННЫХ В НАСТОЯЩЕМ ДОКУМЕНТЕ GDRs НА ЛОНДОНСКОЙ ФОНДОВОЙ БИРЖЕ. НАСТОЯЩИЙ ПРОСПЕКТ НЕ ЯВЛЯЕТСЯ ДОКУМЕНТОМ, НА КОТОРЫЙ ДОЛЖНЫ ПОЛАГАТЬСЯ ИНВЕТОРЫ В КАЗАХСТАНЕ. ПОЛУЧАТЕЛЬ НАСТОЯЩЕГО ДОКУМЕНТА НЕ ДОЛЖЕН ПРЕДОСТАВЛЯТЬ ЕГО ДРУГИМ ЛИЦАМ И ДОЛЖЕН СОБЛЮДАТЬ КОНФИДЕНЦИАЛЬНОСТЬ СОДЕРЖАЩЕЙСЯ В НЕМ ИНФОРМАЦИИ. ПОЛУЧАЯ И СОХРАНЯЯ У СЕБЯ НАСТОЯЩИЙ ДОКУМЕНТ, ПОЛУЧАТЕЛЬ ЗАЯВЛЯЕТ, ЧТО ОН ПОНИМАЕТ, ЧТО НАСТОЯЩИЙ ДОКУМЕНТ ПРЕДОСТАВЛЕН ЕМУ ТОЛЬКО ДЛЯ ЦЕЛЕЙ ИНФОРМАЦИИ, ЧТО РАСПРОСТРАНЕНИЕ НАСТОЯЩЕГО ДОКУМЕНТА МОЖЕТ БЫТЬ ОГРАНИЧЕНО КАЗАХСТАНСКИМ ЗАКОНОДАТЕЛЬСТВОМ, И ЧТО ПОЛУЧАТЕЛЮ ИЗВЕСТНЫ ДЕЙСТВУЮЩИЕ ПРАВОВЫЕ ОГРАНИЧЕНИЯ. ABN AMRO ROTHSCHILD, CREDIT SUISSE SECURITIES (EUROPE) LIMITED И MERRILL LYNCH INTERNATIONAL НЕ НЕСУТ ОТВЕТСТВЕННОСТЬ ЗА РАЗМЕЩЕНИЕ ЦЕННЫХ БУМАГ В КАЗАХСТАНЕ.

БҰЛ ҚҰЖАТ ТЕК ҚАЗАҚСТАНДА ҚҰНДЫ ҚАҒАЗДАР НАРЫҒЫНЫҢ НАҚТЫ БЕЛГІЛІ БІР КӘСІБИ ҚАТЫСУШЫЛАРЫНА, ИНСТИТУЦИОНАЛДЫҚ ИНВЕТОРЛАРҒА ЖӘНЕ КӘСІБИ ҚЫЗМЕТІ КЕҢ ТАРАЛУҒА АРНАЛМАҒАН ҚҰНДЫ ҚАҒАЗДАРҒА ИНВЕСТИЦИЯЛАУДЫ ҚАМТИТЫН БАСҚА ДА ҰҚСАС ҰЙЫМДАРҒА ҒАНА ТАРАТУҒА АРНАЛҒАН. БҰЛ ҚҰЖАТ ТЕК АҚПАРАТТЫҢ МАҚСАТТАРЫ ҮШІН ҒАНА ҚЫЗМЕТ АТҚАРАДЫ ЖӘНЕ АКЦИЯЛАРДЫ САТУ НЕМЕСЕ САТЫП АЛУ НЕМЕСЕ ЖАЗЫЛУҒА ҰСЫНУДЫҢ ТАПСЫРЫСЫ РЕТІНДЕ ЖАРНАМА НЕМЕСЕ ҰСЫНЫС ТҮРІНДЕ ҚАРАЛМАУЫ КЕРЕК. БҰЛ ҚҰЖАТ GDRs ОСЫ ҚҰЖАТЫНДА КӨРСЕТІЛГЕН ЛОНДОНДЫҚ ҚОР БИРЖАСЫНДАҒЫ ҰСЫНУДЫҢ ЖӘНЕ ЛИСТИНГТИҢ МАҚСАТТАРЫ ҮШІН ДАЙЫНДАЛҒАН ПРОСПЕКТ БОЛЫП ТАБЫЛАДЫ, ОСЫ ПРОСПЕКТ ИНВЕТОРЛАРДЫҢ ҚАЗАҚСТАНДА СҮЙЕНЕТІН ҚҰЖАТЫ БОЛЫП ТАБЫЛМАЙДЫ. ОСЫ ҚҰЖАТТЫ АЛУШЫ ОНЫ БАСҚА ТҰЛҒАЛАРҒА ҰСЫНБАУЫ КЕРЕК ЖӘНЕ ОСЫ ҚҰЖАТТЫ ӨЗІНЕ АЛЫП ЖӘНЕ САҚТАЙ ОТЫРЫП, ОНДА МАЗМҰНДАЛҒАН АҚПАРАТТЫҢ ҚҰПИЯЛЫҒЫН САҚТАУЫ КЕРЕК, АЛУШЫ ОСЫ ҚҰЖАТТЫҢ ӨЗІНЕ ТЕК АҚПАРАТТЫҢ МАҚСАТТАРЫ ҮШІН ҒАНА ҰСЫНЫЛҒАНЫН, ОСЫ ҚҰЖАТТЫ ТАРАТУ ҚАЗАҚСТАН ЗАҢДАРЫМЕН ШЕКТЕЛУІ МҮМКІН ЕКЕНІН, ЖӘНЕ АЛУШЫҒА ҚОЛДАНЫСТАҒЫ ҚҰҚЫҚТЫҚ ҚАТЫНАСТАРДЫҢ ТАНЫС ЕКЕНДІГІН МӘЛІМДЕЙДІ. ABN AMRO ROTHSCHILD, CREDIT SUISSE SECURITIES (EUROPE) LIMITED ЖӘНЕ MERRILL LYNCH INTERNATIONAL ҚҰНДЫ ҚАҒАЗДАРДЫ ҚАЗАҚСТАНДА ОРНАЛАСТЫРҒАНЫ ҮШІН ЖАУАПКЕРШІЛІКТІ АТҚАРМАЙДЫ.

IMPORTANT NOTICE

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

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE PROSPECTUS MAY ONLY BE DISTRIBUTED IN “OFFSHORE TRANSACTIONS” AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “US SECURITIES ACT”), OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN ACCORDANCE WITH RULE 144A UNDER THE US SECURITIES ACT OR ANOTHER EXEMPTION FROM, OR TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE US SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THE PROSPECTUS DOCUMENT CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE US SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”) OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A US PERSON IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE US SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities being offered by the Global Offer referred to in the Prospectus, you must be (i) a person that is outside the United States or (ii) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented that you are outside the United States or that you are a QIB and that you consent to delivery of the Prospectus by electronic transmission. You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession it may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person. The Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that an offer of the securities be made by a licensed broker or dealer and the underwriters named in the prospectus or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, such offer shall be deemed to be made by the underwriters or such affiliate on behalf of the Company in such jurisdiction. Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the underwriters, as named in the Prospectus, nor any person who controls an underwriter nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from ABN AMRO Rothschild or Credit Suisse Securities (Europe) Limited.

This is not an offer to sell the Shares or the GDRs and is not soliciting an offer to buy the Shares or the GDRs in any jurisdiction where such an offer is not permitted.



JSC KazMunaiGas Exploration Production

(incorporated in the Republic of Kazakhstan under the Joint Stock Companies Law with registered number 15971-1901-AO)

Global Offer of 17,898,878 Shares and 5,187,913 Shares in the form of global depositary receipts offered internationally outside of Kazakhstan (the “GDRs”), each representing one sixth of a Share, at an Offer Price of KZT11,163.39 per Share and US\$14.64 per Global Depositary Receipt.

JSC KazMunaiGas Exploration Production (the “Company”) is offering 23,086,791 common shares (the “Shares”), of which 17,898,878 Shares will be offered in the form of Shares and 5,187,913 Shares will be offered internationally outside of Kazakhstan in the form of GDRs each representing one sixth of a Share.

In connection with the Global Offer, JSC NC KazMunaiGas (“NC KMG”) will sell 3,463,019 shares (equivalent in size to 15% of the Global Offer) to the Underwriters for the purpose of making over-allotments and to conduct stabilisation activities in GDRs (the “Parent GDRs”). Under the over-allotment structure, NC KMG will grant the Underwriters a put option, exercisable for a period of up to 30 days from the commencement of dealings, to sell to NC KMG any GDRs which have been purchased in the market as a result of stabilisation activities. The GDRs, and not the Shares will be over-allotted and subject to stabilisation. The Shares being offered by the Company and the shares represented by the Parent GDRs are together referred to as the “Offer Shares”.

Application has been made to the UK Listing Authority for up to 215,000,000 GDRs to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the “LSE” or “London Stock Exchange”) for such GDRs to be admitted to trading under the symbol “KMG” on its market for listed securities through the International Order Book (the “IOB”) (“Admission”), of which 51,905,592 will represent Offer Shares, and the balance may be issued from time to time. The LSE is a regulated market for purposes of Investment Services Directive 93/22/EC. It is expected that conditional dealings in the GDRs will commence on 4 October 2006 and that Admission will become effective and unconditional dealings in the GDRs will commence on 5 October 2006.

Application has also been made to have the Rule 144A GDRs (as defined herein) designated eligible for trading in The PORTAL Market of the NASDAQ Stock Market, Inc. (“PORTAL”).

On 20 December 2004, application was made to the KASE for all of the Shares, issued and to be issued, to be admitted to the Official List of the KASE. On 31 December 2004, the KASE admitted the Shares to Category “A” of the Official List of the KASE. It is expected that unconditional dealings on the KASE in the Offer Shares will commence on 4 October 2006.

The GDRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters. See the section of this document headed “Risk Factors” for a discussion of certain factors that should be considered in connection with an investment in the Offer Shares or the GDRs.

The Offer Shares (including GDRs) have not been and will not be registered under the US Securities Act of 1933, as amended (the “US Securities Act”), and may not be offered or sold within the United States (as defined in Regulation S under the US Securities Act (“Regulation S”)) except to certain “qualified institutional buyers” (“QIBs”) (as defined in Rule 144A under the US Securities Act (“Rule 144A”)) in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the US Securities Act. Prospective purchasers are hereby notified that the Company may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Shares and GDRs and the distribution of this document, see “Details of the Global Offer”.

The GDRs are being offered to certain institutional investors in the UK, QIBs in the United States and certain institutional investors in the rest of the world. The Shares are being offered to certain institutions and individuals in Kazakhstan and in the rest of the world.

The GDRs will be issued in global form and will be evidenced by a Master Rule 144A GDR registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), and a Master Regulation S GDR (together with the Master Rule 144A GDR, the “Master GDRs”) registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York, London Branch, as common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, société anonyme (“Clearstream”). It is expected that delivery of the GDRs will be made against payment therefor in US dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about 4 October 2006. See “Settlement and Transfer”.

Joint Bookrunners and Global Co-ordinators

ABN AMRO Rothschild

Credit Suisse

Domestic Lead Manager and Domestic Settlement Agent

Visor Capital

International Co-Lead Manager

Merrill Lynch International

The Company accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

ABN AMRO Rothschild (the unincorporated equity capital markets joint venture between ABN AMRO Bank N.V. and NM Rothschild & Sons Limited), Credit Suisse Securities (Europe) Limited (“Credit Suisse”) and Merrill Lynch International, each of which are regulated in the United Kingdom by the Financial Services Authority, are acting exclusively for the Company and no-one else in connection with the Global Offer and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Global Offer. For the avoidance of doubt, none of ABN AMRO Rothschild, Credit Suisse, and Merrill Lynch International will offer to sell Shares or GDRs in Kazakhstan and none of them will be responsible for the offer of securities into Kazakhstan.

This document comprises a prospectus relating to the Company in respect of the GDRs but not the Shares prepared in accordance with the prospectus rules of the UK Listing Authority issued pursuant to section 73A of the Financial Services and Markets Act 2000, as amended (“FSMA”) (“Prospectus Rules”).

In connection with the Global Offer, the Underwriters and any of their affiliates, acting as investors for their own accounts, may take up Offer Shares and/or GDRs in the Global Offer and in that capacity may retain, purchase, sell, offer to sell or otherwise deal in for their own accounts such securities and any other securities of the Company or related investments and may offer or sell such securities or other investments other than in connection with the Global Offer. Accordingly, references in this document to the Offer Shares and/or GDRs being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, dealing or placing by, the Underwriters and any of their affiliates acting as an investor for their own accounts. The Underwriters do not intend to disclose the extent of any such investments or transactions other than in accordance with any legal or regulatory obligation to do so.

Prior to the Global Offer, there has been no market inside or outside the Republic of Kazakhstan for the GDRs. From Admission, the Offer Shares including those represented by the GDRs will rank *pari passu* in all respects with the existing Shares including the right to receive dividends or other distributions declared, made or paid on the Shares after Admission.

Investors should rely only on the information in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company, NC KMG or any of the Underwriters or any affiliate of any thereof. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G FSMA and paragraph 3.4 of the Prospectus Rules, neither the delivery of this document nor any purchase made under this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company and its consolidated subsidiaries (together, the “Group”) since, or that the information contained herein is correct as of any time subsequent to, the date of this document.

The contents of this document are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice. Neither of the Company, NC KMG nor any of the Underwriters is making any representation to any offeree or purchaser of Offer Shares or GDRs regarding the legality of an investment by such offeree or purchaser.

The information contained in this document has been provided by the Company and other sources identified herein. None of the Underwriters makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this document. This document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, NC KMG or the Underwriters that any recipient of this document should subscribe for or purchase Offer Shares or GDRs. Each potential investor in Offer Shares or GDRs should read this document in its entirety and determine for itself the relevance of the information contained in this document and its subscription of Offer Shares or GDRs should be based upon such investigation as it deems necessary. In making an investment decision, prospective investors must rely upon their own examination of the Group and the terms of this document, including the risks involved.

The distribution of this document and the offer and sale of the Offer Shares and GDRs in certain jurisdictions may be restricted by law. No action has been taken by the Company, NC KMG or the Underwriters that would permit a public offer of Offer Shares or GDRs or possession, publication or distribution of this document (or any other offer or publicity material or application form relating to the Offer Shares) in any jurisdiction where action for that purpose is required, other than in the United Kingdom. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer of, or an invitation to subscribe or purchase, any Offer Shares or GDRs in any jurisdiction in which such offer or sale would be unlawful. Further information with regard to restrictions on offers and sales of Offer Shares or GDRs and the distribution of this document is set out in the section headed “Details of the Global Offer”.

This document may be provided to investors in the Republic of Kazakhstan for information purposes only and may not be relied upon.

Each subscriber or purchaser of Offer Shares or GDRs offered hereby, in making its subscription or purchase, will be deemed to have made certain acknowledgements, representations and agreements as set out under “Conditionality of Global Offer” in “Details of the Global Offer”.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The Offer Shares and GDRs have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered, sold, pledged or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable state securities laws. Neither the US Securities and Exchange Commission (the “US SEC”) nor any state securities commission has approved or disapproved these securities or determined if this document is truthful or complete. Any representation to the contrary is a criminal offence in the United States.

NOTICE PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, EACH INVESTOR IS HEREBY NOTIFIED THAT ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY THE INVESTOR OR ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE INTERNAL REVENUE CODE. SUCH DISCUSSION IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING BY THE ISSUER OF THE SHARES AND GLOBAL DEPOSITARY RECEIPTS. THIS PROSPECTUS IS LIMITED TO THE US FEDERAL TAX ISSUES DESCRIBED HEREIN. IT IS POSSIBLE THAT ADDITIONAL ISSUES MAY EXIST THAT COULD AFFECT THE US FEDERAL TAX TREATMENT OF AN INVESTMENT IN THE SHARES AND GLOBAL DEPOSITARY RECEIPTS, OR THE MATTER THAT IS THE SUBJECT OF THE DISCUSSION HEREIN, AND THIS DISCUSSION DOES NOT CONSIDER OR PROVIDE ANY CONCLUSIONS WITH RESPECT TO ANY SUCH ADDITIONAL ISSUES. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT ADVISOR.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

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

NOTICE TO PROSPECTIVE INVESTORS IN THE REPUBLIC OF KAZAKHSTAN

The Offer Shares and GDRs offered hereby may only be offered or sold in the Republic of Kazakhstan to institutions or individuals in the Republic of Kazakhstan, including banks, brokers, dealers participants, pension funds, and collective investment institutions, as well as central government, large international and supranational organisations, other institutional investors and other parties, including treasury departments of commercial enterprises which as an ancillary activity regularly invest in securities. This document was prepared for the purpose of offering GDRs outside the Republic of Kazakhstan and, accordingly, may be provided to investors in the Republic of Kazakhstan for information purposes only and may not be relied upon by them.

ABN AMRO Rothschild, Credit Suisse and Merrill Lynch International will not be responsible for the placement of shares into Kazakhstan.

AVAILABLE INFORMATION

The Company has agreed that, so long as any of the Offer Shares or GDRs are “restricted securities” within the meaning of Rule 144(a)(3) under the US Securities Act, in order to permit holders of Offer Shares or GDRs to effect resales under Rule 144A, the Company will, during any period in which the Company is neither subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the “US Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish, upon written request, to any holder of Offer Shares or GDRs, or any prospective purchaser designated by such holder, the information required to be delivered pursuant to Rule 144A(d)(4) under the US Securities Act.

FINANCIAL REPORTING PURSUANT TO THE KAZAKHSTAN STOCK EXCHANGE LISTING

The Company is presently in negotiations with the KASE to extend the period for filing its financial statements for the period ending 30 June 2006 and does not intend to publish such statements until the completion of the stabilisation period.

Under present KASE rules, Kazakhstan companies are required to publish quarterly unaudited, unreviewed financial information within two months of the end of the relevant quarter. Pursuant to the Company’s listing of the GDRs on the LSE, the Company is only required to publish half-yearly financial information. The Company is in discussions with KASE to change its rules such that it would be exempt, as a dual listed company, from quarterly reporting following the Global Offer. If it obtains such an exemption, the Company does not intend to publish quarterly financial statements.

ENFORCEMENT OF FOREIGN JUDGMENTS

The Company is incorporated under the laws of the Republic of Kazakhstan and all of its operations are located in the Republic of Kazakhstan. None of the Company’s directors or executive officers is a resident of the United States and all of the Company’s assets and the assets of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company or such persons or to enforce against any of them judgments of

US federal or state courts, including judgments predicated upon civil liabilities under the securities laws of the United States or any state or territory within the United States.

Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom or the United States.

STABILISATION

In connection with the Global Offer, Credit Suisse, as the Stabilisation Manager, (or any agent or other person acting thereof) may over-allot or effect transactions intended to enable it to satisfy any over-allocations or which stabilise, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail for a period of 30 days after the commencement of dealings. However, there is no obligation on the Stabilisation Manager, or any agent thereof to do this. Such transactions may be effected on the LSE, or any other securities market, over the counter market, stock exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end 30 days after the commencement of dealings. Save as required by law, the Stabilisation Manager does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer or the amount of any long or short positions.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

The Company's financial statements included in this document are presented in Tenge and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The functional currency of the Company is the Tenge. Accordingly, transactions in currencies other than the Company's functional currency are translated into Tenge at the exchange rates prevailing on the applicable transaction dates.

As presented in this document, "EBITDA" means earnings before interest, taxation, depreciation, depletion and amortisation. EBITDA is a supplemental measure of the Company's performance and liquidity that is not required by or presented in accordance with IFRS. Furthermore, EBITDA should not be considered as an alternative to income after taxes, income before taxes or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities as a measure of the Company's liquidity or as a measure of cash available to the Company to invest in the growth of its business.

The Company presents EBITDA because the Company believes it is frequently used by securities analysts, investors and other interested parties in evaluating similar issuers, most of which present EBITDA when reporting their results. The Company also presents EBITDA as a supplemental measure of the Company's ability to service its indebtedness. Nevertheless, EBITDA has limitations as an analytical tool and it should not be considered in isolation from, or as a substitute for, analysis of the Company's results of operations. As a measure of performance, EBITDA presents some limitations for the following reasons:

- it does not reflect the Company's cash expenditures or future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, the Company's working capital needs;
- it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's debt;
- it does not capture differences in income taxes, which may be significant even for companies operating in the same sector or country;
- although depreciation, depletion and amortisation are non-cash charges, the assets being depreciated, depleted and amortised will often have to be replaced in the future and EBITDA does not reflect any cash requirements for such replacements;
- it does not reflect foreign exchange gains or losses; and
- other companies in the Company's industry may calculate these measures differently from the way the Company does, limiting its usefulness as a comparative measure.

Rounding adjustments have been made in calculating some of the financial information included in this document. As a result, figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

The Company's financial statements as at and for the year ended 31 December 2004 were re-issued when its financial statements as at and for the year ended 31 December 2005 were published, in order to correct errors in the earlier financial statements. Financial statements of the Company as at and for the three month period ended 31 March 2006 are available on the website of the KASE. These financial statements have been superseded by the Company's financial statements as at and for the five month period ended 31 May 2006 and do not form part of this document.

Unless otherwise indicated, all references to "KZT" or "Tenge" are to the lawful currency of the Republic of Kazakhstan and all references to "US\$" or "US dollars" are to the lawful currency of the United States of America.

The Company prepares its consolidated financial statements in Tenge. Amounts stated in US dollars and derived from Tenge amounts, unless otherwise indicated, have been translated from Tenge at a fixed rate solely for convenience and should not be construed as representations that the Tenge amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated or any other rate or at all. All such convenience translations are unaudited and should not be construed as

presentations under IFRS. Unless otherwise indicated, such US dollar amounts have been translated from Tenge at the following rates: financial information extracted from the balance sheets of the Company has been converted at the appropriate period end exchange rate for the five month period ended 31 May 2006 and the years ended 31 December 2005, 2004 and 2003 as set out in “Exchange Rate Information” and financial information extracted from the statements of income and cash flows of the Company has been converted at the appropriate average exchange rate for the five month period ended 31 May 2006 and the years ended 31 December 2005, 2004 and 2003 as set out in “Exchange Rate Information”. See “Exchange Rate Information”.

Certain Reserves Information

Cautionary Note to US Investors—The US SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that the company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. The crude oil reserves within this document have been estimated by Gaffney, Cline & Associates (“GCA”) according to standards established by the Society of Petroleum Engineers (“SPE”) and the World Petroleum Congresses (“WPC”) and thus proved reserves may differ from those estimated according to the definitions of the US SEC. Further, the Company uses certain terms in this document in referring to the Company’s reserves, such as “probable” or “possible” reserves, that the US SEC’s guidelines would prohibit it from including in filings with the US SEC if the Company were subject to reporting requirements under the US Exchange Act. Prospective investors should read “The Company—Company’s Reserves” and the report of GCA, an international oil and gas consultant, on the Company’s reserves, included in this document (the “GCA Report”), for more information on the Company’s reserves and the reserves definitions the Company uses.

Hydrocarbon Data

The Company uses two methodologies for estimating its hydrocarbon reserves: Kazakhstan standards and the international standards established by the SPE and the WPC.

The Company is obliged to submit data according to Kazakhstan standards for reporting purposes to state bodies. Kazakhstan’s method of classifying oil reserves is based on a system employed in the former Soviet Union and differs substantially from the standard international methodology. See “Regional Overview of the Oil and Gas Industry—Resource Classifications”.

Since 1998, the Company has engaged GCA, an international oil and gas consultant, to conduct an annual review of the Company’s oil reserves. Additionally in 2005, GCA reviewed the Company’s gas and gas condensate reserves. Applying the reserves definition as promulgated by the SPE/WPC, GCA has determined that the Company does not have any gas reserves as the volumes available are not commercial. Thus, wherever gas and gas condensate reserves are stated within this document, these are estimates made by the Company according to Kazakhstan methodology. See “Regional Overview of the Oil and Gas Industry—Resource Classifications”.

Unless otherwise stated herein, the estimates set forth in this document of the Company’s proved, probable and possible crude oil reserves are based on reports prepared for it by GCA in accordance with the standards established by the SPE and the WPC.

Potential investors should be aware that reserve data set forth on the Company’s website or in other documents that may be publicly available may be based on Kazakhstan standards, rather than the international standards used in the preparation of GCA’s reports, and that the two sets of data are likely to be significantly different.

For internal record-keeping purposes, the Company records information relating to production, transportation and sales of crude oil and gas condensate in tonnes, a unit of measure that reflects the mass of the relevant hydrocarbon, and, accordingly, the Company presents such information on the same basis in this document. References in this document to “tonnes” are to metric tonnes. One metric tonne equals 1,000 kilograms. Depending on the field from which the Company’s crude oil is extracted, the factor for converting from data in tonnes to data in barrels varies between 6.84 and 7.85. Based on 2005 production levels, GCA has estimated the weighted average conversion factor to be 7.36. For information purposes only, the Company has included in this document conversions of data in tonnes into barrels of crude oil, a volumetric measure, at 7.36 barrels per tonne of crude oil. Barrel per day figures have been obtained by dividing annual barrel figures by 365. These barrel equivalents are indicative amounts only. The actual

number of barrels of crude oil produced, shipped or sold may vary from the barrel equivalents of crude oil presented herein, as a tonne of heavier crude oil will yield fewer barrels than a tonne of lighter crude oil. For information purposes only, the Company has also included in this document conversions of data in tonnes of gas condensate into barrels, a volumetric measure, at 7.87 barrels per tonne of gas condensate, being the weighted average of the conversion rates for the Company's gas condensate for 2005. The conversion of data for other companies in tonnes into barrels may be at different rates.

GCA, however, has used barrel figures for its estimates of reserves and these barrel figures, in contrast to the barrel equivalent figures discussed above, are not to be taken as indicative amounts only.

Information Regarding the Republic of Kazakhstan and the Company's Market and Industry

Statistical data and other information appearing in this document relating to the Republic of Kazakhstan, and the oil and gas industry therein have, unless otherwise stated, been extracted from documents and other publications released by the Statistics Agency of Kazakhstan, the Ministry of Finance of Kazakhstan, the Ministry of Energy and Mineral Resources of Kazakhstan ("MEMR"), the National Bank of Kazakhstan and other public sources in Kazakhstan, including the National Bank of Kazakhstan's Annual Report. Some of the market and competitive position data appearing in this document in "Regional Overview of the Republic of Kazakhstan" has been obtained from US government publications and other third-party sources, including publicly available data from the World Bank and International Monetary Fund as well as from Kazakhstan press reports and publications and edicts and resolutions of the government of the Republic of Kazakhstan ("Government"). In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

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

Information Regarding KazGerMunai and PetroKazakhstan

In this document the information provided regarding KazGerMunai and PetroKazakhstan has been extracted from publicly available information, including the annual financial statements of PetroKazakhstan for the year ended 31 December 2004 prepared in accordance with Canadian GAAP and the Central Dispatching Board of the Oil & Gas Industry of the Republic of Kazakhstan. The Company has not undertaken any review of or performed diligence on such information but confirms that such information has been accurately reproduced and as far as the Company is aware and has been able to ascertain from information published by those sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

NC KMG and the Company

In this document, unless the context otherwise requires, references to "NC KMG" are to the Company's parent company, JSC National Company KazMunaiGas, the national oil and gas company of the Republic of Kazakhstan, references to the "NC KMG Group" are to NC KMG and its subsidiaries (including the Group), references to the "Company" are to JSC KazMunaiGas Exploration Production and references to the "Group" and, where the context so requires in "Operating and Financial Review", references to the "Company" are to the Company and its consolidated subsidiaries and production divisions, including those acquired by the Company in the merger of JSC UzenMunaiGas ("UMG") and JSC EmbaMunaiGas ("EMG") in March 2004. See "The Company—History and Organisational Structure".

FORWARD-LOOKING STATEMENTS

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including, but not limited to, the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “target”, “will”, or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Company’s intentions, beliefs and statements of current expectations concerning, amongst other things, the Company’s results of operations, financial condition, liquidity, prospects, growth, strategies and as to the industries in which the Group operates.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that may or may not occur. Forward-looking statements are not guarantees of future performance and the actual results of the Group’s operations, financial condition and liquidity and the development of the country and the industries in which the Group operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. Important factors that could cause actual results to differ materially from the Company’s expectations are contained in cautionary statements in this document and include, among others, the following:

- price fluctuations in crude oil, gas and refined products markets and related fluctuations in demand for such products;
- operational limitations, including equipment failures, labour disputes and processing limitations;
- the availability or cost of transportation routes;
- an inability of the Company to enforce its rights in accordance with Kazakhstan law under the Relationship Agreement with NC KMG, which regulates the relationship between NC KMG and the Company, or the Services Agreement with NC KMG under which it has agreed to grant certain rights to the Company and to refrain from undertaking certain business activities in the Republic of Kazakhstan;
- an inability to implement any potential acquisition or an inability to acquire such interests on terms proposed by the Company;
- changes in governmental regulation, including regulatory changes affecting the availability of permits, and governmental actions that may affect operations or the Company’s planned expansion;
- unfavourable changes in economic or political conditions in Kazakhstan;
- unplanned events or accidents affecting the Company’s operations or facilities;
- incidents or conditions affecting the export of crude oil and gas; and
- reservoir performance, drilling results and implementation of the Company’s oil expansion plans.

These and other factors are discussed in more detail in “Risk Factors” and “The Company”. Many of these factors are beyond the Company’s control. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected. Save as required by law or by any appropriate regulatory authority, the Company does not intend, and does not assume any obligation, to update any industry information or forward-looking statements set out in this document.

EXCHANGE RATE INFORMATION

Fluctuations in the rate of exchange between the Tenge and the US dollar will affect the US dollar equivalent of the Tenge price of Shares on the KASE and, as a result, will likely affect the market price of the GDRs on the LSE.

The following table sets forth, for the periods indicated, the average, high, low and period-end daily exchange rate in Tenge as published by the National Bank of Kazakhstan expressed in Tenge per US\$1.00:

<u>Year Ended 31 December</u>	<u>Period End</u>	<u>Average⁽¹⁾</u>	<u>High</u>	<u>Low</u>
2001.....	150.29	146.74	150.20	145.00
2002.....	155.60	153.28	155.60	150.60
2003.....	144.22	149.58	155.89	143.66
2004.....	130.00	136.04	143.33	130.00
2005.....	133.77	132.88	136.12	129.88
2006 (through to 31 May)	121.48	128.57	133.85	121.00

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

As at 28 September 2006, being the last practicable date prior to the publication of this document, the exchange rate between the Tenge and the US dollar was 127.12 Tenge per US\$1.00.

DIRECTORS, CORPORATE SECRETARY AND ADVISORS

Board of Directors	Zhakyp N. Marabayev (Chairman and Non-Executive Director) Askar K. Balzhanov (Director General) Yerzhan A. Zhangaurov (Non-Executive Director) Evgeni K. Ogai (Non-Executive Director) Assia Syrgabekova (Non-Executive Director) Christopher Mackenzie (Independent Non-Executive Director) Paul Manduca (Independent Non-Executive Director) Edward Walshe (Independent Non-Executive Director)	
	all of the Registered Office	
Corporate Secretary	Ayazhan Jaxybai	
Registered Office	20/1 Kabanbay Batyr Avenue Astana 010000 Republic of Kazakhstan	
Head Office	Building 2 Street 1 Left Bank Astana 010000 Republic of Kazakhstan	
Counsel to the Company	White & Case LLP 5 Old Broad Street London EC2N 1DW United Kingdom	White & Case Kazakhstan LLP 117/6 Dostyk Avenue Almaty 050059 Republic of Kazakhstan
Joint Bookrunners and Global Co-ordinators	ABN AMRO Rothschild 250 Bishopsgate London EC2M 4AA United Kingdom	Credit Suisse Securities (Europe) Limited One Cabot Square London E14 4QJ United Kingdom
Domestic Lead Manager and Domestic Settlement Agent	Visor Capital 240/G Furmanov Street Almaty 050059 Republic of Kazakhstan	
International Co-Lead Manager	Merrill Lynch International Merrill Lynch Financial Centre 2 King Edward Street London EC1N 1HQ United Kingdom	
International Counsel to the Managers	Freshfields Bruckhaus Deringer 65 Fleet Street London EC4Y 1HS United Kingdom	
Domestic Counsel to the Managers	Denton Wilde Sapte 96 Baitursynov Street Almaty 050022 Republic of Kazakhstan	

Auditors	Ernst and Young Kazakhstan LLP 240/G Furmanov Street Almaty 050059 Republic of Kazakhstan
Depository	The Bank of New York 101 Barclay Street 22nd Floor New York, NY 10286 United States of America
Environmental Consultants	AMEC Earth and Environmental UK Ltd 65 Carter Lane London EC4V 5HF United Kingdom
Reservoir Engineers	Gaffney, Cline & Associates Bentley Hall Blacknest, Alton Hampshire GU34 4PU United Kingdom

SUMMARY

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this document, including the financial statements included in this document and the information in the GCA Report from which it is partly derived. Any decision by a prospective investor to invest in the Offer Shares should be based on consideration of the document as a whole and not solely on this summarised information. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each member state of the European Economic Area (“EEA”) civil liability will attach to the Directors in any such member state for this summary, including any translation hereof if, but only if, this summary is misleading, inaccurate or inconsistent when read together with the other parts of this document. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the EEA states, be required to bear the costs of translating this document before legal proceedings are initiated.

Prospective investors should carefully read the entire document, including the financial statements and related notes, before making an investment decision. In particular, prospective investors should consider carefully the factors set forth under the heading “Risk Factors”.

Overview

The Company was created through the merger of JSC UzenMunaiGas and JSC EmbaMunaiGas in March 2004. The Company is engaged in the production of crude oil, natural and associated gas and is the third largest crude oil producer in the Republic of Kazakhstan (based on MEMR 2005 data) in terms of annual production volumes of hydrocarbons (including crude oil) with proved plus probable oil reserves of approximately 205.9 million tonnes (1,515.2 million barrels) according to GCA. The Company extracts hydrocarbon resources from 44 oil and gas fields located in the Atyrau and Mangistau regions in western Kazakhstan. MEMR has granted the Company exclusive rights for exploration and production on these fields.

The Company conducts its principal exploration and production activities through its UMG and EMG production divisions in their fields in the Mangistau and the Atyrau regions. The Company is also conducting or planning to conduct exploration activities in several regions in onshore Kazakhstan.

The Company’s total revenues increased from KZT177.8 billion in 2003 to KZT237.1 billion in 2004 and to KZT346.4 billion in 2005. The Company’s total revenues increased from KZT121.8 billion in the first five months of 2005 to KZT170.7 billion for the same period in 2006. Similarly, the Company’s net income increased from KZT7.5 billion in 2003 to KZT13.4 billion in 2004 and to KZT45.1 billion in 2005. The Company’s total revenues and net income have grown through increased efficiencies in production and as a result of the increases in hydrocarbon prices.

Competitive Strengths

The Company believes that its competitive strengths are:

- *Right of first refusal through NC KMG for existing onshore subsoil oil and gas exploration and production contracts.* The Services Agreement, which expires on 31 December 2006 and must be renewed by annual tender, provides that NC KMG must make reasonable efforts, if requested to do so by the Company, to procure the State to exercise its right of first refusal to acquire from the holder, on behalf of the Company, any interest in an existing onshore subsoil oil and gas exploration and production contract that the holder proposes to transfer.
- *Preferential Access through NC KMG to rights to unlicensed onshore oil and gas acreage.* Under the Services Agreement, the Company has the right to request that NC KMG exercise its right under Kazakhstan law to enter into direct negotiations for exploration and production contracts with respect to any unlicensed oil and gas acreage in Kazakhstan without engaging in a tender process and to grant to the Company a right of first refusal to acquire the oil and gas exploration and production contracts for such acreage.
- *Significant existing oil reserve base.* As of 31 December 2005, the Company’s estimated proved plus probable oil reserves at the UMG fields and EMG fields were 205.9 million tonnes (1,515.2 million barrels), of which 42% were classified as proved reserves. The Company has exclusive rights under its contracts and licences with MEMR to develop the UMG fields and EMG fields until up to 2025 depending on the field.

- *Extensive experience in crude oil and gas production.* The Company has extensive knowledge of the geology of its fields and of exploration and production in the region, with its production divisions having nearly 100 years of production experience in Kazakhstan.
- *Access to export pipeline routes.* The Company has entered into a contract with JSC KazTransOil (“KTO”) that contractually guarantees its right to ship specified minimum volumes of crude oil, subject to MEMR quotas, through the UAS pipeline until the end of 2012. In addition, the Company has the right to ship crude oil through the CPC pipeline until the end of 2008.

Strategy

The Company’s goal is to maintain its position as a leading oil and gas company in Kazakhstan. As part of the process of achieving this goal, the Company has developed a five year strategy, with the following key priorities:

- *Increase the Company’s overall production and replace the Company’s reserves through acquisitions in the short-to-medium term and exploration in the long term.* The Company has entered into an option agreement to acquire the 50% interest in KazGerMunai currently held by NC KMG, although the exercise of this option agreement is subject to a number of conditions precedent. In addition, the Company understands that NC KMG is prepared to offer to sell to the Company its 33% interest in PetroKazakhstan (excluding any interest in the Shymkent refinery) following the Global Offer, although the Company has not entered into any definitive arrangements in respect of either such transaction. The Company is also currently concentrating its exploration activities on the Taisoigan, R-9 and Liman blocks and the Triassic reservoirs of the Uzen and Karamandybas fields (and adjoining territories) and on expanding the size of the Nurzhanov, Makat East and Akingen fields.
- *Sustain current levels of oil production at the UMG fields and EMG fields over the medium term.* The Company intends to sustain its current level of production at the UMG fields and EMG fields over the medium term principally through drilling and completing new wells, completing well workovers and continuing various secondary and enhanced oil recovery methods.
- *Rationalise the Company’s operations by divesting non-core and ancillary businesses.* As part of the Company’s Asset Optimisation Programme, the Company has begun divesting its ownership interests in most of its subsidiaries whose operations are non-core to the Company’s upstream operations and development strategy.
- *Bring the Company’s operations into line with international environmental, labour and safety standards.* As part of its development plan, the Company is in the process of implementing policies that it believes will enable it to meet international standards for environmental protection, human resource management and employee safety in all of its operations.
- *Cost Reduction Plan.* The Company has developed a cost reduction plan designed to enable significant cost reductions. The central components to this plan include: (i) optimisation of production through the application of enhanced reservoir modelling capabilities; (ii) extending well lives of existing fields through the application of electric rotary and screw pumps, in addition to monitoring the quality of oil well tubing; (iii) increasing pipeline life through the replacement of steel pipes with fibreglass pipes; (iv) modernisation of collection and preparation stations through the construction of a new preparation facility at Uzen; and (v) optimisation of logistics and business processes including the automation of measurement systems.

Risk Factors

Prior to investing in the Offer Shares, prospective investors should consider, together with the other information contained in this document, the factors and risks attaching to an investment in the Company’s shares, including the following risks:

Risk Factors Relating to the Company’s Business

- Any future decrease in crude oil prices could adversely affect the Company’s business, prospects, financial condition and results of operations.
- If the level of the Company’s crude oil and gas reserves, or their quality, are lower than estimated or expected, the Company’s business, prospects, financial condition or results of operations could be materially and adversely affected.

- Failure by the Company to gain access to additional reserves or to acquire additional reserves at commercially viable prices could materially and adversely affect the Company's ability to achieve its long-term growth strategy.
- The Government has the ability to require additional deliveries of crude oil to domestic refineries and these may be at prices that are materially below international market prices.
- The Company relies upon transportation systems owned and operated by third parties which may become unavailable. The Company may be unable to access these or alternative transportation systems and could be subject to increased tariffs imposed by such third parties for transportation of its crude oil.
- The Company may be unable to implement any potential acquisitions or may not be able to acquire such interests on terms proposed by the Company.
- The Company and its predecessors have generated substantial environmental liabilities that the Company is required to remediate at its cost.
- The Company's accounting systems are not as sophisticated or robust as those of companies with a longer history of compliance with IFRS and certain material weaknesses in the Company's internal controls have been identified by the Company's independent auditor.
- The Company is in the process of implementing new management information systems and financial controls.
- The Company is subject to an uncertain tax environment which may lead to disputes with taxation authorities.

Risk Factors Relating to the Company's Relationship with NC KMG

- NC KMG will continue to have significant influence over the Company's affairs following the Global Offer and the interests of NC KMG may conflict with the best interests of the Company's minority shareholders.
- If NC KMG fails to renew the Services Agreement, the Company will lose its rights under the Services Agreement.
- The Company may be unable to enforce its rights under the Relationship Agreement and the Services Agreement.
- The Company's ability to engage external advisers and establish long-term commercial relationships with third parties is impaired due to the application of the State Procurement Law to the Company.

Risk Factors Relating to the Republic of Kazakhstan

- All of the Company's assets are currently located in Kazakhstan and the Company is therefore susceptible to country specific risk factors such as political, social and economic instability.
- The Company is exposed to a variety of political and country risks, including the risk of adverse sovereign action by the Government.

Risk Factors Relating to the Company's Shares and GDRs

- The financial market in Kazakhstan is less developed than in Western jurisdictions.
- Sales, or the real or perceived possibility of sales, of a significant number of Shares in the public market could adversely affect prevailing market prices for the Company's Shares and GDRs.
- Shares and GDRs may be subject to market price volatility and the market price of Shares and GDRs may decline disproportionately in response to adverse developments that are unrelated to the Company's operating performance.
- The recently introduced Kazakhstan Corporate Governance Code has not yet proven effective at ensuring strong corporate governance practices in Kazakhstan.

Summary Reserves Information

As of 31 December 2005, the Company's estimated proved plus probable oil reserves at the UMG fields were 155.9 million tonnes (1,147.3 million barrels) and the Company's estimated proved plus probable oil reserves at the EMG fields were 50.0 million tonnes (367.9 million barrels). The Company estimates (using Kazakhstan methodology) that recoverable reserves of gas and gas condensate at the UMG fields as of 31 December 2005 were 16.3 billion cubic metres and 1.6 million tonnes (12.7 million barrels), respectively. Applying the reserves definition as promulgated by the SPE/WPC, GCA has determined that the Company does not have any gas reserves as the volumes available are not commercially viable. Thus, wherever gas and gas condensate reserves are stated within this document, these are estimates made by the Company according to Kazakhstan methodology.

Summary Production Information

In 2005, oil production at the UMG fields and EMG fields was 6.5 million tonnes (132.0 thousand bopd) and 2.8 million tonnes (56.3 thousand bopd) respectively. For the five months ended 31 May 2006, oil production at the UMG fields and EMG fields was 2.7 million tonnes and 1.1 million tonnes (132.7 thousand bopd and 55.3 thousand bopd respectively). In 2005, gas production at the UMG fields was 812.1 million cubic metres and gas condensate production at the UMG fields was 23.3 thousand tonnes (approximately 502 bcpd). For the five months ended 31 May 2006, gas production at the UMG fields was 311 million cubic metres and gas condensate production at the UMG fields was 8.4 thousand tonnes (approximately 439 bcpd).

Summary Historical Financial Information

The following tables set forth summary financial information for the periods indicated. The data presented in Tenge has been extracted without material adjustment from the financial statements included elsewhere in this document which have been prepared in accordance with IFRS.

Amounts shown in US dollars have been translated from Tenge at the period end rate for the Consolidated Balance Sheets and the average period rate for the Consolidated Statements of Income and Consolidated Statements of Cash Flows solely for the convenience of the reader.

Consolidated Balance Sheets

	As at 31 May		As at 31 December			
	2006 (US\$ thousands)	2006 (KZT thousands)	2005 (US\$ thousands)	2005 (KZT thousands)	2004 (KZT thousands)	2003 (KZT thousands)
	(unaudited)	(unaudited)	(unaudited)	(audited)		
ASSETS						
Property, plant and equipment	2,021,779	245,605,660	1,817,536	243,131,834	257,958,200	223,984,629
Other non-current assets	172,651	20,973,624	468,181	62,628,519	31,961,170	6,926,019
Cash and cash equivalents	249,645	30,326,888	150,913	20,187,588	14,127,579	9,310,184
Other current assets	1,071,834	130,206,376	825,565	110,435,767	76,706,675	47,475,495
Total assets	3,515,909	427,112,548	3,262,195	436,383,708	380,753,624	287,696,327
EQUITY AND LIABILITIES						
Total equity	1,775,018	215,629,213	1,298,741	173,732,563	168,733,696	155,559,157
Non-current borrowings	345,650	41,989,591	403,893	54,028,740	50,758,435	8,145,588
Other non-current liabilities	538,871	65,462,032	477,681	63,899,328	67,291,605	65,120,194
Current borrowings	157,468	19,129,206	157,892	21,121,175	18,100,418	10,160,262
Other current liabilities	698,901	84,902,506	923,988	123,601,902	75,869,470	48,711,126
Total liabilities and equity	3,515,908	427,112,548	3,262,195	436,383,708	380,753,624	287,696,327

Consolidated Statements of Income

	Five months ended 31 May			Year ended 31 December			
	2006	2006	2005	2005	2005	2004	2003
	(US\$ thousands) (unaudited)	(KZT thousands) (unaudited)		(US\$ thousands) (unaudited)	(KZT thousands) (audited)		
CONTINUING OPERATIONS							
Revenue							
Export:							
Crude oil	1,168,910	150,286,721	104,690,882	2,257,904	300,030,298	203,059,607	146,167,659
Refined products . . .	0	0	651,491	4,903	651,491	6,791,761	3,347,074
Domestic:							
Crude oil	101,577	13,059,758	0	52,159	6,930,889	94,638	3,153,951
Refined products . . .	32,252	4,146,619	13,681,276	246,930	32,812,045	18,487,681	19,641,750
Gas products	12,223	1,571,511	1,408,663	30,720	4,082,068	3,886,963	2,905,790
Other sales and services	12,910	1,659,852	1,323,849	14,469	1,922,654	4,782,568	2,541,149
	1,327,872	170,724,461	121,756,161	2,607,085	346,429,445	237,103,218	177,757,373
Operating expenses . . .	(530,182)	(68,165,441)	(70,956,733)	(1,539,551)	(204,575,552)	(162,276,362)	(136,586,864)
Profit from operations . .	797,690	102,559,020	50,799,428	1,067,534	141,853,893	74,826,856	41,170,509
Finance (expense)							
income	(32,498)	(4,178,210)	509,732	8,237	1,094,568	(3,436,830)	(2,228,285)
Profit before tax and minority interest . . .	765,192	98,380,810	51,309,160	1,075,771	142,948,461	71,390,026	38,942,224
Income tax expense . . .	(443,412)	(57,009,517)	(32,195,396)	(746,483)	(99,192,639)	(58,209,157)	(31,513,204)
Profit for the period from continuing operations	321,780	41,371,293	19,113,764	329,288	43,755,822	13,180,869	7,429,020
DISCONTINUED OPERATIONS							
Profit for the period from discontinued operations	0	0	701,563	11,447	1,521,130	283,718	74,211
Profit for the period . . .	321,780	41,371,293	19,815,327	340,736	45,276,952	13,464,587	7,503,231
Attributable to:							
Equity holders of the							
Company	321,780	41,371,293	19,721,658	339,213	45,074,642	13,426,853	7,493,361
Minority interest	0	0	93,669	1,523	202,310	37,734	9,870

Consolidated Statements of Cash Flows

	Five months ended 31 May			Year ended 31 December			
	2006	2006	2005	2005	2005	2004	2003
	(US\$ thousands) (unaudited)	(KZT thousands) (unaudited)		(US\$ thousands) (unaudited)	(KZT thousands) (audited)		
Net cash generated from operating activities	203,383	26,148,964	26,687,846	564,823	75,053,723	60,494,214	45,211,534
Net cash used in investing activities	(94,125)	(12,101,652)	(54,238,665)	(748,769)	(99,496,430)	(82,338,545)	(33,465,385)
Net cash (used in) from financing activities	(24,037)	(3,090,452)	57,393,020	226,385	30,082,102	27,160,949	(5,080,542)

Relationship with NC KMG

NC KMG is the national company for oil and gas operations in the Republic of Kazakhstan. NC KMG is a holding company for approximately 35 companies, which include certain oil and gas companies operating in Kazakhstan and various other companies that are focused on activities other than exploration. The Company is the major oil and gas exploration and production subsidiary of NC KMG.

After the Global Offer, NC KMG will own approximately 60.1% of the Company's voting share capital (assuming the Underwriters over-allot the Parent GDRs in full and do not exercise the Underwriters' Put Option (as defined below)). NC KMG will therefore retain a majority of the Shares and will hold a majority of votes at a general shareholders' meeting, which will allow NC KMG to have significant influence over the strategy and activities of the Company.

Related Party Transactions

The Company has entered and will continue to enter into various agreements and transactions with members of the NC KMG Group. Agreements and transactions of significance include the Services Agreement, the Relationship Agreement, the KMG TradeHouse Agency Agreement, the Disposal of the Atyrau Refinery Agreement and the KGM Option Agreement.

Recent Developments

In July 2006, NC KMG acquired a 33% stake in PetroKazakhstan for approximately US\$1.4 billion and a 50% stake in KazGerMunai for approximately US\$1 billion. The Company has an option to acquire from NC KMG its 50% stake in KazGerMunai. Also, the Company understands that NC KMG intends to offer its 33% stake in PetroKazakhstan (excluding any interest in the Shymkent refinery) to it after the Global Offer. Any such transaction by the Company would be subject to certain conditions precedent including full due diligence by the Company, approval by a majority of the Independent Non-Executive Directors, sending a circular to shareholders (including holders of GDRs) and the approval of the transaction by a simple majority vote at a shareholders' meeting at which GDR holders have the opportunity to vote their underlying Shares and NC KMG does not vote.

Use of Proceeds

The proceeds of the Global Offer receivable by the Company net of underwriting commissions and estimated offering expenses will be approximately US\$1,970 million. The Company will not receive any proceeds from the potential sale of the Parent GDRs or the potential re-purchase of the underlying shares by NC KMG pursuant to the Underwriters' Put Option. In line with its strategy, the Company will apply the net proceeds and use its first right of refusal granted pursuant to the Services Agreement by NC KMG for existing oil acreage, to acquire in the short to medium term, strategically attractive oil production contracts and to achieve, in the longer term, a capital structure appropriate to exploit its preferential access through NC KMG to unlicensed onshore oil exploration acreage in Kazakhstan. To achieve this latter longer term objective, the Company may consider repaying Group borrowings. Pending application of the proceeds as described above, the Company will invest the proceeds in short-term bank deposits.

SUMMARY OF THE GLOBAL OFFER

The Issuer	JSC KazMunaiGas Exploration Production.
The Global Offer	<p>The Company is offering 23,086,791 Shares in a simultaneous institutional international offer of GDRs outside of Kazakhstan and an offer of Shares in the Republic of Kazakhstan and in the rest of the world. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the US Securities Act and outside the United States and the Republic of Kazakhstan to certain persons in offshore transactions in reliance on Regulation S. The GDRs will be issued by The Bank of New York, as depositary (the “Depositary”).</p> <p>The Offer Shares (whether in the form of Shares or GDRs) are being offered at the Offer Price on a basis that is preferential only as to allocation to certain companies, individuals (including Directors and members of the Company’s management), institutions and/or other entities in Kazakhstan and elsewhere as the Company may designate, including certain holders of indebtedness of the Group who will pay in kind for Offer Shares by surrendering such indebtedness to the Company.</p>
The Shares	The Company’s share capital presently (prior to the closing of the Global Offer) consists of 47,134,144 Shares and 4,136,107 preference shares which are fully paid. The Shares have the rights described under “Description of Share Capital and Certain Requirements of Kazakhstan Legislation”.
The GDRs	<p>Each GDR will represent one sixth of a Share. The GDRs will be issued by the Depositary pursuant to a deposit agreement (the “Deposit Agreement”) between the Company and the Depositary. The Regulation S GDRs (as defined in the Deposit Agreement) will be evidenced initially by a Master Regulation S GDR and the Rule 144A GDRs (as defined in the Deposit Agreement) will be evidenced initially by a Master Rule 144A GDR, each to be issued by the Depositary pursuant to the Deposit Agreement. The Master Regulation S GDR and the Master Rule 144A GDR are herein collectively referred to as the Master GDRs. Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be held in Kazakhstan by JSC Kazkommertsbank, as the custodian nominated by the Depositary (“Custodian”), for the benefit of the Depositary.</p> <p>Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement, interests in the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR, and vice versa.</p>
Offer Price	<p>KZT11,163.39 per Offer Share. US\$14.64 per GDR.</p> <p>The Company is offering GDRs and Shares at an equivalent price, calculated at the weighted average exchange rate of Tenge to the US Dollar as determined based on the results of trading during the morning (base) session at the KASE on 28 September 2006.</p>
Closing Date	4 October 2006.

Sale and Put Agreement and Underwriters' Put Option . . .	In connection with the Global Offer, NC KMG will sell 3,463,019 secondary Shares (equivalent in size to 15% of the Global Offer) to the Underwriters for the purpose of making over-allotments and to conduct stabilisation activities in the GDRs. Under the over-allotment structure, contained in a sale and put agreement between NC KMG and the underwriters (the "Sale and Put Agreement"), NC KMG has granted the Underwriters a put option, exercisable for a period of up to 30 days from the commencement of dealings, to sell to NC KMG any GDRs which have been purchased in the market as a result of stabilisation activities.
Lock-up	The Company, NC KMG and certain Directors of the Company and members of the Company's management have agreed, subject to certain exceptions, not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any Shares in the Company or securities convertible or exchangeable into or exercisable for any Shares in the Company or enter into any swap or any other agreement or other transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of any Shares, or mandate any third party to do so, or publicly announce any intention to do any of the foregoing, for a period of 180 days from the Closing Date with respect to the Company, NC KMG and the Company's directors and management, without, in the case of the Company and NC KMG only, the prior written consent of the Underwriters. See "Details of the Global Offer—Lock-up Arrangements".
Transfer Restrictions	The Shares and GDRs will be subject to certain restrictions on transfer as described under "Description of Share Capital and Certain Requirements of Kazakhstan Legislation" and "Terms and Conditions of the Global Depositary Receipts" respectively.
Dividend Policy	See "Dividends and Dividend Policy".
Listing and Market for the GDRs and Shares	<p>Application has been made to the UK Listing Authority for a listing of up to 215,000,000 GDRs, consisting of 51,905,592 GDRs to be issued on the Closing Date and the remainder to be issued from time to time against the deposit of Shares with the Depositary, to be admitted to the Official List and to the LSE for such GDRs to be admitted to trading on the LSE's market for listed securities through the International Order Book ("IOB") under the symbol "KMG". The IOB is a regulated market for the purposes of the Investment Services Directive 93/22/EC. Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL.</p> <p>Prior to the Global Offer, there has been no market for the GDRs. There will be conditional trading in the GDRs on 4 October 2006 only. Admission to the Official List of the UK Listing Authority and to unconditional trading on the LSE's regulated market for listed securities, is expected to take place on 5 October 2006, with closing and settlement occurring on 4 October 2006.</p> <p>Additional Shares may be deposited, subject to the provisions set forth under "Terms and Conditions of the Global Depositary Receipts" and in the Deposit Agreement, with the Custodian against which the Depositary shall issue GDRs representing such Shares.</p>

On 20 December 2004, application was made to the KASE for all of the Shares, issued and to be issued, to be admitted to the Official List of the KASE. On 31 December 2004, the KASE admitted the Shares to Category “A” of the Official List of the KASE. It is expected that unconditional dealings on the KASE in the new Shares will commence on 4 October 2006.

Settlement Procedures

Payment for the GDRs is expected to be made in US dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream. The Depository has applied to DTC to have the Rule 144A GDRs accepted into DTC’s book-entry settlement system. Upon acceptance by DTC, a single Master Rule 144A GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR will be registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York, London Branch as common depository for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See “Settlement and Transfer”.

Each purchaser of the Shares in the Global Offer is required to pay for any Shares on 3 October 2006, with the exception of those purchasers that are prohibited from making advance payments under legislation of the Republic of Kazakhstan, with delivery of the funds the next day against transfer of the Shares. Purchasers will be required to deliver funds to the correspondence account of the KASE with the Monetary Operations Management Division of the National Bank of Kazakhstan. The Offer Shares will be transferred to such purchasers on 4 October 2006. The funds collected by the KASE will be transferred to the Company on 4 October 2006.

Voting

The Deposit Agreement contains arrangements allowing holders of GDRs to vote the underlying Shares in accordance with Kazakhstan law. Holders of Shares are entitled to one vote per Share at a shareholders’ meeting. See “Description of Share Capital and Certain Requirements of Kazakhstan Legislation—Summary of the Charter—General meetings” and “Terms and Conditions of the Global Depository Receipts—Condition 12 (Voting Rights)”.

General Information

Shares:	
ISIN:	KA000A0KEZQ2
KASE trading symbols:	RDGZ
Regulation S GDRs:	
CUSIP:	48666V204
ISIN:	US48666V2043
Common Code:	02661130
Rule 144A GDRs:	
CUSIP:	48666V105
ISIN:	US48666V1052
Common Code:	026611059
London Stock Exchange GDR trading symbol:	KMG
PORTAL Rule 144A GDR trading symbol:	JSCKFPC5

RISK FACTORS

In addition to other information in this document, prospective investors should carefully consider the following risk factors before investing in the Company's securities. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties that the Company is not aware of or that the Company currently believes are immaterial may also adversely affect the Company's business, financial condition or results of operations. If any of the possible events described below occurs, the Company's business, financial condition or results of operations could be materially and adversely affected.

Risk Factors Relating to the Company's Business

Any future decrease in crude oil prices could adversely affect the Company's business, prospects, financial condition and results of operations.

Crude oil sales are the Company's primary source of revenue and the price of crude oil is affected by a variety of factors beyond the Company's control. The Company's business, prospects, financial condition and results of operations are heavily dependent on prevailing crude oil prices. Historically, crude oil prices have been highly volatile. The Company's revenues and net income fluctuate significantly with changes in crude oil prices. Although oil prices worldwide have increased significantly since 2001, there can be no assurance that such growth, or the existing level of oil prices, will be maintained in the future. Any future declines (even relatively modest declines) in oil prices could adversely affect the Company's business, prospects, financial condition and results of operations.

The Company's profitability is determined in large part by the difference between the income received for crude oil the Company produces and its operating costs, as well as costs incurred in transporting and selling its crude oil. Therefore, lower crude oil prices may reduce the amount of crude oil that the Company is able to produce economically or may reduce the economic viability of the production levels of specific wells or of projects planned or in development because production costs would exceed anticipated income from such production. Any decline in crude oil prices and/or any curtailment in the Company's overall production volumes could result in a reduction in net income, impair the Company's ability to make planned capital expenditures and to incur costs necessary for the development of the Company's fields and could materially adversely affect the Company's business, prospects, financial condition and results of operations.

Furthermore, the Company does not have any hedging agreements whereby floor and/or ceiling price index collars are set for the price of crude oil that the Company sells. The Company does not have any contractual hedging protection in the event that crude oil prices decrease from their current levels.

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

- effects of the world economy and of geo-political events;
- relatively minor changes in the supply of and demand for oil;
- market uncertainty and speculative activities by those who buy and sell oil on the world markets;
- weather and general economic conditions;
- the actions of the Organisation of Petroleum Exporting Countries;
- governmental regulation in Kazakhstan and elsewhere;
- political stability in Kazakhstan, neighbouring countries and other oil producing regions; and
- the availability of alternate fuel sources.

Accordingly, there can be no assurance that the Company will continue to receive the same prices per tonne for crude oil as it currently receives or historically has received. If prices for the Company's crude oil fall below current levels and/or if the Company's overall production volumes are curtailed, this could materially and adversely affect the Company's business, prospects, financial condition and results of operations.

If the level of the Company's crude oil and gas reserves, or their quality, are lower than estimated or expected, the Company's business, prospects, financial condition or results of operations could be materially and adversely affected.

Unless stated otherwise, the oil reserves data contained in this document are taken from the GCA Report which has been prepared in accordance with the standards established by the SPE and the WPC. The gas reserves have been prepared by the Company in accordance with Kazakhstan methodology. Despite this, there are numerous uncertainties inherent in estimating the quantity and the quality of reserves and in projecting future rates of production, including many factors beyond the Company's control. Estimating the amount and quality of oil and gas reserves is a subjective process and estimates made by different experts often vary significantly. In addition, results of drilling, testing and production subsequent to the date of an estimate may result in revisions to that estimate. Accordingly, reserves estimates may be different from the quantity or quality of crude oil and gas that is ultimately recovered and, consequently, the revenue therefrom could be less than that currently expected. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they are based, the quality of the information available and the ability to verify such information against industry standards.

The reserves data contained herein are estimates only and should not be construed as representing exact quantities. These estimates are based on production data, prices, costs, ownership, geological and engineering data, and other information assembled by the Company, and they assume, among other things, that the future development of the Company's oil fields and the future marketability of the Company's oil will be similar to past development and marketability. These assumptions may prove to be incorrect and potential investors should not place undue reliance on the forward-looking statements contained herein (including data taken from the GCA Report) concerning the Company's reserves or production levels.

If the assumptions upon which the estimates of the Company's reserves of crude oil or gas have been based are wrong, the Company may be unable to produce the estimated levels or quality of crude oil or gas set out in this document and the Company's business, prospects, financial condition or results of operations could be materially and adversely affected. In addition, if oil prices fall some of the Company's reserves may not be commercially viable to extract.

Failure by the Company to gain access to additional reserves or to acquire additional reserves at commercially viable prices could materially and adversely affect the Company's ability to achieve its long term growth strategy.

Although based on its estimated production profile the Company anticipates its reserves to last at least until the end of each contract period (i.e., 2015 – 2024, for respective fields), according to GCA, the estimated reserve life of the Company's proved and probable oil reserves at the 2005 rate of production of approximately 188 thousand bopd is 22 years and therefore, the Company needs to be able to acquire and develop additional reserves in order to maintain its current production levels in the long term. The Company's ability to achieve its growth objectives depends in part upon its success in finding and acquiring or gaining access to additional reserves. The Company's ability to find, acquire and gain access to additional reserves involves certain risks, including: identifying appropriate interests as and when they become available; being able to compete with other interested purchasers who may have larger financial resources than the Company has; unidentified historical or future liabilities of the operations that the Company may acquire; the inability to receive accurate and timely information about these operations in order to make informed investment decisions; problems in integrating acquired operations; and problems in hiring and retaining qualified personnel.

Many of the Company's international competitors are seeking to expand their interests in Central Asian oil operations to diversify their risk and obtain access to additional reserves. These companies may be able to pay more for exploratory prospects and productive oil properties and may be able to identify, evaluate, bid for and purchase a greater number of prospects and properties, including operatorships and licences, than the Company's financial or human resources permit. Any failure by the Company to finance and acquire additional reserves at commercially viable prices may materially and adversely affect the Company's business, prospects, financial condition and results of operations.

The Company's exploration activities, both in relation to obtaining access to new assets and in relation to exploiting such assets, also may prove to be unsuccessful or impracticable.

The Company's ability to maintain and increase levels of reserves in the future will depend on its ability to select and acquire on commercially viable terms suitable producing properties and the Company faces competition in doing this. In addition, although the Company has been granted certain preferential rights under the terms of the Services Agreement in respect of the acquisition of onshore oil exploration

and production assets, and has entered into an option agreement with NC KMG to acquire its 50% interest in KazGerMunai, there can be no assurance that the Company will be able to take advantage of such preferential rights, that the Services Agreement will be re-tendered by NC KMG and renewed or that it will exercise or complete its option to acquire the KazGerMunai interest. See “Risk Factors—Relating to the Company’s Relationship with NC KMG—The Company may be unable to enforce its rights under the Relationship Agreement and the Services Agreement”, “—The Company may be unable to implement any proposed acquisitions or may not be able to acquire such interests on terms proposed by the Company” and “Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates—Option Agreement for KazGerMunai”.

Competitive factors in the exploration and production of crude oil include price, methods and reliability of delivery and costs of exploration and extraction of crude oil, where the Company will compete with others in the industry on the basis of its costs and efficiency. Competitors include Western multinational oil companies which have greater financial resources, staff and facilities than the Company does.

The Company faces other risks in finding, acquiring and gaining access to additional reserves. For example, in the past, certain of the Company’s exploration activities were suspended due to proximity to geographies important to national security. The Company cannot guarantee that its current or any additional exploration or production activities will not be stopped by Government authorities in the future for similar or other reasons important to the Government. In addition, the Company believes it is unlikely that large new oil onshore fields will be found in Kazakhstan. While the Company may consider acquisition opportunities outside Kazakhstan, it has no specific political support or local expertise outside Kazakhstan and any such expansion may expose the Company to new risks. These additional risks may materially and adversely affect the Company’s business, prospects, financial condition and results of operations.

The Company may face unanticipated increases in costs or may be unable to reduce them in line with its strategy and cost reduction programme.

The Company’s strategy calls for a reduction in oil production costs and other operating costs in the medium term, but the Company may be unable to implement this strategy for a number of reasons, including the Company’s continued reliance on secondary, enhanced recovery and well stimulation techniques and will incur additional costs due to its growth and investment plans.

The oil and gas business is a capital intensive industry. The Company’s main oil fields are considered to be “mature” and the characteristics of its oil and the complex geological formations of its reservoirs have tended to make extraction difficult. Accordingly, in order to maintain the Company’s existing crude oil production levels, its capital and operating expenses have increased, including as a result of its use of secondary, enhanced recovery, well stimulation techniques, as well as increases in salaries and the cost of supplies. See “The Company—Production—Oil Field Development and Rehabilitation”. Although these techniques have been used successfully over the past four years, they may prove in the future to be inadequate in which case the Company may need to adopt alternative methods which may cause it to incur additional production costs. The Company’s future capital expenditures and operating expenses may ultimately be greater than current and currently planned amounts and such differences may materially and adversely affect the Company’s business, prospects, financial condition and results of operations.

The Company may need to incur various unanticipated costs, examples of which are those associated with personnel, procurement, internal control over financial reporting and Government taxes and costs. Personnel costs, including salaries, may increase as the standard of living rises in Kazakhstan or as a result of the Company’s listing on the LSE, as it needs to attract and retain suitably qualified personnel in order to comply with the necessary reporting and other requirements. Additionally, trade unions are active in Kazakhstan particularly in the oil and gas sector. Although there have been no strikes in the history of the Group and good relations exist with the Company’s trade union, the Company cannot rule out industrial action and the increased costs associated with it. See “The Company—Employees, Health and Safety”. The Company’s procurement of materials, machinery and services from third parties may not be as efficient as similar procurement by competitors, as it is subject to the bureaucratic requirements of the Kazakhstan laws on state procurement which can divert employee resources and time. See “—The Company’s ability to engage external advisers and establish long-term commercial relationships with third parties is impaired due to the application of the Kazakhstan State Procurement Law to the Company”.

The Company is also currently undertaking a programme to improve its internal controls and its risk management and financial reporting procedures and the cost of implementation of this plan could be

higher than anticipated, especially if there are delays or if the new controls do not function as the Company presently expects.

In addition to the increased production and other operational expenses discussed above, the Company may face unanticipated expenditures in connection with its ongoing plan to acquire or gain access to additional hydrocarbon reserves. There are numerous uncertainties in predicting such acquisition costs and if they prove to be higher than the Company presently anticipates, the Company's business, prospects, financial condition or results of operations could be materially and adversely affected.

The Company is required under general law and the terms of its production contracts and licences to pay royalties (whether in cash or in kind) and various taxes, including excess profit tax, corporate income tax and VAT, to the Government and in certain cases incur costs in respect of social infrastructure expenditure. There is also a possibility that the government may increase taxes as oil prices increase. See "—The Company is subject to an uncertain tax environment which may lead to disputes with taxation authorities".

An increase in any of these costs could materially and adversely affect the Company's business, prospects, financial condition or results of operations.

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

The Company's future success will depend, in part, on its ability to develop existing oil reserves in a timely and cost-effective manner using secondary, enhanced recovery and well stimulation techniques.

The Company's drilling activities may be unsuccessful and the actual costs incurred of drilling, operating wells and completing well workovers may exceed budget. The Company may be required to curtail, delay or cancel any drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. The occurrence of any of these events could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The technical specification of the oil the Company produces is of a relatively low quality, as it is highly paraffinic and is of a relatively high sulphur content. These factors may negatively impact the selling price of the oil the Company produces and therefore its revenues.

The Company's production operations are also subject to all the production hazards typically associated with the production of oil and gas resources. These risks include natural catastrophe, fire, explosion, blowouts, encountering formations with abnormal pressure, the use of secondary recovery techniques, the level of water cut, cratering and oil spills, each of which could result in substantial damage to oil wells, producing facilities, other property and the environment or in personal injury. Any of these risks could result in loss of crude oil and gas or could lead to environmental pollution and other damage to the Company's properties or surrounding areas and increase costs.

The Government has the ability to require additional deliveries of crude oil to domestic refineries and these may be at prices that are materially below international market prices.

The Government has the power to require producers to supply a portion of their crude oil production to domestic refineries to meet domestic energy requirements. Pursuant to governmental requirements, during the period of 2003 to 2005 the Company has supplied the LLP Atyrau Refinery ("Atyrau Refinery") with an average of approximately 2.2 million tonnes per annum, which is approximately 50% of Atyrau's processing capacity.

In 2005, the Company executed a Refinery Supply Undertaking under which it undertook to participate in each tender held by JSC Trade House KazMunaiGas, a wholly-owned subsidiary of NC KMG ("KMG TradeHouse"), for the supply of crude. Pursuant to the terms of the Refinery Supply Undertaking (and of the Relationship Agreement), the Company has agreed to supply the Atyrau Refinery with not more than 1.9 million tonnes of crude oil per annum between 2006 and 2010 at a price equal to the Company's cost of production and transportation, plus a margin of 3%. For the years 2011–2015, the volume of crude oil to be supplied will be determined in accordance with the Company's business plan (as approved by the Board of Directors, which it currently anticipates will be no more than 1.9 million tonnes per annum) at a price equal to the Company's cost of production and transportation, plus a margin of 3%.

Notwithstanding the terms of the Refinery Supply Undertaking, the Government can still mandate additional deliveries of crude oil at levels exceeding the agreed 1.9 million tonnes of crude oil per annum. The price for such additional supplies of crude oil is determined by NC KMG, and may be materially below international market prices and may even be set at the cost of production. If the Government does require additional crude oil to be delivered over and above the Company's production output that it is currently obligated to supply, in total, to the Atyrau Refinery, such supplies will take precedence over market sales. In 2006, the Company expects to supply 2.4 million tonnes of crude oil to the domestic market. Such supplies will generate substantially less revenue than crude oil sold on the export market. This may materially and adversely affect the Company's business, prospects, financial condition and results of operations.

The Company relies upon transportation systems owned and operated by third parties which may become unavailable. The Company may be unable to access these or alternative transportation systems could be subject to increased tariffs imposed by such third parties for transportation of its crude oil.

Access

The crude oil produced by the Company is generally transported via infrastructure owned or operated by third parties.

Kazakhstan has no direct access to the open sea, and any crude oil to be exported must use routes through other countries. Kazakhstan crude oil for export must be transported through pipelines, by rail or by the Caspian sea. The Company currently exports its crude oil exclusively through pipelines crossing Russia to seaports on the Black Sea, to Baltic seaports and to Central Europe. The Company is therefore dependent upon the enforcement of the intergovernmental agreement between Kazakhstan and Russia on the supply of oil through such pipelines and upon the maintenance of stable relations between Kazakhstan and Russia. Any reduction or cessation in the availability of these pipelines, whether due to serious malfunctions, security issues, political developments or "acts of God", could force the Company to cease its exports and cause long-term damage to its production facilities. Furthermore, the Company does not currently have a fully developed plan for dealing with a full or partial cessation in the availability of pipelines.

Oil production in Kazakhstan is increasing which means that access to export routes is increasingly competitive. The two principal pipelines which the Company uses are the Caspian Pipeline Consortium ("CPC") pipeline and the Uzen-Atyrau-Samara ("UAS") pipeline, each of which is owned and operated by third parties. Despite the fact that the Company has agreements/arrangements in place with these third parties or their shareholders (see "The Company—Crude Oil Transportation"), the Company cannot guarantee that these operators will fulfil their obligations under these agreements/arrangements and failure to fulfil such obligations could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

As regards the CPC pipeline, although NC KMG has agreed pursuant to the Services Agreement to use reasonable efforts to procure that the Company is allocated a sufficient capacity quota in the CPC pipeline out of the quota directly held by NC KMG (see "Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates"), the Company cannot guarantee that NC KMG will fulfil its obligations under the Services Agreement (and moreover the extent to which obligations under the Services Agreement are enforceable in Kazakhstan is unclear and untested) or that NC KMG will remain a shareholder in CPC. In addition the Services Agreement will terminate on 31 December 2006 and will need to be renewed pursuant to an annual tender under the state procurement law. See "Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates—Services Agreement". Any failure to fulfil such obligations, howsoever arising, or to renew the Services Agreement could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

As regards the UAS pipeline, the Company's agreement with JSC KazTransOil ("KTO") relating to transport capacity is subject to the MEMR quotas. MEMR sets and distributes capacity quotas annually in the UAS pipeline system and could reduce the Company's capacity quotas or refuse to increase them when increased production capacity warrants increased transportation capacity. Accordingly, any interruption, reduction in capacity or inability to increase capacity should production increase could have a material and adverse effect on the Company's business, prospects, financial condition and results of its operations.

While plans are currently being discussed regarding the expansion of both the UAS pipeline and the CPC pipeline, and notwithstanding the provisions of the Services Agreement, the Company cannot be

certain that it will get access to any increase in their capacity and may not be able to increase its export volumes as a result. This inability may materially adversely affect the Company's business, prospects, financial condition or results of operations.

Tariffs

The tariff for the transportation of crude oil to be paid by shippers on the UAS pipeline, including the Company, is set by the Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies ("Antimonopoly Agency") (for the part of the UAS pipeline which is in Kazakhstan) and by the Federal Service of the Russian Federation for Tariffs (for the part of the UAS pipeline which is in Russia).

The Company currently has a contract with KTO to transport crude oil through the UAS pipeline until 31 December 2012. Kazakhstan legislation gives KTO the right to apply to the Antimonopoly Agency for periodic review of the tariff for transportation through the UAS pipeline, in which case the Antimonopoly Agency must review the application and may increase the tariff. Accordingly, the Company may face increased costs for transporting its crude oil within Kazakhstan. Furthermore, the Company currently has no contract in place beyond December 2012 and the terms of a new contract, if any, may be less favourable to the Company (although NC KMG has undertaken in the Services Agreement that such terms will be no worse than those offered to other users of the UAS pipeline).

The tariff for the transportation of crude oil to be paid by shippers on the CPC pipeline, including the Company, is set by the shareholders of CPC and by special resolutions of the Government and the government of Russia. As the Company is not a shareholder of CPC, it has no control over the setting of the tariff. In addition, it is expected that there will be a material increase in the tariff for use of the CPC pipeline as a result of the forecast increase in the capacity of the pipeline.

Therefore, the Company cannot guarantee that the tariffs for use of either the CPC pipeline or the UAS pipeline will not rise, and any such rise may materially adversely affect the Company's business, prospects, financial condition or results of operations.

The Company may be unable to comply with obligations under its licences and related hydrocarbon contracts and field development plans.

The Company's operations must be carried out in accordance with the terms of the exploration and production licences and the related hydrocarbon contracts, field development plans and annual working programmes and budgets agreed with MEMR. The law provides that fines may be imposed and licences and hydrocarbon contracts may be suspended, amended or terminated if a licence holder fails to comply with its obligations under such documents or fails to make timely payments of levies and taxes for the sub-soil use, provide the required geological information or meet other reporting requirements. Failure to comply may also lead to suspension, revocation or termination.

There is the possibility of past technical breaches by the Company of its licences. The Company believes, having discussed this with MEMR, that such breaches are unlikely to be considered material, or unlikely to lead to a suspension or withdrawal of the relevant licence. However, there can be no assurance of this.

In addition, the Company has obligations to develop the fields in accordance with the specific requirements under the Company's exploration and production licences, hydrocarbon contracts and field development plans. If the Company were to fail to satisfy such obligations with respect to a specific field, the licence and hydrocarbon contract for that field may be suspended, revoked or terminated. There can be no assurance that the views of the Government agencies regarding the development of the Company's fields or compliance with the terms of its exploration and production licences and hydrocarbon contracts will coincide with the Company's views, which might lead to disagreements that cannot be resolved.

The suspension, revocation or termination of any of the Company's licences or hydrocarbon contracts could have a material adverse effect on the Company's business, prospects, financial condition or results of operations.

The Company may be unable to implement any potential acquisitions or may not be able to acquire such interests on terms proposed by the Company.

A key element of the Company's strategy is to increase its overall production levels and replace its reserves through new discoveries over the long term and acquisitions. However, there can be no assurance that the Company will be able to continue to identify suitable acquisitions, acquire interests on satisfactory

terms or obtain the financing necessary to complete and support such acquisitions. Any failure to identify and execute future acquisitions successfully could adversely impact the Company's growth strategy.

The Company has an option to acquire from NC KMG its 50% stake in KazGerMunai. Both exercise of the option and completion of the acquisition are subject to the satisfaction of a number of conditions precedent, including full due diligence by the Company, approval by a majority of Independent Non-Executive Directors, sending of a circular to shareholders (including holders of GDRs), and the approval of the transaction by a simple majority vote at a shareholders' meeting at which GDR holders have the opportunity to vote their underlying Shares and NC KMG does not vote. In addition, the exercise price in respect of such option will need to be agreed at the date of exercise and the Company will need to ensure that appropriate funding is in place. The Company may not exercise the option and can give no assurance that it will be able to complete the acquisition of such interest or as to the terms upon which such interest may be acquired.

Furthermore, there is the potential that NC KMG may offer to the Company its stake in PetroKazakhstan after the Global Offer. See "The Company—Recent Developments—Possible Acquisitions—PetroKazakhstan". This acquisition will be subject to a number of conditions precedent including full due diligence by the Company, approval by a majority of Independent Non-Executive Directors, sending of a circular to shareholders (including holders of GDRs) and the approval of the transaction by a simple majority vote at a shareholders' meeting at which GDR holders have the opportunity to vote their underlying Shares and NC KMG does not vote. There can be no assurance that this will happen, or if it does that an agreement on price will be reached or that such an acquisition may complete.

The Company has limited experience in integrating acquisitions into its business.

The Company has limited experience in integrating acquisitions into its business. Therefore, if it is able to successfully acquire another business, including the interests in KazGerMunai and, potentially PetroKazakhstan, it may encounter unforeseen difficulties. Potential problems may include, but not be limited to differences in measurement of reserves and resources, integration of management, integration of common financial reporting procedures and accounting policies, implementing information technology systems into the acquired businesses and implementing agreed headcount reductions. The Company can provide no assurance that any such acquisitions, or those of any other potential businesses, whether inside or outside of Kazakhstan, will be smoothly implemented, which may result in a disruption to the Company's business and an adverse effect on its financial condition or results of operations.

The Company and its predecessors have generated substantial environmental liabilities that the Company is required to remediate at its cost.

The Company's operations are subject to the environmental risks inherent in the oil and gas exploration and production industries. There are environmental issues relating to the existing fields and to the age of and processes applied at past production sites, some of which have been exploited for more than 30 years. Inadequate control of environmental processes in the past by the Government and the Company's predecessors allowed a number of major incidents of oil leakage and pipeline fractures to occur. Temporary reservoirs for the storage of drilling mud, liquid waste and oil were not remediated properly by the prior operating entities at the sites, causing severe pollution in the Atyrau and Mangistau regions, which included unauthorised temporary landfills of oil production waste which the Company has agreed to remediate. In 2005, the Company commissioned a report by AMEC Earth and Environmental UK Ltd ("AMEC"), independent environmental experts.

Much of the Company's liability arises from historical contamination that occurred during the period when Kazakhstan formed part of the former Soviet Union. In July 2005, the Ministry of Environmental Protection of the Republic of Kazakhstan (the "MEP") and the Company entered into a Memorandum of Understanding ("MOU") pursuant to which the MEP agreed not to impose sanctions for historical oil contamination which occurred before the Company was formed. It states that in exchange for the Company assuming the liability relating to this historical contamination and restoring it to pre-contamination conditions by the time that the Company's production contracts expire for a given area, all fines and penalties pertaining to that area's contamination prior to the Company's incorporation will be waived by the MEP. Despite this Memorandum of Understanding, there can be no guarantee that the Company will not be fined or sued by other governmental bodies, national or regional. This is illustrated by the recently rejected claim of the Mangistau department of the MEP for KZT11.4 billion. See "The Company—Environmental Matters—Environmental Impact of the Company's Operations—Mangistau

Claim.” The MEP recently indicated a wish to renegotiate the MOU. There can be no guarantee that this will not lead to additional costs to the Company.

Compliance with environmental requirements may make it necessary for the Company, at costs which may be substantial, to undertake measures in connection with the storage, handling, transport, treatment or disposal of hazardous materials and wastes and the remediation of contamination. AMEC have estimated that the Company’s obligatory costs directly associated with environmental remediation (other than well remediation on closure) and obligatory environmental compliance issues from 2006 to 2025 to be an aggregate of approximately KZT31.0 billion with a further KZT20.4 billion in contingent costs. See “The Company—Environmental Matters—Compliance with Kazakhstan Requirements”. As at 31 December 2005, the Company has made a provision of KZT31.0 billion in its financial statements. There can be no assurance that as remediation work progresses, the costs estimated by AMEC and provided for on the Company’s balance sheet will be sufficient.

The Company commissioned pilot trials in 2006 that confirmed that the Uzen Lake could be remediated with no significant cost to the Company through engaging specialist contractors who would retain certain rights to the salvageable fraction of oil recovered from the oily emulsion. Although certain contractual agreements have been entered into, no assurance can be provided that the Uzen Lake can be remediated at no significant cost to the Company pursuant to such or similar contracts. If the Company had to undertake the removal and treatment of this lake itself, it would be at an estimated cost of KZT13.3 billion.

The Company’s total costs in 2005 (excluding payment of fines and permit fees) associated with contaminated land restoration, air emissions treatment, waste water treatment, waste management, environmental compliance and health and safety, totalled KZT1.8 billion.

Although the Kazakhstan parliament has not ratified the Kyoto Protocol, which entered into force in February 2005, Kazakhstan is a signatory, and it is anticipated that ratification will take place in 2008. The Kyoto Protocol is intended to limit or discourage emissions of greenhouse gasses, such as CO₂. The effect of such ratification is still unclear, as the level of permissible CO₂ emissions may reflect Soviet-era pollution (resulting in relatively high emission allowances) or immediate post-Soviet levels when industrial production and power generation was much lower (resulting in relatively low emission allowances). Accordingly, Kyoto compliance costs are unknown. Nonetheless, assuming that ratification occurs, the likely effect will be to increase costs for electricity and transportation, restrict emissions levels, impose added costs for emissions in excess of permitted levels, and increase costs for monitoring, reporting and financial accounting. As the Group’s business involves incurring certain of these costs, increases in such costs could have a material adverse effect on the Group’s business, prospects, financial condition and results of operations.

The Company’s operations are subject to periodic inspection by MEP. Those inspections have resulted in the receipt of formal communications from MEP detailing the Company’s non-compliance with specified environmental regulations and requiring corrective actions. The Company is unable to predict what action may be taken as a result of these communications but the Company does not believe that they will have a material impact on the Company’s operations and results. However no assurance can be given in this respect.

The Company is unable to accurately predict the extent of any potential environmental liabilities under current legislation or the effect of any additional laws or regulations that may be adopted in the future, including whether any such laws or regulations would increase its environmental costs. See “The Company—Environmental Matters—Compliance with Kazakhstan Requirements”. Although the measures taken by the Company in relation to environmental regulations for its ongoing operations have not had a material adverse effect on its financial condition and results of operations to date, no assurance can be given that the costs of such measures in the future and liability due to any environmental damage that may be caused by the Company will not be material. Moreover, future actions and fines imposed upon the Company by the environmental protection agencies in Kazakhstan or by the Government cannot be predicted and could have a material adverse effect on the Company’s business, prospects, financial condition or results of operations. To the extent that any provision in the Company’s accounts relating to remediation costs for environmental liabilities proves to be insufficient, this could have an adverse effect on the Company’s financial condition. In particular, the legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and it is expected that stricter environmental requirements will be adopted in the near future, such as those governing discharges to air and water, the handling and disposal of solid and hazardous wastes, land use and reclamation and remediation of

contamination, and that the environmental authorities may move towards a stricter interpretation of existing legislation.

Although the Company is obliged to comply with all applicable environmental laws and regulations, it cannot, given the changing nature of environmental regulations, guarantee that it will be in compliance at all times. Any failure to comply with these environmental requirements could subject the Company to, among other things, civil liabilities and penalty fees and possibly temporary or permanent shutdown of the Company's operations. The Company can provide no assurance that it will not be required to strictly comply with the current environmental legislation or that future fines will not be higher than historical amounts, which could materially adversely affect the Company's business, prospects, financial condition or results of operations.

Fluctuations in the US dollar/Tenge exchange rate may materially and adversely affect the Company's financial condition and results of operations and the value of dividends.

The crude oil which the Company exports is sold at prices quoted in US dollars and cash payment to the Company is made in US dollars. The Company's principal expenses are incurred in Tenge.

If the value of the US dollar falls against the Tenge, then the Company will have less Tenge available to pay its Tenge expenses and its results as expressed in Tenge will be adversely affected, as will all financial assets denominated in US dollars. This could have a material and adverse affect on the Company's financial condition or results of operations.

Since the introduction of the Tenge in 1993 as the national currency of the Republic of Kazakhstan until 2002, the value of the Tenge against the US dollar decreased. From 2003 to the present, the value of the Tenge against the US dollar has steadily increased. See "Exchange Rate Information".

There is no significant forward market in the Tenge and as a result the Company does not enter into hedging contracts to protect against its exposure to fluctuations in the US dollar/Tenge exchange rate. The Company cannot provide any assurance that the Tenge will not further appreciate against the US dollar. The Company also cannot provide any assurance that Tenge will continue to be freely exchangeable into US dollars.

In addition, the Company intends to declare and make dividend payments in Tenge. Any investor whose functional currency is not Tenge will therefore be exposed to the risk of fluctuation in the exchange rate between the Tenge and that currency. Moreover, if Tenge are not freely exchangeable into US dollars dividends on the GDRs may not be available at all.

The Company provides social programmes for the benefit of local communities the costs of which may increase.

The Company is required to invest in social programmes for the benefit of local communities.

As a condition of certain of its subsoil use licenses and contracts and pursuant to certain agreements with local authorities, the Company is obliged to maintain certain social programmes for the benefit of local communities. Such obligations include funding the construction of medical, cultural, recuperation and rehabilitation facilities, community centres, athletic facilities, housing and infrastructure in the areas in which the Company operates. Furthermore, the Company is obliged under its subsoil use licenses and contracts to invest in training the local workforce, upgrade the qualifications of its employees and provide educational grants. The Company incurred expenses of approximately KZT0.3 billion for the five months ended 31 May 2006 and KZT0.1 billion for the five months ended 31 May 2005, KZT0.8 billion in 2005, KZT0.5 billion in 2004 and KZT0.5 billion in 2003 in respect of such mandatory programmes.

In addition, at its own initiative and, in the past, at the direction of NC KMG, the Company has provided and continues to provide social support in the areas where it operates and in other areas in Kazakhstan. The Company incurred expenses of approximately KZT3.2 billion for the five months ended 31 May 2006, KZT0.6 billion for the five months ended 31 May 2005, KZT3.0 billion in 2005, KZT1.9 billion in 2004 and KZT1.9 billion in 2003 in respect of such voluntary programmes. These obligations, as well as additional social projects, may increase or become more burdensome in the future and may have a negative impact on the Company's profitability.

The Company is dependent on external consultants and service providers and on its ability to retain and hire new qualified personnel and consultants and the Company may as a result incur rising management costs following the Global Offer.

The Company retains external consultants to provide services that are critical to its operations and strategy, such as creating geological models used in exploration and performing hydro-fracturing and other well stimulation techniques. Further, current wage structures in Kazakhstan are lower than in industrialised nations and it may be difficult to attract and retain experienced and skilled personnel from outside Kazakhstan at wages that are acceptable to the Company.

As a result of the Global Offer, the Company has also incurred, and may continue to incur, a significant rise in costs from compensation increases to retain the Company's senior management and the implementation of new management structures and changes in the number of its directors and their functions. The Company may face difficulties in hiring replacements for such senior managers and if it is required to hire more consultants its wage costs will increase.

If the Company were to be unable to find suitable external consultants or service providers at commercially viable rates or retain and hire new senior management, and qualified personnel and consultants, its business, prospects, financial condition or results of operations might be materially adversely affected.

The Company may be adversely affected if the services of key personnel cease to be available.

The Company is dependent upon its Board of Directors and members of its Management Board and may be adversely affected if the services of certain members of the Board of Directors or Management Board cease to be available.

The Company's accounting systems are not as sophisticated or robust as those of companies with a longer history of compliance with IFRS and certain material weaknesses in the Company's internal controls have been identified by the Company's independent auditor.

Many Kazakhstan companies which have only recently adopted IFRS, including the Company, have not implemented accounting systems, processes and controls that are commonplace in countries with a longer history of IFRS reporting. The lack of such systems may make the Company's financial information less reliable than that of companies that have implemented these systems and could jeopardise the quality of decision making by the Company's senior management.

The recent introduction of IFRS as a reporting standard in Kazakhstan also means that many Kazakhstan companies, including the Company, are not as experienced with or knowledgeable about IFRS as companies with a longer history of IFRS compliance. As a result, the Company:

- lacks sufficient accounting personnel with experience in the application and interpretation of IFRS;
- has limited experience in exercising the judgments required by IFRS;
- has not fully developed and implemented the methodologies required for the preparation of IFRS financial statements on an automated basis and presently uses manual techniques to convert basic accounting data; and
- has limited capacity to implement integrated information technology and business process automation systems that facilitate the preparation of IFRS financial statements.

As a result, the Company's internal controls are weak and it is likely that there may be a failure to detect material misstatements in its financial statements on a timely basis.

The Company's independent auditor has identified, and the Company considers, the above matters as material weaknesses in the Company's internal controls. International Standards on Auditing define a material weakness as a weakness in internal controls that could result in a material misstatement in the financial statements. This means that the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The Company's independent auditors considered these deficiencies in determining the nature, timing and extent of the procedures it performed in its review of the Company's unaudited consolidated financial statements as of and for the five months ended 31 May 2006 and in its audit of the Company's 2005 Annual Financial Statements, and they did not affect the Report of Independent Auditors on the Company's 2005 Annual Financial Statements and the review of the unaudited consolidated financial statements as of and for the five months ended 31 May 2006.

While the Company is addressing the issues raised by the auditors and has already resolved some of them, its internal controls relating to preparation of its financial statements are not yet commensurate with the increasing scope and volume of its business. The Company's management is devoting resources to the development of such internal controls in order to minimise the risks that critical business decisions regarding budgeting, planning and other matters may be based on incomplete or inaccurate information and is hiring additional staff and external consultants to work in the relevant departments. However, the Company may be unable to remedy these material weaknesses or prevent future weaknesses from occurring or be successful in hiring and/or retaining suitably qualified staff, in which case there is not only a risk of misstatements in amounts that would be material in relation to the consolidated financial statements of the Company but also that publication of IFRS financial statements may be delayed.

The Company is in the process of implementing new management information systems and financial controls.

As the Company believed that its previous management information systems and financial controls were not comparable to systems and controls in similar western companies, and contained a material weakness, it has commenced the installation of new management information systems and financial controls to replace the old, which it believes are necessary to manage its business effectively and independently.

The Company is in the process of implementing new systems, including the Enterprise Resource Planning software system provided by SAP, which it expects to have installed by the end of 2007. It is not possible to quantify the impact, or guarantee the completion date of this replacement; however, the process of implementing such systems could have a temporary but adverse effect on the Company's business, prospects, financial condition or results of operations.

In addition, the Company is currently assessing its internal audit function for compliance with the standards expected by investors in a public company. Once this assessment is completed, the Company may incur significant additional expenditure to bring the internal audit function to an appropriate level.

The Company also lacks a disaster recovery system but is currently drawing up a plan to remedy this and expects an adequate system to be in place by early 2007. Damage to the Company's headquarters could lead to a total loss of systems and data. Any failures in the Company's information technology systems, either directly or as a result of security breaches, could have an adverse effect on the Company's business, prospects, financial condition or results of operations. Furthermore, the implementation by the Company of its new IT systems could have a temporary but adverse effect on its business, prospects, financial condition or results of operations.

The Company is subject to an uncertain tax environment which may lead to disputes with taxation authorities.

General

The Company is subject to local and national tax regimes in Kazakhstan. The local and national tax environment in Kazakhstan changes frequently and the rules implementing those changes are usually not established on a timely basis. Non-compliance with Kazakhstan tax laws and regulations can lead to the imposition of substantial penalties and interest. While certain of the Company's tax obligations are clearly established pursuant to tax stabilisation clauses in the Company's production contracts, some obligations are linked to the tax regulations. Future tax investigations or inquiries could raise issues or could result in assessments to which the Company believes it is not subject or with which the Company believes it has complied.

The tax committee of the Kazakhstan Ministry of Finance has brought a number of claims against the Company in relation to cash royalties and taxes that are allegedly owed to it. The Company believes the position of the tax authorities is without merit and has successfully challenged the assessments.

The current penalties and interest related to reported or investigated violations of Kazakhstan law, decrees and related regulations are severe. Penalties can include fines equalling 50% of the amount at

issue. Under the current tax code, interest on unpaid taxes is compounded daily on a 365 day basis at an annual rate equal to 2.5 times the refinancing rate set by the National Bank of Kazakhstan; accordingly, based on the current refinancing rate of 9% per annum, interest on unpaid taxes is assessable at a rate of 0.06% compounded daily. As a result, penalties can amount to significant percentages of any unreported and unpaid taxes.

Transfer Pricing

The tax authorities have in the past challenged the price at which the Company has historically sold its oil to KMG Trade House AG, a subsidiary of KMG TradeHouse incorporated in Switzerland (“KMG TradeHouse AG”). The export price for oil sold to KMG Trade House AG is set on a monthly basis based on the mean of quotations published in Platts Crude Oil Marketwire less a discount (the “Discount”) to cover KMG TradeHouse AG’s transportation, insurance, financing and other expenses along with a trader’s commission. This Discount may continue to be challenged in the future by the tax authority. In November 2004, the tax committee, together with the Department of National Security, the Department of Customs and Control and the Department of Economic Crimes, commenced a joint audit of UMG and EMG to verify the amount of the Discount on the export price of the Company’s crude oil that UMG and EMG sold to the Company’s affiliate, KMG TradeHouse AG. The joint audit covered the years 2001 through 2003 for UMG and the year 2003 for EMG. The tax committee determined that certain components of the Discount provided to KMG TradeHouse AG for the periods under review either exceeded the amounts permitted under applicable transfer pricing laws and regulations, or were not supported by adequate documentation and, therefore, were deemed by the tax committee to exceed such permitted amounts. In February 2005, the tax committee made an assessment against the Company totalling approximately KZT2.3 billion, which represents the tax committee’s estimate of the amount of additional income tax and royalties that the Company would have had to pay if the Discounts provided to KMG TradeHouse AG had not exceeded the permitted amounts. The Company was also assessed KZT1.4 billion by the tax authorities, which represents interest, administrative fines and penalties for the alleged violation of applicable transfer pricing laws and regulations.

In February 2006, the Supreme Court of Kazakhstan dismissed the tax authorities’ claims of transfer pricing against the Company. However, there can be no assurance that future claims, especially relating to allegations of transfer pricing abuses, will not result in arbitration or litigation, or that a claim, if determined adversely to the Company, would not have a material adverse effect on the Company’s business, prospects, financial condition or results of operations.

VAT, excess profit and social taxes

The Company is exposed to VAT, excess profits tax (“EPT”) and social tax risks resulting from uncertain provisions of tax legislation. The following paragraphs describe the nature and the amount of each risk the Company currently faces.

In 2002-2005 the Company applied the current general VAT rate to transfers of oil to the Atyrau Refinery. It is not certain from the subsurface use contracts whether the transfer of oil to the Atyrau Refinery should be considered as an out-of-contract activity, which is subject to the VAT general rate. There is a risk that the tax authorities may consider such transfer of oil as a contract activity and seek to levy additional VAT. The Company has provided for KZT2.3 billion to cover this VAT exposure in full as of 31 December 2005.

When calculating EPT for the Uzen contract the Company deducted EPT paid for the previous year and tax on dividends. However, neither the Uzen contract nor the Law on Taxes is applicable to the Uzen contract; or provides a clear description of the EPT calculation methodology. Therefore, it is not certain whether the Company has the right to deduct EPT paid for the previous year and tax on dividends for the purposes of calculation of EPT. There is a risk that the tax authorities may challenge the Company’s approach and assess additional EPT of approximately KZT7.6 billion as of 31 December 2005. The Company has not accrued a provision for this contingent liability since it estimated that the degree of risk did not warrant this.

Finally, in 2002-2005 the Company applied current social tax rates to the salaries of the service divisions’ personnel of EMG. There are two types of social tax rate: current and stabilised. It is not clear from the subsurface use contracts and the tax legislation what rate of social tax should apply in this case. There is a risk of an additional assessment of social tax in the amount of the difference between the stabilised social tax rate and current social tax rates, as well as the risk of assessment of late payment

interest and administrative penalty. The total exposure for 2001-2005 is approximately KZT1 billion. The Company has accrued an amount of the principal tax and administrative penalty exposure amounting to KZT0.73 billion as of 31 December 2005.

Risks related to VAT, EPT and social taxes are uncertain because of the nature of the relevant legislation. Accordingly, the situations described above may not be a complete list of the specific risks the Company faces with regard to these rates and the liabilities may be in excess of those described above.

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

The Company determines the level of its insurance based in part upon the results of a study of the risk profile of the Company undertaken in 2000. The Company believes the level of its insurance to be appropriate based on the cost of cover, the risks associated with its business and industry practice. The Company's insurance currently includes certain production assets, insurance for out-of-control wells (including coverage of environmental damage caused thereby), insurance for environmentally hazardous activities for which there is a cap of KZT17.5 million, third party liability coverage (including employer's liability insurance, hazardous facilities and motor vehicles owners' insurance) and directors and officers liability insurance, but the Company does not carry business interruption, key-man, terrorism or sabotage insurance. The Company can give no assurance that the proceeds of insurance applicable to covered risks will be adequate to cover increased expenses relating to these losses or liabilities. Accordingly, the Company may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage.

Risk Factors Relating to the Company's Relationship with NC KMG

NC KMG will continue to have significant influence over the Company's affairs following the Global Offer and the interests of NC KMG may conflict with the best interests of the Company's minority shareholders.

Prior to the Global Offer, the Company's largest shareholder, NC KMG, beneficially owned approximately 97% of the Company's voting shares. After the Global Offer, NC KMG will beneficially own at least 60% of the Company's voting shares. After the Global Offer, NC KMG will not lose its controlling share of votes and will have a majority of votes at a general shareholders' meeting which will allow NC KMG to control the composition of the Board of Directors. By having a majority of votes at the general shareholders' meeting, NC KMG will in practice be able to determine the timing and amount of the Company's dividend payments, to restrict the Company's ability to hire necessary personnel and otherwise to control the Company, including causing it to enter into corporate transactions such as mergers and acquisitions which are important to the Kazakhstan Government but which have not been approved by the Company's minority shareholders or are not in the best interests of the shareholders as a whole.

Under Kazakhstan law, unless the Company's charter provides otherwise (which the Company's Charter does not), a general meeting is quorate only if shareholders holding 50% or more in aggregate of the voting shares of the Company have registered for attendance and attend. If the meeting cannot be held because of lack of a quorum, a further meeting can be called which will be quorate only if shareholders holding 40% or more in aggregate of the Shares have registered for attendance and attend. Therefore, for so long as NC KMG holds more than 60% of the voting Shares, no general shareholders meeting will be quorate unless NC KMG registers for and attends such meeting. If NC KMG fails to do so, then the meeting cannot be held.

The Company has entered into a Relationship Agreement with NC KMG that is intended to allow the Company to operate its business independently from the NC KMG Group, and to ensure that transactions and relationships with the NC KMG Group are on arm's length terms and on a normal commercial basis, and to require certain material transactions to be approved by the Independent Non-Executive Directors elected to the Board of Directors. In particular, NC KMG must allow the Company to be operated in the best interests of its shareholders as a whole, such that the Company will treat all shareholders of the same class equally at all times. Any directors of the Company nominated by NC KMG must also act in the best interests of the Company, rather than those of NC KMG. The Company has also incorporated certain provisions in the Charter and adopted a corporate management code which may be amended from time to time ("Corporate Governance Code") which are designed to support the principles set out in the Relationship Agreement.

In particular, the shareholders of the Company have elected three Independent Non-Executive Directors to the Board of Directors who will assist the Company in implementing good corporate governance arrangements and in ensuring that NC KMG does not breach its obligations under the Relationship Agreement and the Charter. Certain material transactions or activities proposed to be implemented by the Company, including any transactions between the Company and NC KMG (or any of its affiliates), major acquisitions or disposals, changes to the Company's dividend policy and proposed changes to the Relationship Agreement, the Services Agreement, the Charter or the Corporate Governance Code, may only be approved or implemented if such transactions or activities have also been approved by a majority of the Independent Non-Executive Directors attending the relevant meeting of the Board of Directors. However, transactions in accordance with the State Procurement Law are not subject to the approval of a majority of the Independent Non-Executive Directors. See "Principal Shareholders, Relationship with NC KMG and Related Party Transactions" for information regarding the Relationship Agreement with NC KMG.

The provisions of the Relationship Agreement will continue to apply for so long as NC KMG retains 30% or more of the Company's issued share capital or until the Company's securities cease to be admitted to listing by the relevant competent listing authority and cease to trade on any relevant stock exchange other than the KASE, whichever is the earliest. The provisions of the Charter may be amended by a resolution passed by a qualified majority of shareholders, although neither the Board of Directors nor NC KMG may propose any changes to the Charter unless such proposed changes have been approved by a majority of the Independent Non-Executive Directors attending the relevant meeting of the Board of Directors.

Notwithstanding the provisions of the Relationship Agreement and the Charter, NC KMG will continue to have significant influence on the outcome of shareholder votes, the election of directors, the decisions of the Board of Directors (by having a degree of influence over four members of the Board of Directors) and other decisions affecting the Company. The interests of NC KMG may differ from those of minority shareholders. As a result of its ownership of a substantial percentage of the Company's outstanding shares, NC KMG may prevent the Company from making certain decisions or taking certain actions that the Company believes would benefit it or would protect the interests of minority shareholders. In addition, the Company may be directed by NC KMG, its majority shareholder, to make acquisitions and/or carry out investments contrary to the best interests of the Company and of its minority shareholders.

The Relationship Agreement and the Services Agreement seek to govern the relationship between NC KMG and the Company in a way which is both different to their previous relationship and unprecedented in Kazakhstan in terms of both law and practice. Accordingly, there is a risk that the terms of these agreements will not be strictly adhered to or complied with in their entirety. Similarly, the role and function of Independent Non-Executive Directors is a relatively new and developing concept in Kazakh law and accordingly the protections which are sought to be afforded by the Independent Non-Executive Directors may not be fully realised. See "—The Company may be unable to enforce its rights under the Relationship Agreement and the Services Agreement".

Further, the terms of the Services Agreement relating to licences for new acreage and existing licences being transferred are complex, untested and highly dependent on factors outside the Company's and NC KMG's control and are, therefore, not a guarantee that the Company will be able to obtain such licences.

The influence of NC KMG may also have the effect of delaying, deferring or preventing a change in control, may discourage bids for the Company's shares and may adversely affect the market price of the Company's shares.

The Company currently enjoys a good relationship with NC KMG and its affiliates, although the Company can give no assurance that such relationship will continue after the Global Offer or that NC KMG, as controlling shareholder, will always vote its shares in a way that benefits the Company's shareholders as a whole. If following the Global Offer NC KMG takes actions that favour its interests over those of the Company, the Company's business, prospects, financial position or results of operations may be materially adversely affected, and the Company may not obtain appropriate value from the services provided under the Services Agreement in light of the management fee payable by the Company thereunder.

If NC KMG fails to renew the Services Agreement, the Company will lose its rights under the Services Agreement.

Under the Services Agreement, NC KMG has undertaken to assist in procuring from relevant Government bodies certain pre-emptive and preferential rights to acquire controlling interests in any new or existing onshore oil exploration and production assets in Kazakhstan and to use all reasonable endeavours to ensure that the Company shall continue to benefit from the export infrastructure used by the Company during the six months prior to Admission. See “Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Services Agreement” for information regarding the Services Agreement.

The Services Agreement is subject to the State Procurement Law, which means that the Company will have to conduct, on an annual basis, a tender process for the services to be provided under the Services Agreement. See “Risk Factors—The Company’s ability to engage external advisers and establish long-term commercial relationships with third parties is impaired due to the application of the State Procurement Law to the Company”. Accordingly, the Services Agreement will terminate on 31 December 2006 and the agreement will therefore need to be renewed on an annual basis if the Company is able to benefit from its provisions.

Although the Company has received a written assurance from NC KMG that it will continue to participate in the annual tender until 2016, such assurance is not legally binding. Therefore, there can be no guarantee that NC KMG will participate in the tender process each year, or renew the provisions of the Services Agreement on the same terms as exist immediately after Admission. If the Services Agreement is not renewed, or renewed on less advantageous terms for the Company, the Company will lose a number of valuable rights. This would materially harm its business and prospects. See “—The Company may be unable to enforce its rights under the Relationship Agreement and the Services Agreement”.

Changes in the Government’s holding in NC KMG and/or changes in policy by the Government could have an adverse effect on the Company’s rights under the Relationship Agreement and the Services Agreement.

The Government has recently established a holding company, Samruk, which now holds and manages the state’s interests in various entities, including NC KMG. It is possible that this holding company may seek to amend the terms of, and the rights granted pursuant to, the Relationship Agreement and the Services Agreement, which could have an adverse effect on the Company’s ability to acquire additional reserves or the terms upon which it may access the UAS pipeline and CPC pipeline. In addition, the Government could introduce further changes to its organisational structure or change its policy with respect to the rights granted to the Company. Any such changes could have a material and adverse effect on the Company’s business, prospects, financial condition or results of operations.

The Company may be unable to enforce its rights under the Relationship Agreement and the Services Agreement.

The Relationship Agreement and the Services Agreement with NC KMG are governed by the laws of Kazakhstan, with any disputes being subject to the jurisdiction of the Kazakhstan courts. The rights granted pursuant to the Relationship Agreement and the Services Agreement between NC KMG and the Company have not been tested in the Kazakhstan courts and if NC KMG is not within full compliance with the terms of such agreements the Company may be unable to fully enforce its rights in the Kazakhstan courts which may be severely detrimental to the Company.

The Company’s ability to engage external advisers and establish long-term commercial relationships with third parties is impaired due to the application of the State Procurement Law to the Company.

For so long as any of the Company’s shares are owned directly or indirectly by a state-controlled entity such as Samruk, then the Company will be subject to the State Procurement Law, which generally provides that it may only purchase “goods, works and services” worth more than (as of 2006) approximately KZT4.0 million in certain ways, the principal way being the conducting of a formal public (or “open”) tender process. “Goods, works and services” include those of external advisers, such as the Company’s oil and gas consultants, environmental experts, financial and legal advisers and accountants, as well as other consultants, contractors and suppliers. The Services Agreement and the arrangements with KMG TradeHouse (other than the Company’s supply of oil to domestic refineries) are subject to the State Procurement Law. See “The Company—Regulatory Matters in Kazakhstan” for a description of the State Procurement Law.

Typically, the tender process requires the Company to prepare detailed tender documents and to announce its intention to solicit bids from suppliers and service providers at least 30 days prior to the deadline for submitting bids. The Company is also required to establish a tender commission for each tender, which will select the winner of the tender. In addition, the State Procurement Law requires that each agreement with the winner of the tender will be valid only until 31 December of the calendar year in which such agreement is executed. This agreement can be renewed only after completion of a further tender. This results in the Company's having to undertake and implement a significant number of tenders with the resultant delays, increased costs and management time associated with such process. In the past, the tender process has resulted in delays in the Company's engagement of advisers and contractors and corresponding costs to the Company. The Company's inability to engage necessary external advisers and contractors in a timely fashion or establish long-term commercial relationships with preferred third parties as a result of being obliged to comply with the State Procurement Law could impair its operations.

Risk Factors Relating to the Republic of Kazakhstan

All of the Company's assets are currently located in Kazakhstan and the Company is therefore susceptible to country specific risk factors such as political, social and economic instability.

Kazakhstan's creation as an independent state in 1991 resulted from the break-up of the Soviet Union. As such, it has a relatively short history as an independent nation. All of the Company's assets are currently located in Kazakhstan and the Company is therefore susceptible to social, political, economic, legal and fiscal instability and civil disturbance.

The occurrence of any such events could have a material adverse effect on the business, prospects, financial condition and results of operations of the Company.

Kazakhstan has actively pursued a programme of economic reform and inward foreign investment designed to establish a free market economy, but there can be no assurance that in the future such reforms and other reforms will continue.

Emerging markets such as Kazakhstan change rapidly and, therefore, the information set out in this document may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significant risks involved. Investors are urged to consult their own legal and financial advisers before making an investment in the Company's securities.

As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Kazakhstan and adversely affect the Kazakhstan economy. In addition, during such times, emerging market companies can face severe liquidity constraints as foreign funding resources are withdrawn. Thus, even if the Kazakhstan economy remains relatively stable, financial turmoil in any emerging market country, in particular countries in the Caspian Sea or Central Asian regions, which recently have experienced significant political instability (including terrorism or internal conflicts), could seriously disrupt the Company's business, which would have a material and adverse effect on the Company's business, prospects, financial condition and results of operations.

The Company is exposed to a variety of political and country risks, including the risk of adverse sovereign action by the Government.

The oil and gas industry is central to Kazakhstan's economy and its future prospects for development, and thus can be expected to be the focus of continuing political and social attention and debate. See "Regional Overview of the Oil and Gas Industry—Kazakhstan's Oil and Gas Industry" and "—Regional Overview of the Oil and Gas Industry—Major Oil and Gas Projects in Kazakhstan". As of the date of this document, the Company is the third largest oil producer in the country. In similar circumstances in other developing countries, petroleum companies have faced the risks of expropriation or re-nationalisation, breach or abrogation of project agreements, application to such companies of laws and regulations from which they were intended to be exempt, denials of required permits and approvals, increases in royalty rates and taxes that were intended to be stable, application of exchange or capital controls, and other risks. In addition, the Company faces risks arising from political instability in the region and the difficulties of operating in a political, legal and business environment characterised by rapidly changing law, inconsistent application of law and regulation, corruption and an unpredictable judicial system.

Any of the foregoing risks could have a material adverse effect on the Company's business, prospects, financial condition and results of operations or the Company's ability to operate its business in line with its strategy.

Any changes in the existing policies of the Government, or a change in the Government or the president of Kazakhstan, may adversely affect the Company's ability to operate its business.

Since independence in 1991, Kazakhstan has had only one president and the country has been largely free from political violence. The Company's operations have benefited from these stable conditions. The Company could face enhanced risk and uncertainty in the event of a change in Government, including the possibility that a successor Government would seek to reopen or challenge the tax, legal or other arrangements affecting the Company's operations, including, for example, the Relationship Agreement and the Services Agreement with NC KMG, based on the Government's own conception of the national interest or other factors.

The laws and regulations of Kazakhstan relating to foreign investment, subsoil use and licensing, companies, customs, currency, capital markets, pensions, insurance, banking, taxation and competition are still developing and uncertainties in the law could have a material adverse effect on the Group's operations.

The laws and regulations of Kazakhstan relating to foreign investment, subsoil use, licensing, companies, customs, currency, capital markets, pensions, insurance, banking, taxation and competition are still developing. Many such laws provide regulators and officials with substantial discretion in their application, interpretation and enforcement. Furthermore, the judicial system may not be fully independent of social, economic and political forces. Court decisions can be difficult to predict and enforce, and the Company's best efforts to comply with applicable law may not always result in compliance as determined by regulators and/or the courts. Furthermore, because the Kazakhstan Law dated 27 January 1996 on Subsoil and Subsoil Use ("Subsoil Law") does not define the course of action available to the Government by reference to the gravity of a breach, a minor breach could conceivably lead to harsh consequences, such as suspensions or termination of the subsoil user rights. Because of the relative newness of the Subsoil Law, there are few precedents that would make the consequences of a breach more predictable.

Given Kazakhstan's short legislative, judicial and administrative history, it is not possible to predict the effect of current and future legislation on the Company's business. The ongoing rights of the Company under its subsoil use contracts and licences (if applicable) and other agreements may be susceptible to revision or cancellation, and legal redress in relation to such revocation or cancellation may be uncertain.

As tax legislation in Kazakhstan has been in force for only a relatively short time, Kazakhstan's tax laws may not always be clearly determinable which means that they are not always applied in a consistent manner. In addition, the tax laws continue to evolve. Instances of divergent opinions among local, regional and national tax authorities are not unusual. While the Company's tax obligations are clearly established in its production contracts, some obligations are linked to the tax regulations. Tax legislation is evolving and is subject to different and changing interpretations, as well as inconsistent enforcement. The uncertainty of application and the evolution of tax laws create a risk of additional and substantial payments of tax by the Company, which could have a material adverse effect on the Company's business, prospects, financial position and results of operations. Tax regulation and compliance is subject to review and investigation by the authorities who may conceivably impose material fines, penalties and interest charges which could be disputed unsuccessfully by the Company either with the tax authorities or through the courts. See "Taxation—The Republic of Kazakhstan".

Any changes in laws, regulations and permit requirements to which the Company is subject could require it to make substantial expenditures or subject the Company to material liabilities or other sanctions.

The Company is required to obtain, on an ongoing basis, all permits as required by the laws of Kazakhstan. Failure to obtain all such permits could materially and negatively impact the Company's production, its business, financial condition or results of operations.

Risk Factors Relating to the Company's Shares and GDRs

The financial market in Kazakhstan is less developed than in Western jurisdictions.

The trading market for shares in Kazakhstan is currently insignificant and restricted in comparison with Western stock markets, which could lead to the illiquidity of the securities (including the Company's Shares) on the Kazakhstan Stock Exchange.

The Global Offer represents the first public offering of the Shares and the GDRs. There is therefore no assurance that any active trading market for Shares or GDRs will develop or be sustained after the Global Offer or that the Offer Price will correspond to the price at which Shares or GDRs will trade in the public market subsequent to the Global Offer (see "Details of the Global Offer" for further information).

Sales, or the real or perceived possibility of sales, of a significant number of Shares in the public market could adversely affect prevailing market prices for the Company's Shares and GDRs.

Sales, or the real or perceived possibility of sales, of a significant number of Shares or GDRs in the public market could adversely affect prevailing market prices for the Shares and GDRs. Following the Global Offer, NC KMG will hold at least 60% of the shares. In addition, each of the holders of the Senior Notes have surrendered all of their holdings as consideration for the issue of approximately 13.2% of the shares in aggregate. There will be no lock-up in relation to those holders. Further, NC KMG may sell the Shares it owns at any time after the expiration of 180 days from completion of the Global Offer. The Company cannot predict the effect, if any, that sales of the Shares, or the availability of the Shares for future sale, will have on the market price of the Shares or GDRs, but the availability of Shares that are eligible for public sale could adversely affect the price of the Shares or GDRs.

Shares and GDRs may be subject to market price volatility and the market price of Shares and GDRs may decline disproportionately in response to adverse developments that are unrelated to the Company's operating performance.

The market has from time to time experienced significant price and volume fluctuations that are not closely related to the operating performance of particular companies. Factors including oil prices, war, increased competition, fluctuations in the Company's operating results, the regulatory environment, availability of reserves and general market conditions could have an adverse effect on the market price of the Shares and GDRs.

Upon listing, the Company will form a significant part of the total market capitalisation of companies listed on the KASE.

Upon listing, the Company will form a significant part of the total market capitalisation of companies listed on the KASE. As a result, the price of the Shares may be volatile as a result of general illiquidity of the KASE or by virtue of the fact that the Company is likely to be a significant constituent member of the KASE. In addition, the price of Shares may suffer from price volatility as a result of news flow and developments, actual or anticipated, in the Kazakhstan securities market or other markets which are, or are perceived to be, emerging markets which are unrelated to the Company and its industry. Also, the price volatility of the Shares may affect the price of the GDRs. Given the potential price volatility, the trading price of the Shares on the KASE may be different than the price of the GDRs on the LSE.

The recently introduced Kazakhstan corporate governance code has not yet proven effective at ensuring strong corporate governance practices in Kazakhstan.

In 2001, Kazakhstan introduced its first corporate governance code, which became binding for companies listed on the KASE in 2003. However, the Kazakh legal system continues to suffer from a lack of effectiveness and fails to provide adequate support for strong corporate governance practices. In addition, as a joint stock company incorporated in Kazakhstan, the Company is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other European Union member states or the United States.

USE OF PROCEEDS

The proceeds of the Global Offer receivable by the Company net of underwriting commissions and estimated offering expenses will be approximately US\$1,970 million. The Company will not receive any proceeds from the sale of the Parent GDRs by NC KMG.

In line with its strategy, the Company will apply its net proceeds and use its first right of refusal (through NC KMG) to acquire, in the short to medium term, strategically attractive oil production assets and contracts and to achieve, in the longer term, a capital structure appropriate to exploit these rights as well as its preferential access (through NC KMG) to unlicensed onshore oil exploration acreage in Kazakhstan. To achieve this latter objective, the Company may consider repaying borrowings. References in this section to “oil” includes petroleum and associated products. Pending application of the proceeds as described above, the Company will invest the proceeds in short-term bank deposits.

The proposed use of proceeds by the Company is supported by:

- The Services Agreement whereby NC KMG will, at the request of the Company, make reasonable endeavours to ensure that the State exercises in favour of the Company its right of first refusal over existing onshore oil and gas exploration and production contracts which are transferred in Kazakhstan. The Company intends to exploit this right to examine and, if sufficiently attractive, acquire onshore oil exploration and production contracts.
- An option arrangement as discussed in “The Company—Recent Developments”, which gives it the right to acquire from NC KMG a 50% interest in KazGerMunai. It is intended that the price which the Company would pay to NC KMG in respect of the KazGerMunai stake, if it proceeds, would be offset against all or part of the outstanding inter-group loan provided by the Company to NC KMG for the purpose of acquiring that interest. It should be noted that the Company is under no obligation to complete the acquisition of an interest in KazGerMunai.
- The current intention of NC KMG to offer the Company a 33% stake in PetroKazakhstan (excluding any interest in the Shymkent refinery). It is anticipated that the Company would assume the associated acquisition financing debt should it acquire the stake in PetroKazakhstan. It should be noted that the Company is under no obligation to complete the acquisition of an interest in PetroKazakhstan. After the Global Offer, the Company intends (subject to satisfactory due diligence and the approval of a majority of its Independent Non-Executive Directors) to enter into separate negotiations with NC KMG with the purpose of establishing fair-market values for these interests. After determination of such values and the publication of relevant information to Shareholders and holders of GDRs the Company will seek approval of the transaction by a simple majority vote at a shareholders’ meeting at which GDR holders have the opportunity to vote their underlying Shares and NC KMG does not vote.
- The Company’s review after the Global Offer of other opportunities to acquire onshore subsoil oil exploration and production assets in Kazakhstan. The Company is aware of production assets likely to be transferred in the medium term and intends to review such assets as and when they are transferred.
- NC KMG’s undertaking in the Services Agreement that it will, at the request of the Company, exercise on the Company’s behalf its right to enter into direct negotiations with the state to acquire unlicensed onshore subsoil oil exploration acreage, avoiding a competitive tender process. The Company intends to exploit this right in order to acquire prospective onshore exploration acreage.

DIVIDENDS AND DIVIDEND POLICY

Distributions to Shareholders and holders of GDRs may only be made insofar as the Company's Shareholders' equity is greater than the sum of paid-up share capital plus a certain reserves level required to be maintained by Kazakhstan law. Dividends may not exceed net profit for any given year.

The Company's dividends are subject to restrictions imposed by covenants in certain financing arrangements with Esomet SAS ("Esomet Arrangement" and "Esomet", respectively) and the terms of the US\$800 million principal amount 6.5% fixed rate senior notes (the "Senior Notes") issued by the Company's finance subsidiary, Munaishy Finance B.V.. The Esomet Arrangement restricts aggregate dividend payments to holders of the Company's preference shares to a maximum of KZT500 million in any given year. This restriction will last for the life of the Esomet Arrangement until September 2009. Preference shareholders are entitled to a minimum annual dividend of KZT25 per preference share. See "Description of Share Capital and Certain Requirements of Kazakhstan Legislation—Summary of the Charter—Dividends and other distributions". Furthermore, dividends paid per Share cannot exceed dividends paid per preference share in any given year.

At a duly constituted meeting held on 28 August 2006, a majority of the shareholders of the Company approved the payment of a dividend to the holders of Shares and preference shares of the Company as of 28 August 2006 in the aggregate amount of approximately KZT18.0 billion (KZT382 per Share or preference share) subject to receiving certain waivers and covenants from various lenders.

The Company paid dividends in the amount equal to KZT74.20 (US\$0.55) per Share in 2005, KZT57.30 (US\$0.44) per Share in 2004 and KZT43.04 (US\$0.30) per Share in 2003, respectively, based on the average number of Shares in issue for each respective year.

The Company has set a dividend policy, having regard to its strategic ambitions, of paying dividends on its shares and preference shares equal in the aggregate to 15% of profit for the year after tax based on its stand-alone IFRS accounts. The Company may review and revise its dividend policy from time to time.

Dividends paid on the Shares constitute Kazakhstan source income for Shareholders and are subject to withholding tax at the rate of 15%. This withholding tax is applied to the gross amount of dividends without allowance for any deductions and satisfies all Kazakhstan income tax obligations with respect to dividends. Neither Shareholders nor GDR holders should be subject to any other tax reporting, payment, registration or compliance requirements with respect to dividends received by Shareholders.

CAPITALISATION

The following table sets out the Company's capitalisation as at 31 May 2006, as derived from the Company's unaudited consolidated financial statements as at such date, on an actual basis and as adjusted to reflect the Global Offer, the issue of the Senior Notes (and subsequent transfer of all of the Senior Notes to the Company as payment in kind for Shares), the making of certain loans to NC KMG, the payment by the Company of a special dividend on 28 August 2006, certain other borrowings referred to below and the pre-emptive offer of shares in August 2005.

This table should be read in conjunction with the sections headed "Selected Consolidated Financial Information" and "Operating and Financial Review" and the Company's audited and unaudited consolidated financial statements and the related notes thereto included elsewhere in this document.

	As at 31 May 2006 (in millions)			
	Actual		As adjusted	
	KZT	US\$	KZT	US\$
Cash and cash equivalents ⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾	30,327	250	166,382	1,370
Other current financial assets ⁽²⁾	60,361	497	60,361	497
Non-current financial assets ⁽²⁾	2,229	18	98,672	812
Current portion of long-term borrowings ⁽⁴⁾	19,129	157	20,998	173
Long-term borrowings, net of current portion ⁽²⁾⁽⁴⁾	41,990	346	142,481	1,173
Total long-term borrowings	61,119	503	163,478	1,346
Share capital ⁽¹⁾⁽⁵⁾	11,792	97	263,195	2,167
Retained earnings ⁽³⁾	203,757	1,677	185,732	1,529
Minority interest	80	1	80	1
Total shareholders' equity	215,629	1,775	449,007	3,696
Total capitalisation	<u>276,748</u>	<u>2,278</u>	<u>509,246</u>	<u>4,192</u>

- (1) Assuming the receipt by the Company of the estimated net proceeds of the Global Offer of KZT250,382 million (US\$1,970 million), after deducting the underwriting commissions and estimated offering expenses payable by the Company.
- (2) Adjusted to reflect the issue of the Senior Notes (and subsequent transfer of all of the Senior Notes to the Company as payment in kind for Shares), the proceeds of which, together with an additional KZT24.4 billion, were lent to NC KMG in connection with financing the acquisition of its interest in KazGerMunai. See "Operating and Financial Review—Recent Developments—Bond Issue and Loan".
- (3) Adjusted to reflect the payment of a KZT18 billion special dividend which was approved by the Company's shareholders on 28 August 2006.
- (4) Adjusted in respect of a further US\$50 million advance payment from Esomet. See "Operating and Financial Review—Recent Developments—Esomeet Arrangement".
- (5) Adjusted to reflect the pre-emptive offer of shares which was completed in August 2006.

Save for the adjustments reflected above there has been no material change in the total capitalisation or indebtedness of the Company since 31 May 2006.

The Company's share capital as of 31 December 2005 and as of 31 May 2006 consisted of 43,051,132 Shares and 4,117,699 preference shares.

REGIONAL OVERVIEW OF THE OIL AND GAS INDUSTRY

The information contained in this section is intended to give an overview of the upstream oil and gas industry in Kazakhstan and the Caspian Sea region. This information has, unless otherwise stated, been extracted from documents, websites and other publications released by the President of Kazakhstan, the Statistics Agency of Kazakhstan, the Ministry of Finance of Kazakhstan, MEMR, the National Bank of Kazakhstan and other public sources, including the National Bank of Kazakhstan's Annual Report for 2005, 2004 and 2003 and the National Bank of Kazakhstan Statistical Bulletin No. 7 (140) dated July 2006.

Some of the market and competitive position data appearing in this document under "Regional Overview of the Oil and Gas Industry" has been obtained from US government publications and other third-party sources, including publicly available data from the World Bank as well as from Kazakhstan press reports and publications, edicts and resolutions of the Government. In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

Overview

The Caspian region includes those parts of the states (including Russia and Iran) bordering the Caspian Sea which are adjacent to the Caspian Sea. A part of Uzbekistan is also considered to be part of the Caspian region due to its proximity. To date, the two significant crude oil producing countries in the Caspian region have been Kazakhstan and Azerbaijan. It is expected that these countries will continue to lead the region in crude oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields. Turkmenistan and Uzbekistan are the predominant gas producers in the Caspian region but do not produce significant crude oil volumes relative to Kazakhstan and Azerbaijan. In addition, the areas of Russia and Iran near the Caspian Sea are not a source of substantial crude oil production for these countries. Russia, however, plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea.

Kazakhstan's Oil and Gas Industry

Investment in Kazakhstan's Oil and Gas Industry

Since 2000, Kazakhstan has experienced significant economic growth. Two of the main catalysts for this growth have been economic reform and foreign investment, much of which has been concentrated in the energy sector. Exports of crude oil have grown significantly and most oil from Kazakhstan is currently delivered to international markets via pipelines through Russia to shipping points on the Black Sea. The opening of the CPC pipeline in 2001 substantially raised the crude oil export capacity of Kazakhstan.

International investment in the oil and gas sector in Kazakhstan has taken the form of joint ventures, including with NC KMG, the state oil and gas company, as well as production-sharing agreements and exploration/field concessions. Major projects in Kazakhstan include Tengiz, Karachaganak and Kashagan fields. Tengizchevroil LLP ("TCO"), a joint venture between ChevronTexaco, ExxonMobil, Lukarco and NC KMG, is developing the Tengiz and Korolevskoye oil fields pursuant to a production licence granted in 1993. This production licence was initially granted for 10 years, but can be extended by TCO for up to a total of 40 years; it was extended by TCO in 2003 until 2013. Karachaganak Petroleum Operations, which is developing the Karachaganak field, operates under a 40-year final production sharing agreement entered into with the Government in 1997. The Kashagan consortium, which is developing the Kashagan field, was also established in 1997 under a 40-year production-sharing agreement with the Government, covering oil structures in Kashagan, Kalamkas, Aktoty and Kairan. More detail on these and other significant oil and gas developments in Kazakhstan is provided below.

In May 2003, President Nazarbayev approved a new Caspian Sea development programme for the period to 2015, which called for new offshore blocks (or potential oil fields) to be auctioned between 2003 and 2010. Under Kazakhstan law, the Government is authorised to approve the specific list of blocks to be auctioned and MEMR is responsible for conducting such auctions. NC KMG has a mandatory share of at least 50% in all projects related to the new offshore blocks.

In December 2004, certain amendments to the Subsoil Law were adopted. The amendments provide that the state (through the Government) has a priority right, in the case of a proposed transfer of an interest under both existing and new contracts for subsoil use, to purchase such interest on terms no worse than those agreed by the parties to the proposed transfer. Such an interest can be direct or indirect, for example, through the sale of shares in an entity holding such contract for subsoil use. In connection with

the Global Offer, on 11 July 2006 the Company was granted a formal waiver with respect to this provision of the Subsoil Law, the effect of which is that the Global Offer and subsequent trading in the Shares and GDRs are not subject to the state's priority right. See "The Company—Regulatory Matters in Kazakhstan—Article 71 of the Subsoil Law."

Oil Supply and Demand

As at 31 December 2005, Kazakhstan ranked eighth in the world by oil reserves and eleventh in the world by oil and gas reserves. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet republics and has the Caspian region's largest recoverable crude oil reserves. According to the BP Statistical Review, Kazakhstan's proved oil and gas reserves were 7.9 billion tonnes (58 billion barrels) as at 31 December 2005.

Between 1999 and 2005, Kazakhstan's oil production grew at a compounded annual growth rate of approximately 12.8%. During the years 2004 and 2005 the country produced an aggregate of 108.8 million tonnes (800.8 million barrels) of crude oil. The Government has stated that it expects that the country will produce 90 million tonnes per year (1.8 million bopd) by 2010, and 150 million tonnes per year (3.0 million bopd) by 2015. It is expected that most of this growth will come from the Tengiz, Karachaganak and Kashagan fields.

Kazakhstan produced approximately 51.3 million tonnes of oil and gas condensate in 2003, 59.2 million tonnes of oil and gas condensate in 2004 and 61.5 million tonnes of oil and gas condensate in 2005.

Kazakhstan has three major oil refineries supplying the northern region (at Pavlodar), the western region (at Atyrau) and the southern region (at Shymkent), with an estimated total refining capacity of 21.0 million tonnes per year (approximately 427 thousand bopd).

In 2003, the three refineries together processed a combined average of 8.7 million tonnes per year (approximately 174 thousand bopd) of crude oil (2.5 million tonnes per year (50 thousand bopd) at Pavlodar, 2.3 million tonnes per year (46 thousand bopd) at Atyrau and 3.9 million tonnes per year (78 thousand bopd) at Shymkent).

In 2004, the three refineries together processed a combined average of approximately 9.4 million tonnes per year (188 thousand bopd) of crude oil (approximately 2.9 million tonnes per year (58 thousand bopd) at Pavlodar, 2.9 million tonnes per year (58 thousand bopd) at Atyrau and 3.5 million tonnes per year (70 thousand bopd) at Shymkent).

In 2005, the three refineries together processed a combined average of approximately 11.2 million tonnes per year (224 thousand bopd) of crude oil (approximately 3.7 million tonnes per year (74 thousand bopd) at Pavlodar, 3.6 million tonnes per year (72 thousand bopd) at Atyrau and 3.9 million tonnes per year (78 thousand bopd) at Shymkent).

The refinery at Pavlodar is supplied mainly by crude oil from western Siberia; the Atyrau Refinery runs solely on domestic crude from the western region of Kazakhstan; and the Shymkent refinery generally uses oil from the southern region of Kazakhstan. The Atyrau Refinery is undergoing modernisation to provide some additional capacity and to allow the refinery to meet current European fuel standards.

Gas Supply and Demand

Kazakhstan is a net exporter of gas. Increases in its own gas production are expected to come primarily from associated gas at the Tengiz, Karachaganak and Kashagan fields. Most of Kazakhstan's gas reserves are located in the west of the country near the Caspian Sea, with roughly 25% of proved reserves located in the Karachaganak field. Another important gas field, Amangeldy, is situated in the south of the country and is being developed by KazTransGas, a subsidiary of NC KMG.

Gas production in Kazakhstan has increased significantly since 1999 when the Government passed a law requiring subsoil users (primarily oil companies) to include gas utilisation projects in their development plans. As a result, gas production in 2000 doubled compared to 1999, reaching 314 billion cubic feet, the highest level since independence in 1991. Production has generally continued to increase since then, reaching 926 billion cubic feet in 2005. According to the 15-year development strategy of

MEMR, Kazakhstan will increase its gas production to 1.85 trillion cubic feet by 2010, and to 2.80 trillion cubic feet by 2015.

Transportation

An important aspect of increasing hydrocarbon production in Kazakhstan has been the development of transportation infrastructure, as this in turn has raised the export capacity of Kazakhstan.

Crude Oil. Historically the lack of pipeline capacity providing access to international markets has impeded Kazakhstan's ability to exploit its oil reserves. Since Kazakhstan is essentially landlocked, the pipelines have to transit through neighbouring countries in order to reach international markets. The exploitation of Kazakhstan's hydrocarbon resources has been assisted by the development of the hydrocarbon transportation infrastructure in the region:

- In 2003, approximately 14.8 million tonnes per year (300 thousand bopd) of crude oil were shipped through the CPC pipeline and approximately 13.3 million tonnes per year (269 thousand bopd) of crude oil were shipped through the UAS pipeline out of total exports of approximately 40.5 million tonnes per year (820 thousand bopd);
- In 2004, approximately 22.5 million tonnes per year (450 thousand bopd) of crude oil were shipped through the CPC pipeline and approximately 15 million tonnes per year (300 thousand bopd) of crude oil were shipped through the UAS pipeline out of total exports of approximately 48.9 million tonnes per year (978 thousand bopd); and
- In 2005, approximately 30.5 million tonnes per year (610 thousand bopd) of crude oil were shipped through the CPC pipeline and approximately 15.2 million tonnes per year (310 thousand bopd) of crude oil were shipped through the UAS pipeline out of total exports of approximately 52.4 million tonnes per year (1.1 million bopd).

The CPC pipeline, which has been operational since 2001, represents a major export route. It extends 1,510 kilometres, originating in the Tengiz field, running through Russia and terminating at the CPC marine terminal on the Black Sea near the Russian port of Novorossiysk. The CPC pipeline is significant in that it is the first major pipeline in Russian territory not owned by the Russian pipeline operator, Transneft.

The UAS pipeline transports oil from fields in the Atyrau and Mangistau regions to Russia. The pipeline system runs for approximately 1,500 kilometres, from Uzen in southwest Kazakhstan to Atyrau, before crossing into Russia and linking with Russia's Transneft system at Samara. In June 2002, Kazakhstan signed a 15-year oil transit agreement with Russia. Under this agreement, Kazakhstan will export at least 17.5 million tonnes per year (350 thousand bopd) of crude oil using the Russian pipeline system.

The 1,767 kilometre Baku-Tbilisi-Ceyhan pipeline delivers crude oil from Baku in Azerbaijan to a new marine terminal in the Turkish port of Ceyhan on the Mediterranean and is the first direct pipeline link between the Caspian Sea and the Mediterranean Sea. The Baku-Tbilisi-Ceyhan pipeline project, which cost approximately US\$4.0 billion, is designed to transport up to approximately 50 million tonnes (1.0 million bopd) per year by 2010. BP is the largest stakeholder in this project with 30.1%. In May 2005, construction of the pipeline was completed and the pipeline began operating in July 2006. The Baku-Tbilisi-Ceyhan pipeline is expected to be largely dedicated to production from the Azeri-Chirag-Gunashli fields in the Azerbaijan sector of the Caspian Sea but to the extent there is available capacity, the Baku-Tbilisi-Ceyhan pipeline may be used to transport Kazakhstan crude oil shipped across the Caspian Sea to Baku by tanker. Kazakhstan is now in discussions with Azerbaijan for access.

In December 2005, China and Kazakhstan put into operation the 614 mile Atasu-Alashankou pipeline, forming part of the Atasu-Dushantsty pipeline. The initial capacity of the Atasu-Alashankou pipeline is approximately 10 million tonnes (200 thousand bopd) per year, with a projected increase up to 20 million tonnes per year (400 thousand bopd).

Other pipeline routes from Kazakhstan are being considered, such as routes through the Caucasus to Turkey and routes through Iran and Afghanistan.

Rail transportation was the primary export route for Kazakhstan crude production before the development of the UAS and CPC pipelines. The rail infrastructure remains an alternative transportation option.

Major Oil and Gas Projects in Kazakhstan

TCO

The TCO joint venture was created in 1993 with the aim of developing the Tengiz and Korolev fields. The participants in the joint venture are Chevron Overseas Company (50%), ExxonMobil (25%), NC KMG (20%) and LukArco (5%).

The Tengiz field is one of the largest fields to be developed in the world in the last 25 years and is located on the south-eastern part of the Pre-Caspian Basin on the north-eastern edge of the Caspian Sea. It was discovered in 1979 in the Atyrau region. According to current estimates, the Tengiz field has recoverable reserves of between 750 million tonnes (5.5 billion barrels) and 1,125 million tonnes (8.3 billion barrels) of oil. In 2003, 12.7 million tonnes (255 thousand bopd) of oil were produced at the Tengiz field, in 2004, 13.7 million tonnes (276 thousand bopd), and in 2005, 13.6 million tonnes (274 thousand bopd). The output of the Tengiz field is shipped through the CPC pipeline. Future shipments are also expected to be shipped through the Baku-Tbilisi-Ceyhan pipeline.

Karachaganak Project

The Karachaganak field is a large gas-oil-condensate field located in the North-West region of Kazakhstan, with an area of about 280 square kilometres. The field was discovered in 1979 and the consortium developing it are party to a 40-year production sharing agreement with the Government. The consortium includes affiliates of ENI SpA (32.5%), BG Group (32.5%), Chevron (20%) and LUKOIL Overseas (15%). BG Group and ENI SpA are the project operators. The output of the Karachaganak field is expected to be shipped through the CPC pipeline.

The field holds an estimated 1.2 billion tonnes of liquid hydrocarbons and 1.3 trillion cubic metres of gas. In 2003, Karachaganak's total production was approximately 7.5 million tonnes (approximately 150 thousand bopd) of liquid hydrocarbons and 15 million cubic metres per day of gas.

North Caspian project

The Kashagan field is located off the northern shore of the Caspian Sea, near the city of Atyrau. In 1997, a consortium of companies signed a 40-year production sharing agreement covering five structures, namely Kashagan, Kalamkas, Aktoty, Kairan and Kashagan SW. The structures consist of eleven offshore blocks and cover an area of 6,000 square kilometres. In June 2000, as a result of drilling and testing of wells in East Kashagan-1, the discovery was announced of the largest oil and gas field to be discovered for the past 30 years. The field is currently in development and its output is expected to be shipped through the CPC pipeline. The project is owned by a consortium that currently includes ENI SpA (18.52%), ExxonMobil Corporation (18.52%), Shell (18.52%), Total S.A. (18.52%), ConocoPhillips Company (9.26%), INPEX Corporation (8.33%) and NC KMG (8.33%). ENI SpA is the operator.

Resource Classifications

Kazakhstan has its own classification system of oil and gas reserves which is based on the system employed in the former Soviet Union, and approved by an order of MEMR, that differs from accepted practices in most other parts of the world. Accordingly, under this system, stated reserves do not necessarily correspond to economically recoverable reserves and reserves calculations performed using different methodologies cannot be accurately reconciled.

The classification system is based on the degree of development of the field (reserves). All hydrocarbon accumulations in a field are grouped together. Once development commences in a field, all hydrocarbon accumulations in that field are included in the developed reserves. Each field has two subgroups: profitable and unprofitable reserves.

Profitable (recoverable) reserves are reserves, extraction of which is economical using existing technologies and techniques. These reserves are determined on the basis of the recovery ratio. By the degree of exploration, reserves are also divided into proved (A, B, C1) and preliminary estimated (not explored) (C2) reserves. Proved reserves are further divided into reserves to be developed—A and B—and explored reserves—C1.

Reserves not currently identified as commercial are classified as “resources”. Resources are divided into prospective resources—C3—and forecasted resources—D0, D1 and D2.

As a rough approximation, recoverable A and B reserves can be compared to proved reserves, C1 to proved/probable reserves, C2 to probable/possible reserves, and C3, D0, D1 and D2 to contingent/prospective resources in accordance with international methodology. The estimation of recoverable reserves under the Kazakh system is usually higher than under the international system.

Kazakh classification	Kazakh explanation (for guidance only)	International standards (for informal comparison only)⁽¹⁾
A	Proved reserves	Proved reserves
B	Proved reserves	Proved reserves
C1	Explored proved reserves	Proved/Probable reserves
C2	Preliminary estimated reserves (not explored)	Probable/Possible reserves
C3	Prospective resources	Contingent/prospective resources
D0	Forecasted resources	Contingent/prospective resources
D1	Forecasted resources	Contingent/prospective resources
D2	Forecasted resources	Contingent/prospective resources

(1) The International standards are those of the SPE/WPC.

The Company's internal estimates of oil and gas reserves, as opposed to the reserves information in this document extracted from the section headed "GCA Report", are based on total "explored reserves", consisting of oil and gas reserves in categories A, B and C1, and "preliminary reserves" in category C2 of the Kazakh classification system.

All figures set out in this document in respect of gas and gas condensate are figures for categories A, B and C1 only.

OVERVIEW OF THE REPUBLIC OF KAZAKHSTAN

The information contained in this section is intended to provide background information regarding Kazakhstan and its Government and has, unless otherwise stated, been derived from documents, websites and other publications released by the President of Kazakhstan, the Statistics Agency of Kazakhstan, the Ministry of Finance of Kazakhstan, the MEMR, the National Bank of Kazakhstan and other public sources in Kazakhstan, together with extracts from The World Fact Book published by the US Central Intelligence Agency and reports by the Economist Intelligence Unit.

Introduction

Kazakhstan is rich in natural resources, including oil, gas and minerals. Kazakhstan is a leading producer of chrome, aluminium, iron ore, copper, zinc, manganese, coal, uranium, lead and, to a lesser extent, gold and silver. The country is also a significant exporter of oil, grain, wool, meat, machinery and various chemicals. Kazakhstan enjoys relatively high levels of foreign direct investment compared to most developing nations, particularly in the oil and gas sector.

Economic and structural reforms undertaken since 1991 have helped to revive Kazakhstan's economy following several years of falling GDP after the dissolution of the Soviet Union. Real GDP in Kazakhstan grew at an annual rate of 9.5% in 2002, 9.2% in 2003, 10.1% in 2004 and 9.4% in 2005. Further, year-on-year consumer price inflation in Kazakhstan decreased from 1,258% at the end of 1994 to 7.6% at the end of 2005. Kazakhstan was granted "Market Economy Status" by the EU in 2001 and by the USA in 2002, the first CIS country to be granted this status. Kazakhstan was also the first CIS country to be moved by Moody's to investment grade status (in 2002).

A legal framework is being created for the development of a market-oriented economy, including implementing new tax, securities, bankruptcy, joint-stock company, currency control and auditing laws.

Area and Population

Kazakhstan is located in Central Asia and is bordered by Russia to the north and west, China's Xinjiang-Uigur Autonomous Region to the east, the Kyrgyz Republic, Uzbekistan and Turkmenistan to the south and the Caspian Sea to the west. The capital, Astana, is located in central Kazakhstan but Almaty, in the south east of the country, is the principal business and financial centre of the country and is by far its largest city.

The country covers an area of 2.717 million square kilometres, approximately the same size as western Europe, and spans two time zones from the Caspian Sea in the west to the Altai Mountains in the east. In terms of landmass, Kazakhstan is the ninth largest country in the world and the second largest country, after Russia, in the CIS.

As of 30 June 2006, the population of Kazakhstan was approximately 15.3 million, making Kazakhstan one of the most sparsely populated countries in the world, with an average population density of approximately 5.59 people per square kilometre. The population of Kazakhstan is ethnically diverse. Kazakhs are the largest among the country's more than 120 different ethnic groups, accounting for approximately 55% of the population, followed by Russians (30%), Ukrainians (3.7%), Tatars, Germans, Uzbeks, Poles and others. The relative size of the Kazakh ethnic group has increased since the country's independence, mainly because of the emigration of non-Kazakh ethnic groups and because of the return of many ethnic Kazakhs to the country.

Historically, Kazakhstan belongs to the Turkic-speaking world. Kazakh, the official language, is spoken by approximately 50% of the population. Russian is spoken by more than three-quarters of the population and is also officially recognised for use in State matters and local government. Kazakhstan's adult literacy rate is approximately 99%.

Kazakhstan's position in the international community

Kazakhstan has established diplomatic relations with over 120 countries. Kazakhstan is a full member of the United Nations, the International Monetary Fund, the World Bank, the United Nations Educational, Scientific and Cultural Organisation, the International Atomic Energy Agency, the European Bank for Reconstruction and Development, the Asian Development Bank, the International Development Association, the Multilateral Investment Guarantee Agency, the International Finance Corporation, the International Organisation of Securities Commissions and the Islamic Development Bank. Currently,

Kazakhstan has observer status with the World Trade Organisation. Kazakhstan agreed an economic stabilisation programme with the International Monetary Fund and has in the past been granted both standby and extended fund facilities. Kazakhstan is party to a Partnership and Co-operation Agreement with the European Union which came into force in 1999 and co-operates with the EU in various scientific and environmental programmes. In 1994, Kazakhstan joined NATO's Partnership for Peace Programme.

The Government has pursued its interests by balancing its relations with its large neighbours (Russia and China) and the United States, although due to geographic proximity and its large Russian minority, Kazakhstan's main external ally is Russia. Kazakhstan has ratified all the international and bilateral agreements that define the current stakes in the Caspian Sea, and Russia and Kazakhstan have reached an agreement to allow Kazakh oil exports through the UAS pipeline and the Makhachkala-Tikhoretsk-Novorossiysk pipelines. Joint ventures between Russian and Kazakh firms to develop a series of offshore oil fields in the Caspian Sea have been agreed. The CPC pipeline, the first independently operated, privately owned and independent and commercially operated pipeline in Kazakhstan and Russia, has cut transportation costs from the Tengiz field and enhanced Kazakhstan's negotiating position with Russia's state-owned Transneft pipeline system. JSC "KazRosGas", a joint venture between NC KMG, Rosneft and RAO Gazprom, has given Kazakhstan's gas exporters access to western European markets at Russian domestic tariff rates. Chinese national firms have acquired interests in Kazakh oil fields and have constructed an oil pipeline from western Kazakhstan to the Chinese border. The Baku-Tbilisi-Ceyhan pipeline from Azerbaijan to the Turkish Mediterranean coast was inaugurated in May 2005, affording Kazakhstan increased oil export routes and greater geopolitical flexibility.

Kazakhstan is also involved in two efforts to consolidate customs and other economic policies in the region. Kazakhstan, Russia, and Belarus, and more recently Kyrgyzstan and Tajikistan and Uzbekistan, have entered into a treaty establishing a new Eurasian Economic Community, a customs union which removes trade restrictions between the signatory countries and establishes a common external tariff. In September 2003, Kazakhstan, Ukraine, Russia and Belarus signed an agreement for the creation of a single economic zone, the "Common Economic Space", which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs.

Kazakhstan's economy is highly dependent on the successful development of the oil sector. For each of the past five years, GDP growth in Kazakhstan has been over 9%, fuelled by increased world demand for oil and high oil prices. This growth in GDP has resulted in a GDP per capita of US\$3,685 in 2005. Over this period, the general economic situation in Kazakhstan has improved, leading to a strong growth in imports into Kazakhstan. High oil prices have boosted the current account and balance of payments which moved into surplus and increased foreign exchange reserves, which are being accumulated in the National Development Fund of Kazakhstan in order to reduce inflationary pressures on the country's economy. According to the Kazakhstan Ministry of Foreign Affairs, between 1993 and 2005 Kazakhstan has attracted more than US\$34 billion in foreign direct investment, the highest per capita rate of all of the republics of the former Soviet Union. One goal of the Government is for Kazakhstan to be in the near future among the fifty most competitive nations of the world.

The non-oil economy in Kazakhstan has grown at a rate of over 5% per annum over the past 5 years. Those sectors most closely associated with oil have grown fastest: construction and services related to oil extraction, transportation, and investment projects, including real estate and related services and, on a lesser scale, financial services and trade, have shown strong growth.

The table below shows Kazakhstan's GDP, GDP growth and inflation for the years from 2001 to 2005.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
GDP (US\$ bn)	21.5	24.2	30.0	38.6	56.1
Real GDP Growth (% change)	13.2	9.5	9.2	10.1	9.4
Inflation (CPI% change)	8.4	6.6	6.4	6.7	7.6

Source: National Statistical Agency

Rapid economic growth has helped stimulate employment and raise living standards. Unemployment rates in Kazakhstan fell from 13.5% in 1999 to 8.2% in 2005. Currently, the annual per capita GDP and monthly wages in Kazakhstan are among the highest of the republics of the former Soviet Union. In 2005,

Kazakhstan attracted approximately three quarters of the total foreign direct investment into Central Asia, approximately US\$53.8 billion.

Kazakhstan was the first CIS country to achieve an investment grade sovereign rating and is currently rated BBB – by Standard & Poor's and Baa2 by Moody's Investor Services, Inc.

Reforms aimed at moving Kazakhstan further toward a full market economy continue. Kazakhstan has undertaken one of the more successful pension reform programmes amongst its peer "transition economies". The legislation regulating Kazakhstan's financial markets has undergone certain reforms to conform it with international standards and the development of its domestic capital markets remains a key strategic priority. Privatisation, liberalisation of capital controls and tax reforms have also made headway. The Government is also moving ahead with the introduction of "e-government" (initially in the customs service), which is aimed at stimulating greater public sector transparency.

Constitution, Government and Political Parties

Constitution

Kazakhstan has been one of the most politically stable countries of the CIS. The country's current constitution (the "Constitution"), adopted in August 1995, provides for a tripartite structure of government in which power is divided among the executive, legislative and judicial branches. The Constitution establishes and sets out the powers and functions of the President, the Parliament, the Government, the Constitutional Council and local governments and administrations and establishes an independent judicial system. Under Kazakhstan's current President, Nursultan Nazarbayev, the Presidency has increasingly dominated the other branches of government.

Executive Branch

Under the Constitution, the President is the head of State and its highest official with primary responsibility for domestic and foreign policy and representing Kazakhstan in international relations. The President is also Commander-in-Chief of the armed forces. The President has the power to issue edicts and ordinances. In special circumstances, the President can issue decrees and orders having the force of law (provided they are consistent with the Constitution, and which must then be approved by Parliament), to determine the priority of legislation before Parliament and to call a national referendum on matters of special importance. The President also has the power, in certain circumstances, to dissolve Parliament.

Under the Constitution, the President also enjoys significant powers of appointment, including the power to appoint the Prime Minister, subject to the approval of Parliament. The President may also dismiss the Prime Minister and members of the Government without Parliamentary approval. In addition, the President has the power to appoint and remove the Governor of Kazakhstan's central bank, whose appointment is subject to the approval of Parliament.

The Constitution provides that the President is elected to office by popular vote for a term of seven years. The Constitution also provides for early termination of the President's term of office in the event of death, resignation or impeachment.

Mr. Nazarbayev, then the First Secretary of the Communist Party of Kazakhstan, became President of the Republic of Kazakhstan once it became a sovereign state in December 1991 and has held the position of President since then. His presidency was confirmed in a referendum in April 1995, he was re-elected in January 1999 and again in December 2005 and his current term of office expires in 2012. President Nazarbayev has had and continues to have a dominant influence on economic and political life in the country and, following two Parliamentary dissolutions, from December 1993 until April 1994 and from March 1995 through January 1996, legislative functions were vested solely in the President. During these periods, the President brought into effect over 100 ordinances and decrees (which were subsequently approved by Parliament) representing a substantial part of the legislative framework for the economic and structural reforms which have been made in the country.

The Government comprises the Prime Minister, as its executive head, one deputy prime minister and 16 ministers as members of the cabinet. The Government is formed by the President, based on recommendations of the Prime Minister, for a term of five years, and is automatically dissolved after each presidential election to allow for the formation of a new administration by the President. Neither the Prime Minister nor the members of the cabinet are members of Parliament. The Government is responsible for

implementing laws, decrees and international agreements, preparing and implementing the budget, establishing fiscal policy, carrying out social policy and defending the rights and freedoms of citizens.

The President appointed the current Prime Minister, Daniyal Akhmetov, in June 2003 and re-appointed him in January 2006.

Legislative Branch

Kazakhstan's legislative branch is the Parliament, which consists of an upper chamber (the "Senate") of 39 deputies and a lower chamber (the "Majilis") of 77 deputies. The President appoints seven of the deputies in the Senate (called "senators") and representative bodies of the regional and city authorities appoint the remainder. Ten of the 77 deputies of the Majilis are elected from a list compiled by the winning party; the other deputies are elected by direct popular vote in single seat constituencies.

Judicial Branch

Judicial authority is vested in the Supreme Court, regional courts and district courts. The Supreme Court is the highest judicial body for all civil and criminal matters. The Chairperson of the Supreme Court, the chairpersons of the Supreme Court benches and the judges of the Supreme Court are elected by the Senate from the candidates submitted by the President based on the recommendations of the Supreme Judicial Council.

Constitutional Council

The Constitution provides for a seven-member Constitutional Council which is charged with the responsibility for resolving disputes over presidential and parliamentary elections and public referenda, providing official interpretation of the provisions of the Constitution, ensuring the constitutionality of legislation and international agreements, implementing procedures under the Constitution for the removal of the President from office and investigating claims brought under the Constitution in relation to the exercise of presidential power. Each of the President, the Chairman of the Senate and the Chairman of the Majilis appoints two members of the Constitutional Council. In addition, the President appoints the Council's Chairperson.

Local Government

Local government is effected through representative bodies ("Maslikhats") and mayors ("Akims") for each of the country's 14 regions ("Oblasts") and the cities of Astana and Almaty, which together represent the first tier of territorial administration. Approximately 160 rural districts ("Rayons") and a further 86 cities together make up the second tier of territorial administration.

Political Parties

Although multi-party democracy is enshrined in the Constitution, political parties have not played a significant role to date. This is due to various factors including the fact that deputies in Parliament have been elected as individuals representing specific constituencies rather than on the basis of political party, as well as changes in the laws relating to the registration of political parties.

COMPETITION

Competition for Reserves

Kazakhstan has been a focus for investment by leading oil and gas companies. Since independence in 1991, major western oil companies have dominated the oil and gas sector of Kazakhstan with BG Group, Chevron, ENI, Exxon, Shell, Total, Mobil, LUKOIL and Texaco acquiring stakes in the world-scale TCO, North Caspian and Karachaganak projects. Investment from Asian oil and gas companies began in the late 1990s led by Indonesia's Central Asia Petroleum (which acquired a 60% share in Mangistaumunaigas in 1997) and CNPC International (which purchased 60% of Aktobemunaigas in 1997 and PetroKazakhstan in 2005). CNPC International has continued to invest heavily in the country and has been joined by, among others, Inpex, Sinopec and KNOC. LUKOIL and Rosneft have led the investment of Russian oil and gas companies in Kazakhstan with a focus on the offshore Caspian. The following table shows foreign investments in the operating entities in the Kazakhstan oil and gas sector by production.

<u>Company</u>	<u>Foreign Investors</u>	<u>Production</u> (thousand bopd)
1. TCO (Tengizchevroil)	Chevron Texaco, ExxonMobil, LukArco	290
2. KPO (Karachaganak)	Eni, BG, ChevronTexaco, LUKOIL	244
3. The Company	Subject of the Global Offer	188
4. Aktobemunaigas	CNPC	123
5. Mangistaumunaigas	Central Asia Petroleum	109
6. PKZ Kumkol	CNPCI (acquired PKZ)	105
7. Turgai Petroleum	LUKOIL, CNPC	72
8. KazGerMunai	CNPCI (through PKZ)	60
9. Karazhanbasmunai	Nations Energy	44
10. Kazakhoil Aktoby	LUKOIL	31

Note: The table does not include Kashagan, which is still under development.

Alongside this investment by international and national oil companies, foreign exploration and production companies such as PetroKazakhstan and Nelson Resources, launched their Kazakh operations in 1996 and 2000, respectively, and built positions as Kazakh focused oil producers. The last few years has also seen renewed interest, particularly in Western Kazakhstan, from numerous smaller companies which have been attracted by development opportunities and the region's existing infrastructure. Examples of companies in this peer group include, among others, Arawak Energy, Aurado Energy, BMB Munai, Big Sky Energy, Canargo Energy, Caspian Holdings, Transmeridian and Victoria Oil and Gas.

The recent push by oil companies to secure access to reserves has led to a rapid increase in global mergers and acquisitions activity. Kazakhstan has seen its share of consolidation with the acquisition by CNPC International of PetroKazakhstan in October 2005 followed by LUKOIL's acquisition of Nelson Resources in December 2005. Further activity is expected as companies compete for licences, acreage and producing properties in oil-rich regions in the world.

As such, the Company expects to compete for reserves not only with regional oil companies but also with the global major oil producers. The Company believes that the rights granted to it under the Services Agreement will provide the Company with a competitive advantage over its competitors for onshore reserves in Kazakhstan.

Competition for Pipeline Access

Currently, the Company exports a majority of its crude through the UAS pipeline with the remainder transported through the CPC pipeline. The Company has access rights to UAS pipeline capacity until the end of December 2012 and has a reasonable endeavours agreement in its favour with NC KMG for additional capacity in this pipeline if its capacity is expanded. The Government's share of capacity in the CPC pipeline is currently allocated through NC KMG as well as through Kazakhstan Pipeline Ventures. The Company is the "affiliated shipper" for NC KMG (a shareholder in CPC) and, consequently, has rights to ship crude oil through CPC until 31 December 2008. See "The Company—Crude Oil Transportation".

NC KMG owns an 8.33% stake in the North Caspian project (“Kashagan field”) which is expected to begin production in 2008. This project is expected to rely primarily on the CPC pipeline and the Baku-Tbilisi-Ceyhan pipeline for exporting its crude oil and NC KMG’s share of this crude oil will likely be allocated to the Government’s capacity allocation in the CPC pipeline. The CPC shareholders are currently holding negotiations for the expansion of the capacity of the CPC pipeline to up to 67 million tonnes of crude oil per annum. As part of the Services Agreement, the Company has received an undertaking by NC KMG to use reasonable endeavours to nominate the Company as the “affiliated shipper” of NC KMG (including all rights and obligations pursuant to which NC KMG has access to the CPC pipeline) for deliveries of crude oil through the CPC pipeline. This undertaking will be highly beneficial to the Company and will allow secured access for its exports. However, the Services Agreement is subject to annual renewal. See “Risk Factors—Risk Factors Relating to the Company’s Relationship with NC KMG—If NC KMG fails to participate in the annual tender for the renewal of the Services Agreement, the Company will lose its rights under the Services Agreement”.

With rising Kazakh oil production, there is further interest in developing multiple export routes. The construction of the Atasu-Alashankou pipeline between Kazakhstan and China was completed in December 2005. The Government is also working on an agreement with the government of Azerbaijan for Kazakh oil shipments through the Baku-Tbilisi-Ceyhan pipeline. Other export routes are being considered but economic and geo-political factors are likely to be key impediments.

As a result of its agreements with KTO and the Services Agreement with NC KMG, see “The Company—Strengths—Access to export pipeline routes”, the Company believes that the arrangements it has in place provide it with sufficient pipeline capacity for its planned production.

THE COMPANY

OVERVIEW

The Company was created in March 2004 through the merger of JSC UzenMunaiGas and JSC EmbaMunaiGas and the Company is the third largest crude oil producer in the Republic of Kazakhstan (based on MEMR 2005 data) in terms of annual production volumes of hydrocarbons (including crude oil), with proved plus probable oil reserves of approximately 1,515.2 million barrels (205.9 million tonnes) according to GCA. The Company is engaged in the production of crude oil and gas and undertakes its hydrocarbon exploration activities in order to maintain and augment its reserve base.

The Company extracts hydrocarbon resources from 44 oil and gas fields located in western Kazakhstan. MEMR has granted the Company exclusive rights for exploration and production on these fields pursuant to the terms of existing licences and contracts. The Company conducts its principal exploration and production activities within the geographic area specified in these production contracts and licences through its UMG and EMG production divisions in the Mangistau and Atyrau regions, respectively. In this document, the seven fields operated by the UMG division are referred to as the “UMG fields” and the 37 fields operated by the EMG division are referred to as the “EMG fields”. Together, the UMG fields and the EMG fields cover an area of 837.4 square kilometres. As at 31 December 2005, the estimated proved plus probable oil reserves at the UMG fields were 155.9 million tonnes (1,147.3 million barrels) and at the EMG fields were 50.0 million tonnes (367.9 million barrels). The report of GCA setting forth the Company’s estimated proved, probable and possible oil reserves is included in the section headed “GCA Report”.

For estimating reserves of gas and gas condensate, the Company uses the Kazakhstan methodology for the calculation of reserves developed by scientific-research institutes in Kazakhstan and further approved by the State Committee for Reserves of the Republic of Kazakhstan. The estimated proved gas and gas condensate reserves at the UMG fields of the Company were 16.3 billion cubic metres and 1.6 million tonnes (about 12.7 million barrels), respectively. Applying the reserves definition as promulgated by the SPE/WPC, GCA has determined that the Company does not have any gas reserves as the volumes available are not commercially viable.

In 2005, the Company produced approximately 9.3 million tonnes (188.3 thousand bopd) of crude oil. From 1 January 2002 to 31 December 2005, the compound annual growth rate in the Company’s oil production was 9% and the Company produced a cumulative total of approximately 33.5 million tonnes (246.6 million barrels) of crude oil over that period.

As described in “—Exploration”, the Company is currently conducting or planning to conduct exploration activities in several regions in onshore Kazakhstan, including the R-9, Liman, and Taisoigan blocks, the territories adjoining, and the Triassic reservoirs of, the Uzen and Karamandybas fields, and is planning exploration with a view to expanding the Nurzhanov, Makat East and Akingen fields.

The Company faces competition primarily in relation to acquisition of reserves and access to pipelines for transport of its products. See “Competition”.

STRENGTHS

The Company’s key strengths are principally based on its relationship with NC KMG set forth in the Services Agreement. The Company believes its key strengths are the following:

- *Right of first refusal through NC KMG for existing onshore subsoil oil and gas exploration and production contracts.* Under current Kazakhstan law, the state is entitled to a right of first refusal to acquire from the holder any interest in an existing onshore subsoil oil and gas exploration and production contract in Kazakhstan that the holder proposes to transfer, on terms at least as favourable as those offered by the holder to the proposed transferee. The Services Agreement, which expires on 31 December 2006 and must be renewed by annual tender, provides that NC KMG must make reasonable efforts, if requested to do so by the Company, to procure the State to exercise this right of first refusal on behalf of the Company over any existing contracts that are proposed to be transferred.
- *Preferential Access through NC KMG to rights to unlicensed onshore oil and gas acreage.* Under the Services Agreement, the Company has the right to request that NC KMG exercise its right under Kazakhstan law to enter into direct negotiations for exploration and production contracts with respect to any unlicensed oil and gas acreage in Kazakhstan without engaging in a tender process. Pursuant to the Services Agreement, NC KMG has undertaken with the Company that, if any such unlicensed oil and gas acreage is licenced to NC KMG, it will, at the Company’s request, grant a

right of first refusal to acquire the oil and gas exploration and production contracts for such acreage. NC KMG's undertakings under the Services Agreement will remain in effect for so long as the agreement, which is subject to annual renewal, remains in force. See "Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates".

- *Significant existing oil reserve base.* As of 31 December 2005, the Company's estimated proved plus probable oil reserves at the UMG fields and EMG fields were 205.9 million tonnes (1,515.2 million barrels), of which 42% were classified as proved reserves. The UMG fields include the Uzen field, which is the third largest oil field in Kazakhstan in terms of current annual crude oil production volumes. The Company has exclusive rights under its contracts and licences with MEMR to develop the UMG fields and EMG fields until up to 2025 depending on the field. Upon completion of the Global Offering, the Company will be the largest publicly-listed crude oil production company operating predominantly in Kazakhstan, based on both production and reserves.
- *Extensive experience in crude oil and gas production.* Although the Company was created on 31 March 2004, the history of its production divisions goes back nearly 100 years which gives the Company extensive knowledge of the geology of its fields and of exploration and production in the region. EMG was the precursor of the oil industry in Kazakhstan and many of the most significant oil professionals in Kazakhstan received their first work experience there. UMG has been engaged in production activity since 1965.

The top management of the Company has substantial technical and commercial professional experience in the oil and gas sector and has played a key role in the creation and development of such major projects as TCO, Kashagan and Karachaganak. It has also taken part in formulating the state development programme for the Kazakhstan sector of the Caspian Sea.

From 1 January 2002 to 31 December 2005, the compound annual growth rate in the Company's oil production was 9% and the Company produced a cumulative total of approximately 33.5 million tonnes (about 246.6 million barrels) of crude oil over that period. The Company has achieved this growth in production mainly as a result of the Uzen Rehabilitation Project, drilling new wells and completing well workovers and applying enhanced oil recovery methods. In addition, it has applied well stimulation techniques such as hydraulic fracturing and a range of thermal and chemical methods. In this way, the Company expects its annual level of production at the UMG fields and EMG fields to remain stable in the medium term. The Company believes its long production history and comprehensive understanding of the geology of its fields has significantly contributed to its strong record of production growth.

- *Access to export pipeline routes.* The Company has entered into a contract with KTO that contractually guarantees its right to ship specified minimum volumes of crude oil, subject to MEMR quotas, through the UAS pipeline until the end of 2012. NC KMG has agreed in the Services Agreement to procure oil transportation capacity for the Company from KTO after 2012 on terms at least equal to those offered to third parties. In addition, the Company has the right to ship crude oil through the CPC pipeline until the end of 2008. As part of the Services Agreement, NC KMG has agreed to endeavour to nominate the Company as its "affiliated shipper" for deliveries of crude oil through the CPC pipeline for so long as the Services Agreement remains in force. See "Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates". The Company believes that these arrangements provide it with sufficient pipeline capacity for its planned production.

STRATEGY

The Company's goal is to maintain its position as a leading oil and gas company in Kazakhstan. As part of the process of achieving this, the Company has developed a five year strategy, with the following key priorities:

- *Increase the Company's overall production and replace the Company's reserves through acquisitions in the short-to-medium term and exploration in the long term.* As described under "—Exploration", the Company is currently concentrating its exploration activities on the Taisoigan, R-9 and Liman blocks and the Triassic reservoirs of the Uzen and Karamandybas fields (and adjoining territories) and on expanding the size of the Nurzhanov, Makat East and Akingen fields. The Company has entered into an option agreement to acquire the 50% interest in KazGerMunai currently held by NC KMG, although the exercise of this option is subject to a number of conditions precedent. In addition, the Company understands that NC KMG is prepared to offer to sell to the Company its 33% interest in

PetroKazakhstan (excluding any interest in the Shymkent refinery) following the Global Offer, although the Company has not entered into any definitive arrangements in respect of either such transaction. See “—Recent Developments—Possible Acquisitions”. Furthermore, the Company intends through the Services Agreement (i) to take advantage, with NC KMG’s assistance, of any exercise by the state of its right of first refusal to acquire existing onshore subsoil exploration and production contracts for oil and associated products that are transferred, and (ii) to exploit its rights to unlicensed onshore acreage for oil and associated products. Through the Services Agreement, the Company believes it is well placed to lead the consolidation of oil and gas production rights in onshore Kazakhstan. The Company may also consider strategic investments outside Kazakhstan that will enhance its reserve asset base.

- *Sustain current levels of oil production at the UMG fields and EMG fields over the medium term.* The Company intends to sustain its current level of production at the UMG fields and EMG fields over the medium term principally through drilling and completing new wells, completing well workovers and continuing various secondary and enhanced oil recovery methods. The Company expects that these recovery methods will permit it to maintain current production levels from its existing oil reserves at a volume of approximately 9.5 million tonnes (approximately 192 thousand bopd) per year over the medium term (in 2005, the volume was approximately 9.3 million tonnes or 188.3 thousand bopd).
- *Rationalise the Company’s operations by divesting non-core and ancillary businesses.* The Company believes the rationalisation of its business will enable it to focus its operating activities and strategic plans on the exploration and production of oil and gas resources in onshore Kazakhstan. As part of the Company’s Asset Optimisation Programme, the Company has begun divesting its ownership interests in most of its subsidiaries whose operations are non-core to the Company’s upstream operations and development strategy. In December 2005, the Company sold its interest in the Atyrau Refinery to a subsidiary of NC KMG. An agreement is in place for the sale, not yet fully completed, of the Company’s 35% interest in JSC Kazakhstan Petrochemical Industries (formerly known as JSC Atoll), a petrochemical operation, to the other shareholder, LLP SAT & Company, for KZT3.4 billion. This amount was due on 30 June 2006, and is still outstanding as an unprovisioned receivable. The Company is currently considering selling its remaining 15% stake on JSC Kazakhstan Petrochemical Industries.
- *Bring the Company’s operations into line with international environmental, labour and safety standards.* As part of its development plan, the Company is in the process of implementing policies that it believes will enable it to meet international standards for environmental protection, human resource management and employee safety in all of the Company’s operations.
- *Cost Reduction Plan.* The Company has developed a cost reduction plan designed to enable significant cost reductions. The central components of this plan include: (i) optimisation of production through the application of enhanced reservoir modelling capabilities; (ii) extending well lives of existing fields through the application of electric rotary and screw pumps, in addition to monitoring the quality of oil well tubing; (iii) increasing pipeline life through the replacement of steel pipes with fibreglass pipes; (iv) modernisation of collection and preparation stations including the construction of a new preparation facility at Uzen; and (v) optimisation of logistics and business processes through the automation and improvement of measurement and other systems. The objective of these cost saving initiatives is a reduction in annual operating expenses of US\$100 million by 2010 compared with 2005.

HISTORY AND ORGANISATIONAL STRUCTURE

The Company’s share capital is divided into Shares (which carry the right to vote) and preference shares (which do not carry the right to vote). The Company’s major shareholder is NC KMG which, prior to the Global Offer, and after the Pre-emptive Offer, held Shares comprising 96.9% of the Company’s voting share capital. Following the Global Offer NC KMG will own at least 60.1% of the Company’s voting share capital. See “Principal Shareholders Relationship with NC KMG and Related Party Transactions”, and “Description of Share Capital and Certain Requirements of Kazakhstan Legislation”.

NC KMG is wholly-owned by the state holding company JSC Kazakhstan Holding Company For The Management Of State Assets Samruk (“Samruk”) which in turn is wholly-owned by the Government. See “Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Principal Shareholders—Samruk.” The following is a brief summary of the establishment and reorganisations of the various oil and gas companies that were eventually combined to form the Company.

Prior to 1991, when Kazakhstan became an independent sovereign state, various state-owned entities operated the UMG fields and EMG fields under the management systems of the Soviet Union. During the early 1990s, the Kazakh oil and gas regulatory bodies created a number of joint stock companies to carry out exploration and production activities within the Republic of Kazakhstan. In March 1993, the President of the Republic of Kazakhstan approved a programme for the partial privatisation of these state-owned companies through a process called a “specialised coupon auction”. Prior to the merger of EMG and UMG, non-voting preference shares were offered to the employees of EMG and UMG, and, through a specialised coupon privatisation auction process, voting shares were sold to certain investment funds. As a consequence of this merger, non-voting preference shares of the Company are held by employees and 2.1% of voting shares are held by private investors.

In 1997, the Government transferred all of its Shares in EMG and UMG to KazakhOil NNC CJSC, the Kazakh national oil company. KazakhOil NNC CJSC and Oil & Gas Transportation NC CJSC, the national oil and gas transportation company, then merged to form NC KMG in February 2002. In March 2004, the merger of EMG and UMG resulted in the creation of the Company. The Company currently conducts its exploration and production operations through its EMG and UMG production divisions. For a description of the Company’s production divisions, see “—Operations—Production”. In December 2005, the Company divested its interest in the Atyrau Refinery and a portion of its interest in JSC Kazakhstan Petrochemical Industries, a petrochemicals operation. In addition, in order to focus upon the Company’s core business operations, the Company is in the process of disposing of its non-core and ancillary businesses pursuant to an Asset Optimisation Programme approved by the Board of Directors in December 2005. For a further description, see “—Asset Optimisation Programme”.

The Company’s corporate headquarters are located in Astana, Kazakhstan. The headquarters of the UMG and EMG production divisions are located in Zhanaozen and Atyrau, respectively. As at 31 May 2006, the number of employees of the Group was 22,663. See “—Employees, Health and Safety—Employees”.

OVERVIEW OF RELATIONSHIP WITH AND ROLE OF THE COMPANY’S PARENT COMPANY

NC KMG is the national company for oil and gas operations in the Republic of Kazakhstan. NC KMG is a holding company for approximately 35 companies, which include certain oil and gas companies operating in Kazakhstan and various other companies that are focused on activities other than exploration. NC KMG and its subsidiaries conduct their business in Kazakhstan and with neighbouring countries including Iran.

According to its charter, NC KMG’s main objectives are to create and develop a vertically integrated structure capable of implementing government policy in Kazakhstan’s oil and gas sector, ensure the security of the Republic of Kazakhstan’s energy supplies, ensure the effective development of energy resources and assist in the overall regulation and progress of the industry in the Republic of Kazakhstan, including by encouraging various types of investment in the oil and gas sector.

NC KMG and its subsidiaries also own or have an interest in oil production companies such as TCO, KazGerMunai, PetroKazakhstan, the North Caspian project and others, in a wide network of oil and gas pipelines, including KTO, CPC, KazTransGas and Kazakhstan Pipelines Ventures, trading and marketing businesses such as KMG TradeHouse and KazRosGas and in other petroleum-related businesses operating in Kazakhstan. See “Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates—KMG TradeHouse Agreements”.

After the Global Offer, NC KMG will continue to hold over 60% of the Company’s voting share capital even if the Underwriters do not exercise the Underwriters’ Put Option and as a result will continue to have significant influence over the strategy and activities of the Company.

Notwithstanding the provisions of the Relationship Agreement and the Charter, NC KMG will be able to exercise considerable influence over the results of voting of shareholders, over the selection of directors, over decisions of the Board of Directors and over other decisions relating to the Company. The Company currently enjoys a good relationship with NC KMG and its affiliates.

The arrangements between the Company and NC KMG are set out more fully in the Services Agreement and the Relationship Agreement (see “Principal Shareholders, Relationship With NC KMG And Related Party Transactions”).

RECENT DEVELOPMENTS

Disposal of Atyrau Refinery and Petrochemicals

As part of its strategy of rationalising the Company's operations, the Company has begun divesting its ownership interests in most of its subsidiaries whose operations are non-core to the Company's upstream operations and development strategy. In December 2005, the Company sold its interest in the Atyrau Refinery to a subsidiary of NC KMG. An agreement is in place for the sale but not yet fully completed, of the Company's 35% interest in JSC Kazakhstan Petrochemical Industries, a petrochemical operation, to LLP SAT & Company. The sale amount was due on 20 June 2006 and is still outstanding as an unprovisioned receivable. The Company is currently considering selling its remaining 15% stake in JSC Kazakhstan Petrochemical Industries.

Possible Acquisitions

In July 2006, NC KMG acquired a 50% stake in KazGerMunai for approximately US\$1 billion and a 33% stake in PetroKazakhstan for approximately US\$1.4 billion.

The Company is considering the possibility of acquiring these assets from NC KMG (but is under no obligation to do so). If the Company does determine to proceed with either acquisition, it will be subject to certain conditions precedent including full due diligence by the Company, approval of the majority of the Independent Non-Executive Directors, sending a circular to shareholders (including holders of GDRs) and receipt of the approval of the transaction by a simple majority vote at a shareholders' meeting at which GDR holders have the opportunity to vote their underlying Shares and NC KMG does not vote.

The information provided below regarding KazGerMunai and PetroKazakhstan has been extracted from publicly available information, including 2004 annual financial statements of PetroKazakhstan, prepared in accordance with Canadian GAAP. The Company has not undertaken any review of or performed diligence on the information regarding KazGerMunai and PetroKazakhstan provided below or elsewhere in this document.

KazGerMunai

NC KMG has recently acquired 50% of the participating interests in KazGerMunai; the remaining 50% is owned by PetroKazakhstan. The Company has entered into an option agreement with NC KMG to acquire its interest in KazGerMunai. See "Principal Shareholders, Relationship With NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates—Option Agreement for KazGerMunai."

KazGerMunai, which was formed in 1993, holds the exploration and production licences for the Akshabulak, Nurali and Aksai fields in Kazakhstan. As of 31 December 2004, those three fields contained aggregate estimated proved plus probable oil reserves of 375.4 million barrels. KazGerMunai produced 37.5 thousand bopd in 2005, 45.4 thousand bopd in 2004 and 33.2 thousand bopd in 2003. The decline in 2005 production was a result of cut backs initiated in April 2005 in order to comply with instructions from the MEP to stop gas flaring immediately, in accordance with legislation passed in December 2004. KazGerMunai sells all of its crude oil into the export market. Its total revenues in 2004 and 2003 were US\$451.8 million and US\$223.8 million, respectively.

On 30 June 2006, the Company entered into an option agreement with NC KMG to acquire NC KMG's interest in KazGerMunai, representing 50% of the participatory interests in KazGerMunai (the "KazGerMunai Interest"). Under the terms of the option agreement, in consideration of the Company providing financial support to NC KMG to finance NC KMG's acquisition of the KazGerMunai Interest, the Company was granted an option, which if exercised will enable it to acquire the KazGerMunai Interest at a price to be negotiated and determined between the Company and NC KMG in good faith.

Under this option agreement, NC KMG is bound for a period of 18 months—which may be extended for a further six months—following the closing of the acquisition of the KazGerMunai Interest (i) not to negotiate the sale of the KazGerMunai Interest to a third party; (ii) to permit the Company to carry out its due diligence of KazGerMunai; and (iii) to use all reasonable endeavours to procure that the other shareholders in KazGerMunai provide access to facilities, personnel and information, such as financial statements and information in relation to oil reserves, when the Company exercises its option.

Any exercise of the option will be subject to certain conditions (including independent shareholder approval) as described above. The Company can give no assurance that it will exercise the option (and is under no obligation to do so), agree the price and other terms at which it may acquire the interest or receive the relevant approvals or if it does, that it will be able to complete the acquisition.

PetroKazakhstan

PetroKazakhstan was formed in 1986 and operates in the 80,000 square kilometre South Turgai Basin in South Central Kazakhstan. PetroKazakhstan has interests in 11 fields; as at 31 December 2004 these fields contained aggregate estimated proved plus probable oil reserves of 549.8 million barrels. PetroKazakhstan produced 117 thousand bopd in 2005, 151.1 thousand bopd in 2004 and 151.3 thousand bopd in 2003. The decline in 2005 production was a result of cut backs initiated in April 2005 in order to comply with instructions from the MEP to stop gas flaring immediately, in accordance with legislation passed in December 2004. Its total revenues in 2004 and 2003 were US\$1.6 billion and US\$1.1 billion, respectively. NC KMG has recently acquired a 33% stake in PetroKazakhstan for US\$1.4 billion from CNPC.

The Company is aware that NC KMG is prepared to offer its stake (excluding any interest in the Shymkent refinery) after the Global Offer. The terms of this transaction have yet to be agreed but are likely to be similar in effect to the terms of the option agreement for KazGerMunai. Any such transaction will be subject to similar conditions precedent (including independent shareholder approval) as described above. (See “—Possible Acquisitions—KazGerMunai”).

OPERATIONS

Overview

The Company is the third largest crude oil producer in the Republic of Kazakhstan (based on 2005 data) in terms of current annual production volumes of hydrocarbons (including crude oil). All of the Company's crude oil and gas reserves and production-related assets are located onshore in western Kazakhstan in the Pre-Caspian and Mangistau basins, which have constituted the major oil producing regions in Kazakhstan throughout the twentieth century. Production from some of the EMG fields, located in the Pre-Caspian basin, dates back to 1911, but the start of production at the Uzen field, located in the Mangistau basin, in 1965 marked the beginning of the Company's predecessor's large-scale production activities. The UMG fields together cover an area of 459.8 square kilometres and the EMG fields together cover an area of 377.6 square kilometres.

The Company conducts its production activities at the UMG fields and EMG fields through its UMG and EMG production divisions. The UMG and EMG production divisions consist of several oil and gas production units which carry out production-related activities. There are also well workover units, drilling units and others.

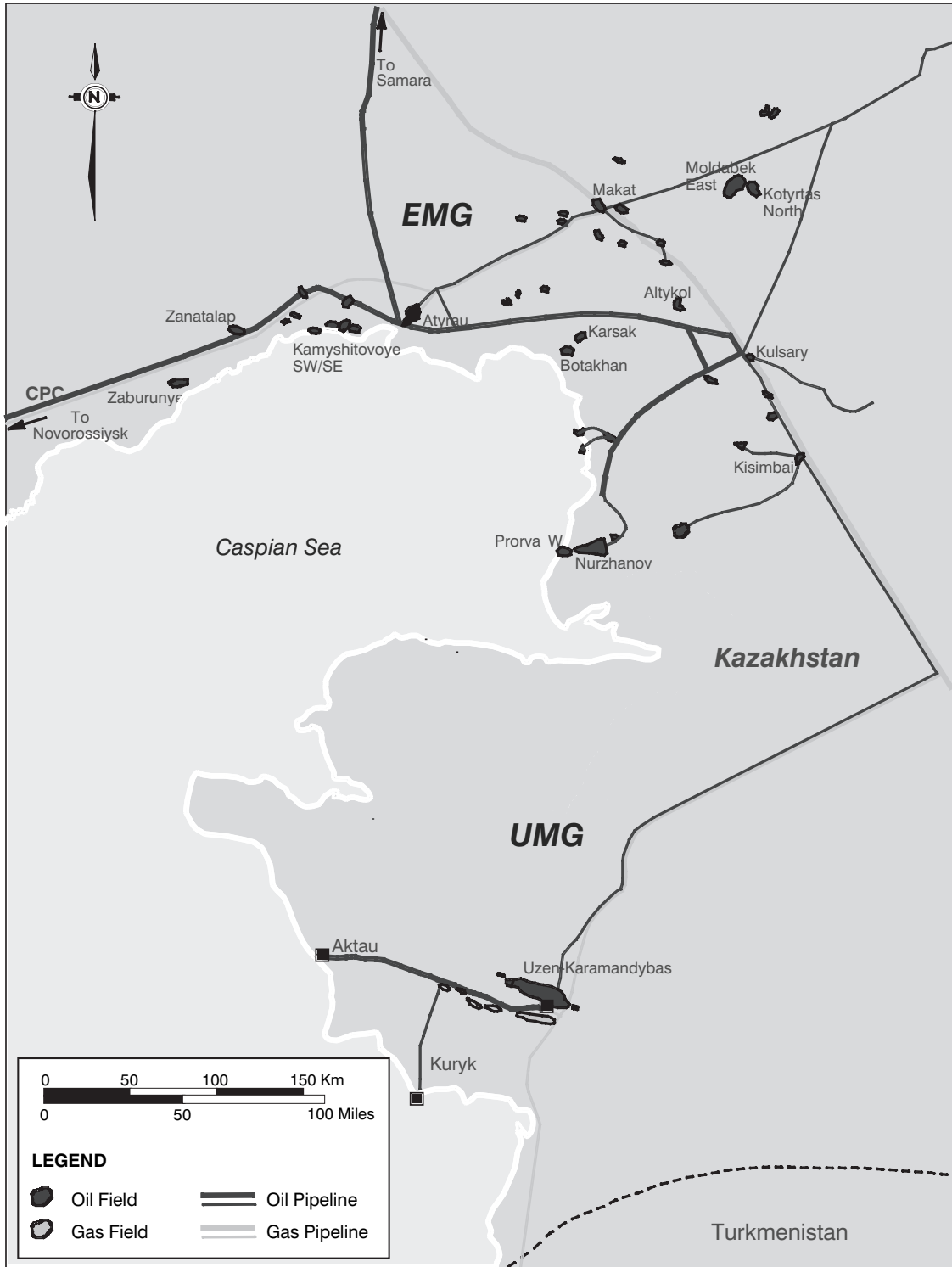
As of 31 December 2005, the Company's estimated proved plus probable oil reserves at the UMG fields were 155.9 million tonnes (1,147.3 million barrels) and the Company's estimated proved plus probable oil reserves at the EMG fields were 50.0 million tonnes (367.9 million barrels). The Company estimates (using Kazakhstan methodology) that recoverable reserves of gas and gas condensate at the UMG fields as of 31 December 2005, were 16.3 billion cubic metres and 1.6 million tonnes (12.7 million barrels), respectively. GCA has determined that the Company does not have any gas reserves as the volumes available are not commercially viable.

In 2005, oil production at the UMG fields and EMG fields was 6.5 million tonnes (132.0 thousand bopd) and 2.8 million tonnes (56.3 thousand bopd) respectively. For the five months ended 31 May 2006, oil production at the UMG fields and EMG fields was 2.7 million tonnes and 1.1 million tonnes (132.7 thousand bopd and 55.3 thousand bopd, respectively). In 2005, gas production at the UMG fields was 812.1 million cubic metres and gas condensate production at the UMG fields was 23.3 thousand tonnes (about 502 bcpd). For the five months ended 31 May 2006, gas production at the UMG fields was 311 million cubic metres and gas condensate production at the UMG fields was 8.4 thousand tonnes (about 439 bcpd). See “—Gas Processing Plant” for a description of how this gas is used.

The Company explores and produces oil and gas at the UMG fields and EMG fields on the basis of contracts and licences granted by MEMR. As part of these contracts and licences, there are a variety of taxes, fees and cash royalty payments, including excess profit taxes and social obligations, which the Company is obliged to pay. See “—Licences and Contracts” for a summary of the key terms of the Company's contracts and oil and gas exploration and production licences.

The Company owns and maintains a network of pipelines almost 7,000 km in length together with a network of waterlines and gas pipelines which are generally in good working condition. Between 1 January 2000 and 31 December 2005, the Company repaired approximately 11% of its field pipelines (which include oil pipelines, waterlines and gas pipelines).

The following map sets forth the location of the principal UMG fields and EMG fields:



The UMG Fields

The UMG fields are comprised of the following seven fields:

- Uzen (oil and gas);
- Karamandybas (oil and gas);
- Zhetybai South (gas and gas condensate);
- Tenge West (gas and gas condensate);
- Aktas (gas and gas condensate);

- Tasbulat (gas and gas condensate); and
- EastUzen (gas).

The UMG fields comprised approximately 76% of the Company's total proved plus probable oil reserves as of 31 December 2005, with proved plus probable reserves of 155.9 million tonnes (1,147.3 million barrels) of crude oil. The Company estimates (using Kazakhstan methodology) that recoverable reserves of gas and gas condensate at the UMG fields as of 31 December 2005 were 16.3 billion cubic metres and 1.6 million tonnes (about 12.7 million barrels) respectively.

As of 31 December 2005, the UMG fields had 3,615 production wells and 1,244 injection wells.

The following is a summary of the principal characteristics of the UMG fields for 2005. For production information for the five months ended 31 May 2006, see “—Production—Oil Production”.

Uzen Field

The Uzen field was the third largest oilfield in Kazakhstan in terms of 2005 annual crude oil production volumes. The Uzen field was discovered in 1961 and has been in production since 1965. It is the Company's largest oil field both in terms of crude oil reserves and production volume and, as of 31 December 2005, comprised approximately 73% of the Company's total proved plus probable oil reserves and 22% of the Company's total recoverable gas reserves (according to Kazakhstan methodology). As at 31 December 2005, GCA estimated that proved plus probable reserves at the Uzen field were 149.6 million tonnes (1,100.8 million barrels) of crude oil. The Company has estimated the field has reserves of 3,603 million cubic metres of gas (according to Kazakhstan methodology).

Oil production at the Uzen field is from 13 horizons or strata in the Jurassic formation, located at depths shallower than 1,800 metres. In 2005, the Uzen field produced 6.2 million tonnes of oil (124.1 thousand bopd) with 3,316 producing wells as at 31 December 2005 and produced 27.4 million cubic metres of gas. In 2005, the Uzen field comprised 66% of the Company's total oil production volume and 3% of the Company's total gas production volume.

Karamandybas Field

The Karamandybas field was discovered in the mid-1960s to the west of the Uzen field. The Karamandybas field has been producing since 1973. As of 31 December 2005, as estimated by GCA, it comprised approximately 3% of the Company's total proved plus probable oil reserves. The Company estimates (using Kazakhstan methodology) that, as of 31 December 2005, it comprised 18% of the Company's total recoverable gas reserves. As of 31 December 2005, GCA estimated that proved plus probable reserves at the Karamandybas field were 6.3 million tonnes (46.5 million barrels) of crude oil. The Company has estimated the field has reserves of 2,951 million cubic metres of gas (according to Kazakhstan methodology).

Oil production at the Karamandybas field is from nine horizons in the Jurassic formations, located at depths shallower than 2,200 metres. In 2005, the Karamandybas field produced 394.5 thousand tonnes of oil (8.0 thousand bopd) from 299 producing wells and produced 30.1 million cubic metres of gas. In 2005, the Karamandybas field comprised 4.2% of the Company's total oil production volume and 3.7% of the Company's total gas production volume.

Other Gas and Gas Condensate Fields

In addition to the Uzen and Karamandybas oil fields, the UMG fields contain gas and/or gas condensate reserves at the Zhetybai South, Tenge West, Aktas and Tasbulat and Eastern Uzen fields. The Company estimates (using Kazakhstan methodology) that, as of 31 December 2005, these fields comprised approximately 60% and 100% of the Company's total gas and gas condensate reserves, respectively. The Company estimates (using Kazakhstan methodology) that recoverable reserves at these fields were 9.7 billion cubic metres of gas and 1.6 million tonnes (12.7 million barrels) of gas condensate as of 31 December 2005.

In 2005, these fields produced 754.6 million cubic metres of gas and 23.3 thousand tonnes (502 bcpd) of gas condensate and comprised 93% and 100% of the Company's total gas and gas condensate production volumes, respectively.

The UMG fields also have a gas processing plant with an installed capacity of 1.5 billion cubic metres of gas and 91.6 thousand tonnes (1.8 thousand bcpd) of gas condensate. See “—Gas Processing Plant” for a further description of the Company’s gas processing plant.

Technical Information

Treated crude oil extracted from the UMG fields generally has an API gravity of 35-37 degrees and a sulphur mass fraction percentage of between 0.16% and 0.24%. The Company’s primary benchmark crudes are Urals Blend (approximately 33 degrees API with 1.25% sulphur), CPC Blend (approximately 42–43 degrees API with 0.5%–0.6% sulphur) and Brent (approximately 38 degrees API and with 0.4% sulphur). Generally, the Company’s oil has a relatively high water content, or water cut.

Transportation

The Uzen and Karamandybas fields are linked to the UAS pipeline, to the Atyrau Refinery and via the UAS pipeline to the CPC oil pipeline, and through a network of field pipelines to the Aktau seaport. The gas and gas condensate fields are linked to the Company’s gas processing plant at Uzen and by gas pipeline to Aktau. During 2005, approximately 236 kilometres of the field pipelines in the UMG fields were repaired.

The EMG Fields

The EMG fields comprise a total of 37 oil fields located around the northern and eastern shores of the Caspian Sea. Thirty-five of the EMG fields are in production and the two remaining fields, the Sagiz and Tazhigali fields, are shut in due to depletion and sea water flooding. Of the producing EMG fields, the following eight fields are the largest in terms of reserves as well as in terms of production volume:

- Kenbai (Moldabek East/North Kotyrtas);
- Kamyshitovoye South-West;
- Zaburunye;
- Zhanatalap;
- Nurzhanov;
- Botakhan;
- Makat East; and
- Kamyshitovoye South-East.

The 35 producing EMG fields comprised approximately 24% of the Company’s total proved plus probable oil reserves as at 31 December 2005, with proved plus probable reserves of 50.0 million tonnes (367.9 million barrels) of crude oil.

The eight largest EMG fields listed above accounted for approximately 74% of the total proved plus probable reserves of the EMG fields as of 31 December 2005, and 72% of the total crude oil production at the EMG fields in 2005.

As at 31 December 2005, the EMG fields comprised 2,175 production wells and 435 injection wells.

The following is summary of principal characteristics of the eight major EMG fields listed above for 2005. For production information for the five months ended 31 May 2006, see “—Production—Oil Production”.

Kenbai (Moldabek East/North Kotyrtas)

The Kenbai (Moldabek East/North Kotyrtas) field was discovered in 1986 and has been producing since 1996. As of 31 December 2005, proved plus probable oil reserves at the Kenbai (Moldabek East/North Kotyrtas) field were 4.6 million tonnes (33.7 million barrels), which accounted for approximately 2.2% of the Company’s total proved plus probable oil reserves. Production is from 15 horizons in the Cretaceous, Jurassic and Triassic formations, located at depths shallower than 1,900 metres. In 2005, the Kenbai (Moldabek East/North Kotyrtas) field produced 422 thousand tonnes of oil (8.5 thousand bopd), or 4.5% of the Company’s total oil production, from 327 producing wells.

Kamyshitovoye South-West

The Kamyshitovoye South-West field was discovered in 1967 and has been producing since 1972. As of 31 December 2005, proved plus probable oil reserves at the Kamyshitovoye South-West field were 6.4 million tonnes (47.3 million barrels), which accounted for approximately 3% of the Company's total proved plus probable oil reserves. Production is from seven horizons in the Cretaceous, Jurassic and Permian formations, located at depths shallower than 850 metres. In 2005, the Kamyshitovoye South-West field produced 240 thousand tonnes of oil (4.8 thousand bopd), or 2.6% of the Company's total oil production, from 185 producing wells.

Zaburunye

The Zaburunye field was discovered in 1982 and has been producing since 1989. As of 31 December 2005, proved plus probable oil reserves at the Zaburunye field were 3.7 million tonnes (27.4 million barrels), which accounted for approximately 1.8% of the Company's total proved plus probable oil reserves. Production is from three horizons in the Cretaceous formation, located at depths shallower than 920 metres. In 2005, the Zaburunye field produced 203 thousand tonnes of oil (4.1 thousand bopd), or 2.2% of the Company's total oil production, from 80 producing wells.

Zhanatalap

The Zhanatalap field was discovered in 1968 and has been producing since 1974. As of 31 December 2005, proved plus probable oil reserves at the Zhanatalap field were 4.4 million tonnes (32.4 million barrels) of crude oil, which accounted for approximately 2.1% of the Company's total proved plus probable oil reserves. Production is from seven horizons in the Jurassic and Permian formations, located at depths shallower than 1,200 metres. In 2005, the Zhanatalap field produced 168 thousand tonnes of oil (3.4 thousand bopd), or 1.8% of the Company's total oil production, from 76 producing wells.

Nurzhanov

The Nurzhanov field was discovered in 1964 and has been producing since 1967. As of 31 December 2005, proved plus probable oil reserves at the Nurzhanov field were 8.2 million tonnes (60.6 million barrels), which accounted for approximately 4% of the Company's total proved plus probable oil reserves. Production is from nine horizons in the Cretaceous, Jurassic and Triassic formations, located at depths shallower than 3,320 metres. In 2005, the Nurzhanov field produced 377 thousand tonnes of oil (7.6 thousand bopd), or 4% of the Company's total oil production, from 136 producing wells. The Nurzhanov field also includes the West field of Central-East Prorva.

Botakhan

The Botakhan field was discovered in 1980 and has been producing since 1981. As of 31 December 2005, proved plus probable oil reserves at the Botakhan field were 2.7 million tonnes (20.0 million barrels), which accounted for approximately 1.3% of the Company's total proved plus probable oil reserves. Production is from two horizons in the Jurassic formation, located at depths shallower than 1,400 metres. In 2005, the Botakhan field produced 229 thousand tonnes of oil (4.6 thousand bopd), or 2.5% of the Company's total oil production, from 102 producing wells.

Makat East

The Makat East field was discovered in 1988 and has been producing since 1993. As of 31 December 2005, proved plus probable reserves at the Makat East field were 4.0 million tonnes (29.2 million barrels) of crude oil, which accounted for approximately 1.9% of the Company's total proved plus probable oil reserves. Production is from six horizons in the Cretaceous, Jurassic and Permian formations, located at depths shallower than 1,350 metres. In 2005, the Makat East field produced 225 thousand tonnes of oil (4.5 thousand bopd), or 2.4% of the Company's total oil production, from 52 producing wells.

Kamyshitovoye South-East

The Kamyshitovoye South-East field was discovered in 1982 and has been producing since 1987. As of 31 December 2005, proved plus probable reserves at the Kamyshitovoye South-East field were 3.0 million tonnes (22.0 million barrels), which accounted for approximately 1.5% of the Company's total proved plus

probable oil reserves. Production is from four horizons in the Cretaceous and Jurassic formations, located at depths shallower than 650 metres. In 2005, the Kamyshitovoye South-East field produced 146 thousand tonnes of oil (3.0 thousand bopd), or 1.6% of the Company's total oil production, from 70 producing wells.

Technical Information

Treated crude oil extracted from the EMG fields generally has an API gravity of 22 to 45 degrees and a sulphur mass fraction percentage of between 0.01% and 1.38%. Generally, the Company's oil tends to have a relatively high water content, or water cut. The Company's primary benchmark crudes are CPC Blend (approximately 42–43 degrees API and with 0.5%–0.6% sulphur) and Urals Blend (approximately 33 degrees API with 1.25% sulphur) and Brent (approximately 38 degrees API and with 0.4% sulphur).

Transportation

The EMG fields are linked through a network of field pipelines to the UAS pipeline (giving access to the Atyrau Refinery) and to the CPC oil pipeline (via the UAS pipeline). During 2005, approximately 107 kilometres of the field pipelines in the EMG fields were repaired.

Company's Reserves

As of 31 December 2005, proved plus probable oil reserves at the UMG fields were 155.9 million tonnes (about 1,147.3 million barrels), proved plus probable oil reserves at the EMG fields were 50.0 million tonnes (about 367.9 million barrels). The Company estimates (using Kazakhstan methodology) that recoverable reserves of gas and gas condensate at the UMG fields were 16.3 billion cubic metres of gas and 1.6 million tonnes (12.7 million barrels), respectively.

Oil Reserves

The Company's proved, probable and possible oil reserves at the UMG fields and the EMG fields as of 31 December 2005 are set forth in the table below:

	Proved	Proved plus Probable (million tonnes)	Proved plus Probable plus Possible	Proved	Proved plus Probable (million barrels)	Proved plus Probable plus Possible
<i>UMG Fields</i>						
Uzen	63.4	149.6	225.4	466.3	1100.8	1659.3
Karamandybas	3.3	6.3	9.2	24.6	46.5	67.6
Total UMG Fields	66.7	155.9	234.6	490.9	1147.3	1726.9
<i>EMG Fields</i>						
Kenbai (East Moldabek/ North Kotyrtas)	2.2	4.6	8.8	16.0	33.7	65.1
Kamyshitovoye SW	2.1	6.4	7.3	15.7	47.3	53.8
Zaburunye	1.4	3.7	4.6	10.5	27.4	33.7
Zhanatalap	1.4	4.4	5.6	10.3	32.4	41.1
Nurzhanov	3.8	8.2	9.5	28.3	60.6	69.7
Botakhan	1.0	2.7	3.3	7.6	20.0	24.1
Makat East	1.5	4.0	5.4	11.4	29.2	39.4
Kamyshitovoye SE	1.1	3.0	3.9	7.8	22.0	28.8
Other EMG fields	5.4	12.9	17.6	39.9	95.3	129.5
Total EMG Fields	20.1	50.0	65.9	147.6	367.9	485.2
Total UMG fields and EMG fields	86.8	205.9	300.6	638.5	1515.2	2212.1

Based on current 2005 production levels, and as at 31 December 2005, the remaining proved plus probable oil reserve life of the UMG fields is 24 years and of the EMG fields is 18 years.

For a discussion of the assumptions used by GCA in the preparation of the reserve information, see the GCA Report. For a description of the UMG fields and EMG fields see “—Exploration and Production—Overview”. For a description of the resources classification used in Kazakhstan, see “Regional Overview of the Oil and Gas Industry—Resource Classifications”.

Gas and Gas Condensate Reserves

The Company’s estimates according to Kazakhstan methodology of gas and gas condensate reserves at the UMG fields, as of 31 December 2005, are set forth in the table below. GCA has determined, on the basis of SPE/WPC methodology, that the Company does not have any gas reserves as the volumes available are not commercially viable.

	<u>Gas reserves</u> (million cubic metres)	<u>Gas condensate reserves</u> (million tonnes)	<u>Gas condensate reserves</u> (million barrels)
<i>UMG Fields</i>			
Uzen	3,603	0.0	0.0
Karamandybas	2,951	0.0	0.0
Zhetybai South	3,275	1.1	9.0
Tenge West	3,517	0.3	2.4
Aktas	638	0.0	0.2
Tasbulat	2,035	0.1	1.1
East Uzen	247	0.0	0.0
Total	16,266	1.6	12.7

The Company does not produce gas or gas condensate at the EMG fields for external consumption. Based on current production levels, the Company estimates (based upon Kazakhstan methodology) that, as of 31 December 2005, the average remaining period of exploitation of the UMG gas fields is 20 years.

Production

Oil Production

The Company is the third largest crude oil producer in the Republic of Kazakhstan (based on 2005 data) in terms of annual crude oil production volumes. Oil production at the UMG fields and EMG fields in 2005 was 9.3 million tonnes (188 thousand bopd), which represents a 5% increase compared to 2004 and during the five months ended 31 May 2006 was 3.9 million tonnes (188 thousand bopd), which represents a 2% increase compared to the same period in 2005. As the UMG fields and EMG fields are at a late stage of their development, the Company has reached its current production levels by carrying out various field development and rehabilitation projects, which include drilling and completing new wells, completing well workovers and introducing various secondary, enhanced recovery and well stimulation techniques, which are described below under “—Oil Field Development and Rehabilitation”.

The following tables set forth certain data regarding crude oil production for the periods specified for the UMG fields and EMG fields:

	For the five months ended 31 May			
	2006	2005	2006	2005
	(million tonnes)		(thousand bopd)	
UMG Fields				
Uzen	2.6	2.5	124.6	122.7
Karamandybas	0.2	0.1	8.2	7.3
Total UMG Fields	2.7	2.7	132.7	130.0
EMG Fields				
Kenbai (East Moldabek/North Kotyrtas) . .	0.2	0.2	8.7	7.9
Kamyshitovoye SW	0.1	0.1	4.7	4.8
Zaburunye	0.1	0.1	4.0	4.1
Zhanatalap	0.1	0.1	3.3	3.3
Nurzhanov	0.2	0.2	7.6	7.4
Botakhan	0.1	0.1	4.6	4.6
Makat East	0.1	0.1	4.4	4.5
Kamyshitovoye SE	0.1	0.1	2.8	2.9
Other EMG fields	0.3	0.3	15.2	15.2
Total EMG Fields	1.1	1.1	55.3	54.7
Total⁽¹⁾	3.9	3.8	188.0	184.7

(1) Production amounts are calculated before losses, which generally are less than 1%.

	For the year ended 31 December					
	2005	2004	2003	2005	2004	2003
	(million tonnes)			(thousand bopd)		
UMG Fields						
Uzen	6.2	5.8	5.0	124.1	116.6	100.2
Karamandybas	0.4	0.4	0.3	8.0	8.0	5.7
Total UMG Fields	6.5	6.2	5.3	132.0	124.5	105.9
EMG Fields						
Kenbai (East Moldabek/North Kotyrtas)	0.4	0.4	0.3	8.5	8.3	6.8
Kamyshitovoye SW	0.2	0.2	0.2	4.8	4.8	4.7
Zaburunye	0.2	0.2	0.2	4.1	4.1	4.1
Zhanatalap	0.2	0.2	0.2	3.4	3.1	3.1
Nurzhanov	0.4	0.3	0.3	7.6	7.0	6.9
Botakhan	0.2	0.2	0.2	4.6	4.6	4.6
Makat East	0.2	0.2	0.2	4.5	4.5	4.5
Kamyshitovoye SE	0.1	0.1	0.1	3.0	3.0	3.0
Other EMG fields	0.8	0.8	0.8	15.8	15.4	15.4
Total EMG Fields	2.8	2.7	2.6	56.3	54.7	53.0
Total⁽¹⁾	9.3	8.9	7.9	188.3	179.3	158.9

(1) Production amounts are calculated before losses, which generally are less than 1%.

Gas and Gas Condensate Production

In 2005, the Company extracted 812.1 million cubic metres of gas at the UMG fields. The following table sets forth certain data regarding gas production at the UMG fields for the periods indicated:

	For the five months ended 31 May		For the year ended 31 December		
	2006	2005	2005	2004	2003
	(million cubic metres)				
Uzen	8.6	12.1	27.4	37.6	47.9
Karamandybas	13.4	10.2	30.1	26.9	38.4
Zhetybai South	244.3	263.1	632.3	674.4	717.9
Tenge West	27.6	32.1	77.1	86.5	85.1
Aktas	3.5	4.2	9.7	10.9	11.4
Tasbulat	13.6	15.4	35.6	40.3	39.7
East Uzen	0.0	0.0	0.0	4.6	12.2
Total⁽¹⁾	311.0	337.1	812.1	881.2	952.6

(1) Production amounts are calculated before losses, which generally are less than 1%.

The following tables set forth certain data regarding gas condensate production at the UMG fields for the periods indicated:

	For the five months ended 31 May			
	2006	2005	2006	2005
	(thousand tonnes)		(bcpd)	
Uzen	0.0	0.0	0.0	0.0
Karamandybas	0.0	0.0	0.0	0.0
Zhetybai South	5.7	6.7	296.4	346.7
Tenge West	1.7	2.0	86.8	106.5
Aktas	0.1	0.1	5.8	7.2
Tasbulat	1.0	1.0	50.6	50.5
East Uzen	0.0	0.0	0.0	0.0
Total⁽¹⁾	8.4	9.8	439.6	511.0

(1) Production amounts are calculated before losses, which generally are less than 1%.

	For the year ended 31 December					
	2005	2004	2003	2005	2004	2003
	(thousand tonnes)			(bcpd)		
Uzen	0	0	0	0	0	0
Karamandybas	0	0	0	0	0	0
Zhetybai South	15.8	17.9	21.3	340.7	385.7	458.2
Tenge West	4.8	5.2	4.3	103.5	112.0	92.2
Aktas	0.3	0.3	0.3	6.5	7.1	6.7
Tasbulat	2.4	2.7	2.1	51.7	58.7	46.0
East Uzen	0	0	0	0	0	0
Total⁽¹⁾	23.3	26.1	28.0	502.4	563.6	603.1

(1) Production amounts are calculated before losses, which generally are less than 1%.

All gas and gas condensate from production at the UMG fields is sent to the gas processing plant. See “—Gas Processing Plant.”

In 2005, the Company extracted 261.9 million cubic metres of associated gas at the UMG fields. Of this, 160.1 million cubic metres (approximately 61%) were used for the internal needs of the UMG fields and the remainder was sent to the Company’s gas processing plant for processing. See “—Gas Processing Plant” for a description of the Company’s gas processing plant. The Company also produces approximately

168.4 million cubic metres per year of associated gas at the EMG fields, which is used to satisfy its internal needs. Gas utilised for internal needs is used to heat the oil contained in the Company's pipelines because the Company's oil generally solidifies at temperatures below 35 degrees Celsius due to its paraffinic nature.

Oil Field Development and Rehabilitation

General

The overall level of the Company's oil production from its existing fields has been and will continue to be affected by several key factors, including the relative age of the Company's fields and, to a lesser degree, the characteristics of the Company's oil and the complex geological formations of the Company's reservoirs. The Uzen field, one of the UMG fields, is the Company's largest field in terms of crude oil reserves and current production volumes, has been developed since 1965 and is now in a late stage of development. The Uzen field and several of the EMG fields with the largest reserves and production volumes, including Kenbai (the East Moldabek and North Kotyrtas areas) and Kamyshitovoye SE, contain highly paraffinic oil within shallow, low permeability formations. Oil from the EMG fields also tends to have a high water content, or water cut. Taken together, these factors make the Company's oil difficult to extract. However, the Company's long production history has provided it with a comprehensive understanding of the geology of its fields and it has benefited from the relatively shallow depths of its reservoirs and the onshore location of its reserves.

Following a period of underinvestment in the Company's oil production operations, the Company began during the mid-1990s taking steps to sustain and increase its oil production levels and to optimise its recovery from the Company's existing well stock. In addition to completing well workovers, these steps initially included drilling new wells, which included both injection wells, which are used to pump water and other agents into reservoirs to maintain pressure and enhance oil recovery, and production wells, which are used to extract oil and gas. More recently, the Company began applying a wide variety of field development and rehabilitation techniques, including secondary, enhanced recovery and well stimulation techniques, such as hydro-fracturing and various chemical and thermal methods. The Company does this to meet its strategic objective of sustaining its current production levels.

In 1997, the Company commenced its first major project utilising secondary and enhanced recovery and well stimulation techniques with the start of the Uzen Rehabilitation Project. This project is described under “—Uzen Field Rehabilitation Project”.

The Company uses third party contractors as well as its own subsidiaries to perform secondary, enhanced recovery or well stimulation techniques at the UMG fields and EMG fields. Since 2004, the Company has engaged external consultants to commission more sophisticated geological models which will help the Company better to assess the Company's reserves and production and exploration plan. Some models are still in the process of development: this process is expected to be finished in 2007.

During the period from 1 January 2003 to 31 December 2005, the Company estimates that the total incremental increase in oil production attributable to hydrofracturing and well workovers was 2.1 million tonnes at the UMG fields and 267 thousand tonnes at the EMG fields. Of the total incremental increase between 1 January 2003 to 31 December 2005, the Company estimates that approximately 1.2 million tonnes (9.1 million barrels), or 71% of this total increase, is attributable to the use of hydro-fracturing as the increase was measured following the initial application of the hydro-fracturing technique.

Incremental increase in production from its use of enhanced recovery and well stimulation techniques was 1.7 million tonnes (12.7 million barrels) at the UMG fields and the EMG fields combined, which translates to an average incremental increase in production of 4 tonnes per day (29.4 bopd) per well.

To carry out its oil field development and rehabilitation projects, the Company has increased the level of its related capital and operating expenditures substantially from those in the year ended 31 December 2003 to those in the year ended 31 December 2005. For a description of the Company's capital expenditures and commitments, see “Operating and Financial Review—Liquidity and Capital Resources—Capital Expenditures and Commitments”.

The following tables set forth the principal activities of the Company's oil field rehabilitation and development projects for the periods specified at the UMG fields and EMG fields and the related incremental increase in production that the Company has achieved as a result of these activities.

	1 January 2003 to 31 December 2005			
	UMG Fields	Incremental Increase in Production at UMG Fields	EMG Fields	Incremental Increase in Production at EMG Fields
	(number of wells)	(thousand tonnes)	(number of wells)	(thousand tonnes)
Wells where hydro-fracturing applied	523	1,228.0	21	3.2
Well workovers	2,814	896.3	825	263.8
Total incremental increase		2,124.3		267.0
New wells drilled:				
Production wells	239	649.3	258	260.9
Injection wells	78	0.0	53	0.0
Total new wells drilled	317	649.3	311	260.9

	1 January 2006 to 31 May 2006			
	UMG Fields	Incremental Increase in Production at UMG Fields	EMG Fields	Incremental Increase in Production at EMG Fields
	(number of wells)	(thousand tonnes)	(number of wells)	(thousand tonnes)
Wells where hydro-fracturing applied	74	57.9	0.0	0.0
Well workovers	447	77.3	113	15.2
Total incremental increase		135.2		15.2
New wells drilled:				
Production wells	36	34.3	34	6.3
Injection wells	12	0.0	4	0.0
Total new wells drilled	48	34.3	38	6.3

In 2006, the Company expects to drill a total of 220 new wells at the UMG fields and EMG fields, of which 172 will be production wells and 48 will be injection wells.

From 1 January 2001 to 31 May 2006, the total number of the Company's active production wells increased from 4,625 to 5,727, or by 24%, and the total number of its active injection wells increased from 996 to 1,653, or by 66%. During the same period, the total number of the Company's non-active production wells decreased from 682 to 86, or by 87% and the total number of its non-active injection wells decreased from 569 to 44, or by 92%.

Uzen Rehabilitation Project

In 1997, the Company commenced a major project to rehabilitate a section of the Uzen field called the 3A block. Located in the centre of the Uzen field, the 3A block accounts for approximately 8.8% of the total area of the Uzen field.

The key objective of the project was to double production from the 3A block by performing well workovers and applying secondary and enhanced recovery and well stimulation techniques, and to provide a case study for training the Company's personnel in best practice field and reservoir management techniques that can be applied across the whole of the Uzen field and to other fields in the Company's portfolio.

The total cost of the project is approximately US\$151.0 million, which is being partially financed with a loan from the International Bank for Reconstruction and Development ("IBRD") in the amount of US\$109.0 million. The remainder was financed from the Company's own funds.

The project is expected to be completed in December 2006 and nearly all of its principal objectives have already been achieved, including the doubling of production from the 3A block, which increased to 725.2 thousand tonnes in 2005 from 344.0 thousand tonnes in 2000.

Gas Processing Plant

The Company owns and operates a gas processing plant located at Uzen, which is in the Mangistau region of western Kazakhstan that treats all gas and gas condensate produced at the UMG fields. The gas processing plant also treats gas and gas condensate produced by third parties in the region. The plant has a capacity of 1.5 billion cubic metres and produces LPGs, pentane, hexane, heating oil and dry gas. In 2005, revenue earned from the sale of processed gas accounted for approximately 1% of the Company's total consolidated revenue.

The following table shows total gas and gas condensate accepted for processing and the volumes produced by product for the periods indicated.

	For the five months ended 31 May		For the year ended 31 December		
	2006	2005	2005	2004	2003
<i>Gas accepted for processing:</i>					
Gas from UMG and third parties (in millions of cubic metres)	320.8	362.1	910.9	977.8	1,009.1
Associated gas from UMG and third parties (in millions of cubic metres)	66.1	76.0	204.2	176.6	125.5
Gas condensate from UMG (in thousands of tonnes) . . .	8.4	9.8	23.3	26.1	28.0
<i>Volumes produced:</i>					
LPGs (in thousands of tonnes)	38.0	40.1	107.3	100.0	77.1
Pentane and hexane (in thousands of tonnes)	19.2	19.9	50.9	54.1	46.4
Heating oil (in thousands of tonnes)	2.6	3.5	8.4	9.3	10.6
Dry gas (in millions of cubic metres)	290.3	329.8	825.7	895.5	939.1

Products produced by the gas processing plant are sold domestically. Dry gas and LPGs are sold in Kazakhstan at regulated prices pursuant to the anti-monopoly law and other gas products are sold at market prices. Approximately 90% of the dry gas produced is sold to an electric power utility in the Mangistau region in exchange for the provision of electricity to the Company. The regulated tariff charged by the electric power utility is shown in operating expenses and a similar value is shown in revenue.

CRUDE OIL TRANSPORTATION

Overview

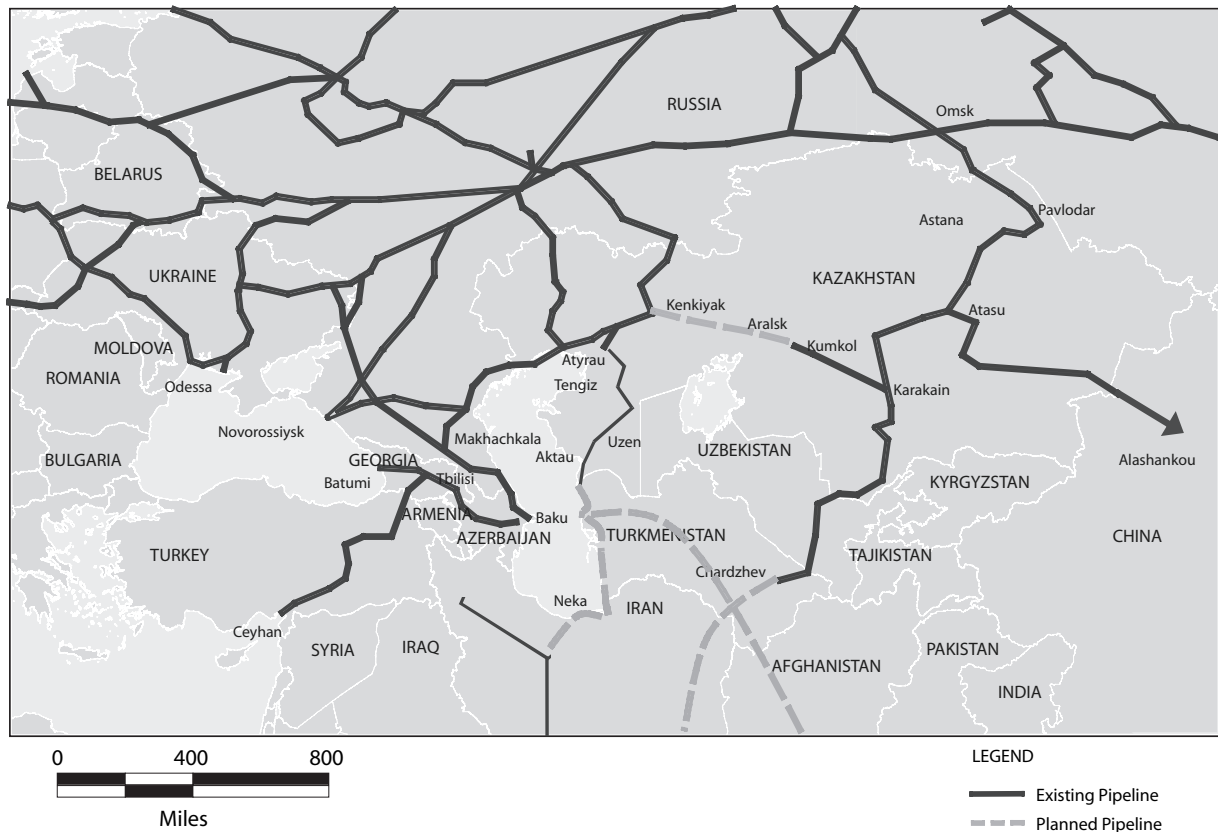
The crude oil produced by the Company is transported via infrastructure owned or operated by third parties. Kazakhstan has no direct access to the open sea, and crude oil must be exported using routes through other countries.

Transportation routes for the export of hydrocarbons by the Company and other oil and gas producers in Kazakhstan are important because of the country's land-locked position. In particular, Kazakhstan is heavily dependent upon Russia's transportation infrastructure for export routes. Crude oil is exported from Kazakhstan through pipelines and railways and across the Caspian Sea and currently the Company transports crude oil through the territory of Russia to the Black Sea ports. Therefore, the Company substantially depends on the intergovernmental agreement on oil transportation executed between Kazakhstan and Russia. Any restrictions or termination of access to the existing pipelines caused by any serious malfunctions, political events or force majeure circumstances would require the suspension of the Company's oil deliveries and cause severe disruption to the production process.

The Company's oil production is presently transported through the following routes:

- through the Uzen-Atyrau segment of the UAS pipeline to the Atyrau Refinery;
- through the UAS pipeline and further either through the Russian Transneft transportation system to seaports on the Black Sea or through the Druzhba pipeline to Baltic seaports and eastern and central Europe; and
- through the CPC pipeline in both Kazakhstan and Russia to the seaport at Novorossiysk, Russia.

The following map details existing and planned major pipeline routes in Kazakhstan and neighbouring countries:



The Kazakhstan segment of the UAS pipeline is owned and operated by KTO, a wholly-owned subsidiary of NC KMG and is approximately 1,500 kilometres (approximately 932 miles) in length. The UAS pipeline system as a whole runs from Uzen in southwestern Kazakhstan to Atyrau and then to the Kazakhstan/Russia border and into Russia, where it links with Russia's Transneft system at Samara for crude oil export to Black Sea ports, or through the Druzhba pipeline to Baltic ports and central and eastern Europe.

The CPC owns, operates and maintains a 1,510 kilometre (approximately 938 mile) pipeline system (including storage and loading facilities) that connects oil fields in western Kazakhstan to the Russian coast of the Black Sea at the Novorossiysk seaport. The CPC pipeline, which has been operational since 2001, represents a major additional export route and is the first major pipeline passing through Russian territory not owned by the Russian pipeline operator, Transneft.

In 2005, the Company exported 6.5 million tonnes (131 thousand bopd) of crude oil, which represented approximately 69% of the Company's crude oil production for 2005. For the five months ended 31 May 2006, the Company exported 2.7 million tonnes of crude oil (54 thousand bopd), which represents approximately 72% of the Company's crude oil production for that period.

The tables below provides a summary of the Company's exports by region and deliveries to Kazakhstan oil refineries for the periods indicated.

	For the five months ended 31 May		For the year ended 31 December		
	2006	2005	2005	2004	2003
	(million tonnes, except percentages)				
Percentage of total production exported	72%	71%	69%	74%	74%
UAS Pipeline:	3.3	3.1	7.7	7.7	7.2
Odessa	2.2	2.1	4.8	4.9	3.7
Primorsk	—	—	—	—	0.8
Yuzhny	—	—	—	—	0.08
Buting	—	—	0.2	—	—
Central Europe	—	—	—	—	0.03
CIS	—	—	—	0.7	0.8
Atyrau Refinery	1.1	1.0	2.6	2.1	1.8
Shymkent Refinery	—	—	0.1	—	—
CPC Pipeline:	0.6	0.6	1.5	1.0	0.4
Novorossiysk	0.6	0.6	1.5	1.0	0.4
Total sales	3.9	3.7	9.2	8.7	7.6

The following table shows the Company's sales volumes and realised prices for the periods indicated:

	For the five months ended 31 May		Year ended 31 December		
	2006	2005	2005	2004	2003
	(KZT thousands, unless otherwise stated)				
Export sales of crude oil					
UAS pipeline					
Net sales	114,373,572	79,441,685	224,556,207	170,081,382	134,273,449
Volume (in thousand tonnes)	2,179	2,062	4,953	5,658	5,397
Average price (KZT/tonne)	52,489	38,527	45,337	30,060	24,879
Average price (US\$/bbl) ⁽¹⁾	56.47	40.77	47.19	30.56	23.01
CPC pipeline					
Net sales	35,913,149	25,249,197	75,474,091	32,978,225	11,894,210
Volume (in thousand tonnes)	614	619	1,536	967	424
Average price (KZT/tonne)	58,490	40,790	49,137	34,104	28,052
Average price (US\$/bbl) ⁽²⁾	58.40	40.06	47.47	32.18	24.07
Total sales of crude oil—exported	150,286,721	104,690,882	300,030,298	203,059,607	146,167,659
Other sales of oil and oil products					
Net domestic sales of crude oil and total oil products					
Volume (in thousand tonnes) ⁽³⁾	1,080	1,060	2,733	2,106	1,822
Average price (KZT/tonne)	15,932	13,521	14,780	12,048	14,348
Average price (US\$/bbl) ⁽⁴⁾	17.14	14.31	15.38	12.25	13.27
Total domestic sales of crude oil and total oil product sales	17,206,377	14,332,767	40,394,425	25,374,080	26,142,775
Total sales of oil and oil products					
Total net sales of crude oil and oil products					
Total volume (in thousand tonnes)	3,873	3,741	9,222	8,731	7,643
Average price (KZT/tonne)	43,246	31,816	36,914	26,164	22,545
Average price (US\$/bbl)	45.96	33.24	37.93	26.37	20.76
Other sales	3,231,363	2,732,512	6,004,722	8,669,531	5,446,939
Total revenue	170,724,461	121,756,161	346,429,445	237,103,218	177,757,373

(1) Converted at 7.23 barrels per tonne.

- (2) Converted at 7.79 barrels per tonne.
- (3) Volume of crude oil delivered for processing and crude oil sales.
- (4) Converted at 7.23 barrels per tonne.

UAS Pipeline

The UAS pipeline is the Company's principal export pipeline. UAS has an annual capacity of approximately 15.0 million tonnes of crude oil, and this capacity is currently fully utilised by the Company and other oil producers.

The Company has entered into a contract with KTO that contractually guarantees its right to ship specified minimum volumes of crude oil, subject to MEMR quotas, through the UAS pipeline until the end of 2012 on terms at least equal to those offered to third parties. The Company is obliged to ship through the Atyrau-Samara segment of the UAS pipeline at least the following specified minimum volumes of oil approved by MEMR (as described below):

	For the year ended 31 December						
	2006	2007	2008	2009	2010	2011	2012
	(million tonnes)						
Minimum Volumes	5.6	5.6	4.8	4.8	4.8	4.7	4.0

After 2012, the Company will seek to rely on the undertakings of NC KMG in respect of the UAS pipeline under the Services Agreement. See "Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Services Agreement" for information regarding the Services Agreement.

In 2005, the Company exported approximately 5.0 million tonnes of crude oil (99.9 thousand bopd), or 76% of the Company's export production, through the UAS pipeline. For 2005, this constituted 33% of the capacity of the pipeline. In the five-month period ending 31 May 2006, the Company shipped approximately 2.2 million tonnes of oil (44.4 thousand bopd), or 78% of the Company's export production, through the UAS pipeline.

The Company is not restricted to the minimum volumes specified above. During the period from 2003 to 2005, larger volumes requested by the Company have all been approved by MEMR.

By the end of August of each year, in order for the oil transportation quotas to be finalised, the Company submits to KTO and MEMR its forecast of the volume of oil that it intends to ship through the UAS pipeline for the following year. No later than 15 days before the beginning of each month of that following year, MEMR draws up the oil delivery schedule for that month and sends it to KTO to be put into effect. The volume of oil transported by the Company for such month cannot exceed the volume set out in this schedule. In addition, with respect to export shipments through the Atyrau-Samara segment of the pipeline, MEMR also must give consideration to the provisions of an intergovernmental agreement signed in June 2002 between Kazakhstan and Russia, which expires in 2017. This agreement guarantees transit of at least 17.5 million tonnes of Kazakhstan oil via the Russian Transneft pipeline system per year, of which 15.0 million tonnes are allocated to oil from the UAS pipeline and 2.5 million tonnes to oil from the Makhachkala-Tikhoretzk pipeline, which the Company does not use. The transit quota is determined annually at the end of each year with a quarterly breakdown by MEMR.

Under the Company's contract with KTO, if the Company ships through the Atyrau-Samara segment of the pipeline less than the minimum specified volume in a given month, the Company is entitled to make up for the shortfall by shipping additional volumes in the next month, which cannot exceed 5% of the previous month's declared minimum volume. If the Company fails to deliver the minimum specified volume for three consecutive months, the Company is obliged to pay KTO for lost tariffs for the volumes committed but not delivered. In addition, if the Company's failure to ship the volume specified in the monthly schedule causes a suspension in the pipeline system, the Company would be assessed an additional penalty equal to 20% of the established tariff for the shortfall. However, the Company is not required to pay any penalties under the contract if the volume approved by MEMR is less than the minimum amount specified in the contract. Historically, although the Company has not always delivered the specified minimum volumes under its contract with KTO, the smaller volumes which it has delivered have always been approved by MEMR, and accordingly, no penalties have been payable by the Company.

KTO, which is classified as a natural monopoly in Kazakhstan, charges the Company accordingly a flat tariff for shipments through the UAS pipeline. The amount of the tariff is approved by the Antimonopoly Agency and is based primarily on KTO's costs for maintaining and operating the pipeline. KTO can apply

to the Antimonopoly Agency up to twice annually for a revision of the tariff in accordance with the methodology approved by that agency, but in practice it has revised the tariff only annually. There is no quality bank adjustment mechanism for shipments through the UAS pipeline or the Transneft pipeline system (as opposed to the CPC pipeline: see “—CPC Pipeline”). As of 31 May 2006, the weighted average KTO tariff from pumping stations (Uzen, Prorva, etc) to Samara was KZT2,700 per tonne.

Tariffs for the transportation of crude oil via the Transneft pipeline are set by the Russian Federation’s Federal Service on Tariffs. As of 31 May 2006, the Transneft tariff through Russia was US\$7.96 per tonne, and the tariff for transportation through Ukraine and loading at the port of Odessa was US\$12.60 per tonne.

KTO is currently in negotiations with Transneft to increase the capacity of the UAS pipeline from its current 15.0 million tonnes per year to up to 25.0 million tonnes per year and has completed a feasibility study with respect to the portion of the UAS pipeline located in Kazakhstan. The Company’s contract with KTO does not grant the Company a priority right for any additional capacity in the pipeline that may become available if the pipeline capacity is increased in this or any other manner.

Under the Services Agreement, NC KMG must procure, in respect of itself, and must use all reasonable endeavours to procure, in respect of any act required of any third party, that (i) KTO will continue to provide the Company with transportation facilities as provided in the Agreement on Rendering Services of Crude Oil Transportation between the Company and KTO dated 10 September 2004 (the “KTO Transportation Agreement”) and the Company will provide the volume of crude oil for transportation and make payments as provided in the KTO Transportation Agreement; (ii) after the expiration of the KTO Transportation Agreement, KTO will allocate to the Group at the relevant time oil transportation capacity on terms no less adverse than those offered to other users provided that KTO may give a preferential right of first refusal to users which are in compliance with their contractual obligations to KTO; and (iii) the transportation of resources of the Company through the UAS pipeline is envisaged in the volumes agreed between the Company and KTO in accordance with the KTO Transportation Agreement with the presentation by the Company of guarantees for the volumes applied for.

CPC Pipeline

The CPC pipeline has annual capacity of approximately 28.2 million tonnes. In 2005, the Company exported approximately 1.5 million tonnes (30 thousand bopd) through the CPC pipeline or 24.0% of the Company’s total crude oil exports. For 2005, this constituted 5.4% of the capacity of the CPC pipeline. In first five months of 2006, the Company transported approximately 0.6 million tonnes (12 thousand bopd) or 22% of the Company’s total crude oil exports.

Only CPC shareholders have access rights to capacity in the CPC pipeline. Such access rights are of two types: “preferential capacity rights” to specified amounts of capacity, and “excess capacity rights”, which are rights to use pipeline capacity not being used by other CPC shareholders.

The Government has a 19% ownership interest in CPC, held by NC KMG. Another shareholder in CPC is Kazakhstan Pipeline Venture (“KPV”), which owns 1.75% of the shares of CPC. KPV is a joint venture between NC KMG and BP plc in which NC KMG has a 51% stake. Therefore, in addition to the 19% of CPC which NC KMG holds on behalf of the Government, NC KMG has an indirect 0.8925% interest in CPC.

A shareholder of CPC can transfer to its “affiliated shipper” all or some portion of the capacity rights which it holds. Under the CPC shareholders agreement, an “affiliated shipper” is defined to include any affiliate, subsidiary or joint venture in which the ultimate parent of a shareholder of CPC has a direct or indirect interest. Affiliated shippers then enter into an identical contract with each of CPC-R and CPC-K, the legal entities that own CPC pipeline assets in Russia and Kazakhstan, respectively.

NC KMG transferred certain capacity rights to EMG as its “affiliated shipper” and in April 2003, EMG entered into contracts with CPC-R and CPC-K, which the Company assumed in the merger of EMG and UMG in March 2004. The Company is therefore currently one of the designated affiliated shippers of NC KMG in respect of the capacity rights of NC KMG to capacity in the CPC pipeline. The contracts remain in force until 31 December 2008 and then automatically renew or are renegotiated for successive one-year terms unless terminated by the Company giving 90 days’ advance notice subject to contractual terms and conditions.

Two months before the planned shipment, each shipper provides CPC with a flexible six-month plan for deliveries of oil, which is fixed on a monthly basis. By the first day of the month preceding that in which the delivery is planned, CPC advises each shipper whether its applications for each month in the following

six-month period are accepted in full or partially as a prorated allocation for the six-month period. The determination of CPC will form the definitive transportation schedule.

Tariffs are set by the CPC shareholders. The CPC pipeline provides for the transportation of crude oil of varying quality and market value for export to international markets as a common blend, referred to as “CPC Blend.” CPC charges shippers a transportation tariff based on the quantity of CPC Blend delivered. Under the shipment contracts with the CPC, all shippers are required to participate in a quality bank settlement procedure. The procedure provides for monetary adjustments between shippers to equitably compensate for differences in the relative value of each shipper’s crude oil injected into the pipeline arising from differences in the qualities of crude oil received into and delivered from the CPC system as CPC Blend. Because the crude oil produced from the Company’s fields has a lower API gravity than crude oil from other fields, the Company is a net payer to the CPC quality bank. These payments are reflected as deductions to revenue.

The shareholders of CPC are currently in negotiations to approve an increase in the capacity of the CPC pipeline from its current 28.2 million tonnes of crude oil per year to 67 million tonnes of crude oil per year. The capacity increase is expected to be completed in three phases during 2007 to 2009. The Company’s business plan for the period 2006–2010 assumes that there will be available to the Company, CPC capacity of 1.5 million tonnes in 2006–2007 and 2.3 million tonnes in 2008–2011, based upon NC KMG’s capacity allocation as a CPC shareholder.

Other Export Routes

Other potential transportation routes for the export of oil from Kazakhstan which are available to the Company include:

- from the Aktau seaport by oil tankers to Caspian Sea ports and then to European markets by pipeline or via the Volga-Don rivers, Black Sea and Azovskoe Sea;
- through the Baku-Tbilisi-Ceyhan pipeline (which would require that the Company transport the crude oil to Baku by barge from Aktau);
- as a possible option in the future, through the Atasu-Alashankou pipeline towards western China; and
- by rail.

The Company does not currently use nor does it intend to use any of the above export routes due to the availability of sufficient capacity through the UAS pipeline and the CPC pipeline which are currently less costly and more efficient for the Company.

SALES AND MARKETING

The Company is required to supply a certain amount of its crude oil production to the domestic market and it exports the remainder. The Company currently has three major customers for its production, the Atyrau Refinery for its domestic sales, and KMG TradeHouse AG and Esomet for its exports which together account for approximately 99% of the Group’s sales. The table below shows a breakdown of the Company’s oil exports and supplies to refineries in Kazakhstan for the periods indicated.

	For the five months ended 31 May				For the year ended 31 December					
	2006		2005		2005		2004		2003	
	(million tonnes, except percentages)									
KMG TradeHouse AG										
Odessa	1.4	37%	1.3	35%	3.0	32%	4.6	53%	2.4	31%
Primorsk	—	—	—	—	—	—	—	—	0.8	11%
Yuzhnyi/Central Europe	—	—	—	—	—	—	—	—	0.1	1%
Buting	—	—	—	—	0.2	2%	—	—	—	—
Novorossiysk	0.6	16%	0.6	17%	1.5	17%	1.0	11%	0.4	6%
Esomet	0.8	19%	0.8	20%	1.8	20%	0.3	4%	—	—
Odessa (Naflex, Unioil)	—	—	—	—	—	—	—	—	1.3	16%
CIS countries	—	—	—	—	—	—	0.7	8%	0.8	11%
Domestic market										
Atyrau Refinery	1.1	28%	1.0	28%	2.6	28%	2.1	24%	1.8	24%
Shymkent Refinery	—	—	—	—	0.1	1%	—	—	—	—
Total	3.9	100%	3.7	100%	9.2	100%	8.7	100%	7.6	100%

Since 2002, the Company has employed KMG TradeHouse, a subsidiary of NC KMG, to handle the sales and marketing function of the Company. Pursuant to an agency agreement dated 26 December 2005 (the “KMG TradeHouse Agency Agreement”), KMG TradeHouse acts in an agency capacity to find buyers for the Company’s production, arrange transport and shipping and handle export licences and other sales documentation. The relationship between the Company and KMG TradeHouse is currently subject to the requirements of the annual state procurement tender. However, the Company expects its relationship with KMG TradeHouse to remain in place for the foreseeable future. See “Principal Shareholder, Relationship with NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates—KMG TradeHouse Agency Agreement”.

The crude oil which the Company sells FOB Odessa and FOB Novorossiysk is sold at a price representing the average of quotes for Urals (RCMB) and Brent (DTD) crude, as published in Platt’s Crude Oil Marketwire, less a discount made up of freight and insurance expenses, loss, traders commission and other trading and transportation costs. In each case, the Company pays KMG TradeHouse an agency fee of US\$0.50 per tonne for its agency services. Title passes from the Company to the buyer at Odessa or Novorossiysk, as the case may be. Payment terms are 30 days after the shipment has occurred.

Although the Company does not pay a commission for crude oil delivered to the domestic market, it does pay KMG TradeHouse US\$1 per tonne for sold refined products.

KMG TradeHouse AG

KMG TradeHouse AG, a subsidiary of KMG TradeHouse, is one of the main buyers of the Company’s production. The Company sells to KMG TradeHouse AG at the ports of Odessa and Novorossiysk through KMG TradeHouse, acting as sales agent under the terms of the Agency Agreement. In 2005, the Company sold 4.7 million tonnes to KMG TradeHouse AG which was 50% of the Company’s production, accounting for 51% of the Company’s sales volume.

The Company transports the oil to the port of Odessa through the UAS and Transneft pipelines, where it is sold to KMG TradeHouse AG on an FOB basis and is then resold by KMG TradeHouse AG to Vittol. Oil transported through the CPC pipeline is likewise sold to KMG TradeHouse AG at the port of Novorossiysk on an FOB basis. The crude oil transported through the CPC pipeline is re-sold by KMG TradeHouse AG as principal on a CIF-Augusta basis to such companies as BP, Shell, Total and Repsol.

Esomet

On 16 August 2004, the Company entered into the Esomet Arrangement and received an advance payment from Esomet of which US\$442.2 million was outstanding as of 31 May 2006. This funding arrangement currently bears interest at Libor plus 1.1% per annum (amended on 24 July 2006) and principal repayments are now US\$12.4 million monthly. To assure Esomet that payments are made, the Company has agreed to ship certain amounts of crude oil to Esomet which are sold at market prices (by reference to Platt’s Crude Oil Marketwire) with the proceeds being used to fund the capital payments due to Esomet. In 2005, the Company sold 1.8 million tonnes (13.2 million barrels) to Esomet pursuant to the Esomet Agreement in lieu of principal repayments which was 19% of the Company’s production and accounted for 20% of the Company’s sales volume. See “Operating and Financial Review—Borrowings” and “Additional Information—Material Contracts”. The Company is obliged to deliver 150,000 tonnes per month until September 2009. Any surplus funds arising from the sale of the 150,000 tonnes per month above the required capital repayments are transferred to the Company.

The Company transports the oil in respect of the Esomet Arrangement to the port of Odessa through the UAS and Transneft pipelines, where it is sold to Esomet on an FOB basis. Amounts shipped under the Esomet Arrangement are also subject to the terms of the KMG TradeHouse Agency Agreement and to the US\$0.50 per tonne agency fee payable to KMG TradeHouse noted above.

Supply to the domestic market

Pursuant to governmental requirements as established by MEMR, the Company is required to supply crude oil to the domestic market, mainly to the Atyrau Refinery. Quotas for domestic deliveries of oil by the Company to the Atyrau Refinery are established on a monthly basis by MEMR. Historically, these deliveries have represented approximately 50% of the processing capacity of the Atyrau Refinery.

In February 2006, a memorandum was executed between MEMR and the principal Kazakhstan natural resources entities (including the Company), entitled “On Social Partnership for the Provision to

the Domestic Market of Oil Products in 2006". Pursuant to this memorandum and to the terms of the Company's Relationship Agreement with NC KMG, the Company is obliged to supply KMG TradeHouse (which now owns the Atyrau Refinery) with 1.9 million tonnes of crude oil per annum between 2006 and 2010 at a price equal to the Company's aggregate cost of production and transportation, together with a margin of 3%. For the years 2011 to 2015, the volume of crude oil to be supplied will be determined in accordance with the Company's business plan (as approved by the Board of Directors, which it currently anticipates will be no more than 1.9 million tonnes per annum) at a price equal to the Company's cost of production and transportation, together with a margin of 3% (the "Supply Obligation"). In addition, to meet the Company's own need for refined products, a further 0.3 million tonnes (2.2 million barrels) of crude oil is supplied to the Atyrau Refinery per annum which is tolled for a fee with the surplus refined products from this crude oil being sold on the domestic market. Starting in 2007, the Company plans to terminate their own product tolling arrangement with the Atyrau Refinery and to sell to the Atyrau Refinery at commercial prices sufficient quantities of crude oil and to purchase from the Atyrau Refinery refined products required to meet the Company's own needs. However, notwithstanding the terms of the Supply Obligation, the Government can mandate additional deliveries of crude oil to domestic refineries at levels exceeding the agreed 1.9 million tonnes (38 thousand bopd) of crude oil per annum. For example, the planned volume for the domestic market in 2005 was 2.2 million tonnes, but in fact the amount so supplied was 2.7 million tonnes (55 thousand bopd) of crude oil, which was 29% of the Company's production and sales volume and represented about 12% of the Company's total revenue, out of which 0.1 million tonnes was supplied to Shymkent refinery and the balance to the Atyrau Refinery. An additional 0.5 million tonnes were sent to the refineries in 2005 at the direction of MEMR. In 2006, the Company expects to be required to supply a total of 2.44 million tonnes (49 thousand bopd) of crude oil to the domestic market. For the five month period ended 31 May 2006, the Company has already shipped 1.1 million tonnes (22 thousand bopd) of crude oil which reflects certain additional requirements by MEMR.

While the price for such additional supplies of crude oil is determined by NC KMG, this price will be materially below international market prices and is referenced from the level of the cost of production. Should the energy needs of Kazakhstan increase, the Company cannot rule out an increase in its domestic supply obligation. Such supplies take precedence over export or other market sales. See "Risk Factors—Risk Factors Relating to the Company's Business—The Government has the ability to require additional deliveries of crude oil to domestic refineries and these may be at prices that are materially below international market prices".

EXPLORATION

Overview

Historically, the Company's predecessors' operations focused primarily on the production of oil from existing reserves. Beginning in the late 1990s, the Company's predecessors began exploring for additional oil reserves around the Pre-Caspian basin in areas that are now being developed by the EMG production division. Since 2002, the Company's predecessors were also exploring the Mangistau basin. The Company has identified exploration as a key aspect of its long-term strategy not just for replacing existing reserves but also for increasing its overall production levels. The Company is continuing exploration activities in selected areas and also within the UMG fields and EMG fields, where the Company is currently reviewing geological data, drilling exploration wells and commissioning 2D and 3D seismic surveys.

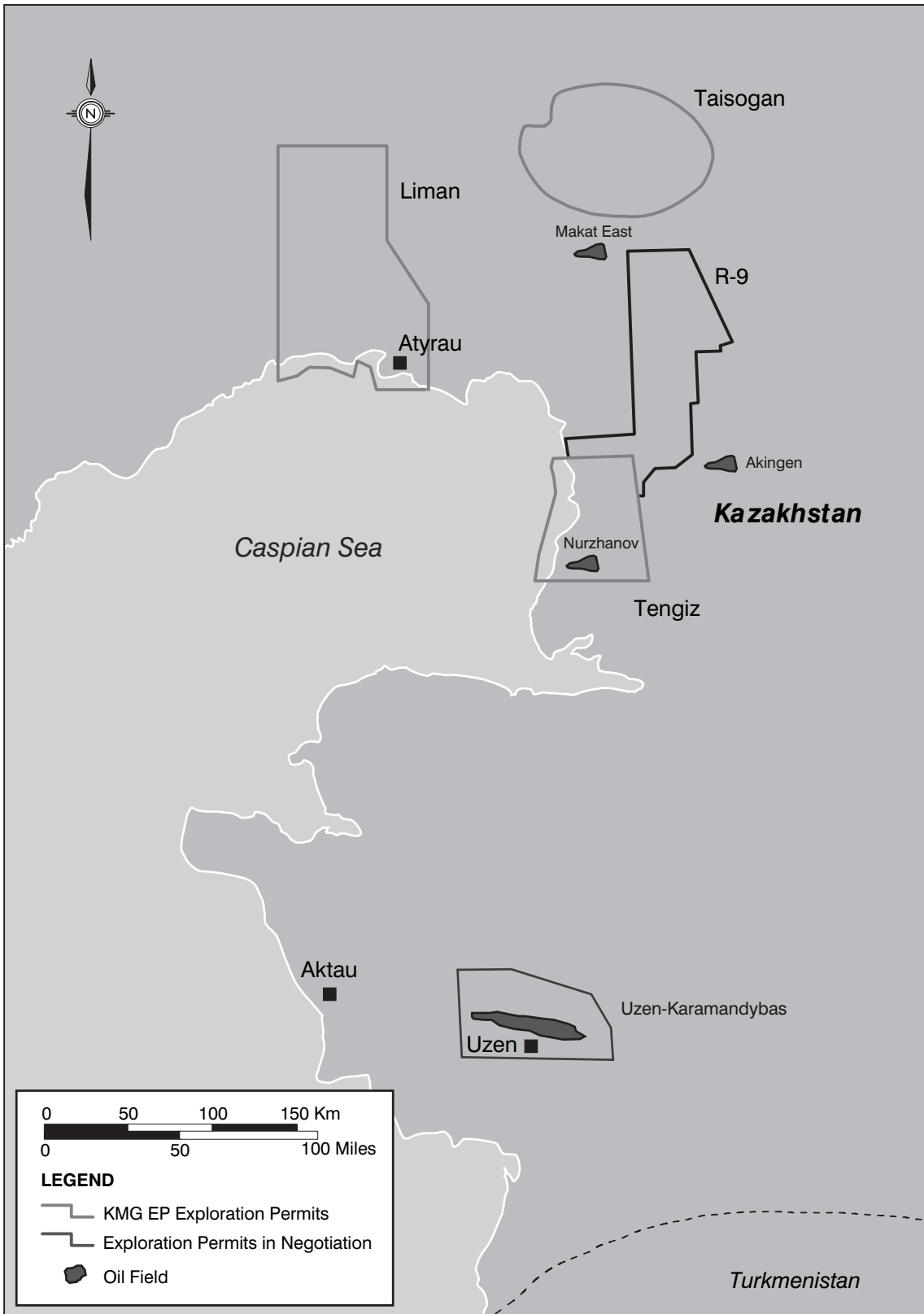
Although much of the geology of western Kazakhstan is relatively well explored, the Company is currently reviewing onshore geological data with respect to other areas in the region of western Kazakhstan, and other areas in Kazakhstan, that are less well explored. Depending on the outcome of this review, the Company intends to seek exploration and production contracts for areas that it believes are economically attractive including through the services of NC KMG under the Services Agreement. For a description of the preferential access to unlicensed onshore acreage in Kazakhstan provided to the Company under the Services Agreement, see "Additional Information—Material Contracts". The Company intends to take full advantage of the services provided to it by NC KMG under the Services Agreement. For a description of the process of obtaining exploration and production contracts in Kazakhstan, see "—Licences and Contracts".

The Company's budget for exploration is approximately US\$24 million per year.

Exploration Areas

The Taisoigan, Liman, Nurzhanov, Makat East and Akingen blocks are those in respect of which the Company already has an exploration contract. For the R-9 block, NC KMG has an exploration contract which it is in the process of surrendering to the Company. With respect to the territories adjoining, and the Triassic reservoirs of, the Uzen and Karamandybas field, neither NC KMG nor the Company has an exploration contract but the Company is undertaking preliminary exploration activity with the consent of MEMR. If potential structures are discovered, then NC KMG will negotiate with MEMR to obtain an exploration contract for the Company. Currently, NC KMG is negotiating with MEMR to obtain an exploration contract for the Company for the Tengiz Post-Salt Deposit for which neither the Company nor NC KMG has an exploration license.

The following map sets forth the location of the planned onshore exploration activities:



The information below regarding the timing during which the Company believes production may commence in these areas represents only the Company's current estimate and is subject to numerous assumptions and uncertainties. See "Risk Factors—Risk Factors Relating to the Company's Business—Failure by the Company to gain access to additional reserves or to acquire additional reserves could materially and adversely affect the Company's ability to achieve its long term growth strategy" for a description of the risks relating to the Company's exploration activities and "—Licences and Contracts" for

a summary of the process for obtaining exploration and production contracts in Kazakhstan, as well as “Forward-Looking Statements”.

Areas where the Company already has an Exploration Contract

Taisoigan

In September 1999, the Company was granted an exploration and production contract for the Taisoigan block. The permitted time period for exploration was to expire in 2005, but has been extended until the end of 2009. In 1999 and 2000, two new fields were discovered at the block but all exploration activity there ceased in 2001 because the Government leased the region to the Russian Ministry of Defence for military training purposes. Although military activity is planned to continue at the block, the Company has been able in 2006 to recommence exploration and also to commence initial production activities at the sites that it has already explored. The Company has drilled 2 wells in the Kondybai field in the Taisoigan block, conducted 2D seismic surveys over 150 km and reopened 6 discovery wells to date. The Company plans to drill a further 2 exploration wells on the Uaz field in the remainder of 2006.

Prior to the cessation of the Company’s exploration activities at the Taisoigan block, the Company discovered reserves (according to Kazakhstan methodology) at two fields. The Company’s internal estimates of recoverable oil resources (based on Kazakhstan methodology) in the block are approximately 1.5 million tonnes (11 million barrels) of category C1+C2 and 6.7 million tonnes (49 million barrels) of category C3. GCA has estimated the unrisksed best estimate contingent resources at 7.4 million tonnes (54 million barrels) using international standards. See “GCA Report”.

Liman

The Company acquired the 6,030 square kilometre Liman contract area in February 2006. Before the Company was granted the subsoil use right for exploration and production, other companies had been carrying out geological explorations. MEMR has extended the exploration period for two years until February 2009. Geological and geophysical studies are expected to be conducted in the second half of 2006.

The Company’s internal estimates of recoverable oil resources based on Kazakhstan methodology are approximately 5.1 million tonnes (38 million barrels) of category C3.

Nurzhanov

In 2000, the Company was granted an exploration and production contract for the western section of the Nurzhanov field. The Company is currently conducting production activities and additional exploration in deposits with category C2 reserves in order to increase reserves, on the basis of 3D seismic work carried out in 2003. In 2005, the Company drilled one exploration well to a depth of 3,400 metres and a production horizon was discovered. By the end of 2006, the Company plans to have drilled another exploration well.

The Company’s internal estimates of recoverable oil resources (based on Kazakhstan methodology) are approximately 4.4 million tonnes (32 million barrels) of category C2 and 1.8 million tonnes (13 million barrels) of category C3.

Makat East

The Company has been producing from the Makat East field since 1993. In connection with positive new 3D seismic data for the western part of the field, in September 2005 the Company drilled one exploration well to a depth of 930 metres and a production horizon was discovered. The Company is currently carrying out tests at the well on this production horizon.

The Company’s internal estimates of oil resources based on Kazakhstan methodology are approximately 412 thousand tonnes (3 million barrels) of category C2.

Akingen

The Company has a production contract and plans to conduct supplementary exploration in 2006 in order to expand the deposit area. Previous work revealed the productivity of Cretaceous formations in the field. The interpretation of the 2003 3D seismic results has revealed potential traps in Jurassic formations on the southern flank. An exploration well with a target depth of 2,200 metres is planned to be drilled in

2006 for the purpose of studying the productivity of Jurassic and, possibly, Triassic formations within the southern flank.

The Company's internal estimates of recoverable oil resources based on Kazakhstan methodology are approximately 128 thousand tonnes (0.9 million barrels) of category C2.

Areas where NC KMG, but not the Company, already has an Exploration Contract

R-9

The Company currently does not possess an exploration contract for the R-9 block. The Company is currently carrying out work on these areas on the basis of a contract granted to NC KMG in September 2005, and negotiations are under way for the transfer of the contract to the Company at fair value pursuant to which the Company will reimburse NC KMG for past costs.

Between May 2004 and October 2005, the Company completed 1,180 kilometres of 2D seismic surveys which are currently being processed and analysed. The Company drilled a 1,688 metre exploration well in the second half of 2005 at the Kulsary structure which failed to flow, and by the end of 2006 the Company plans to drill five additional exploration wells in other structures of R9. In addition, a further 800 kilometres of seismic surveys will be completed in September 2006.

The Company's internal estimates of recoverable oil resources (accordingly to Kazakhstan methodology) are approximately 7.7 million tonnes (57 million barrels) of category C3.

Areas where neither NC KMG nor the Company has an Exploration Contract but the Company is undertaking preliminary exploration activity with the consent of MEMR

Territories Adjoining, and the Triassic Reservoirs of, the Uzen and Karamandybas Fields

The Company is currently conducting exploration activities in the Triassic reservoirs of the Uzen and Karamandybas fields and the territories adjoining the Uzen and Karamandybas fields. As the Company's existing exploration and production contract for the Uzen and Karamandybas fields does not extend beneath the Jurassic reservoir within the Uzen and Karamandybas fields and the Company does not have an exploration contract for the adjoining areas, the Company has requested NC KMG to obtain and transfer to the Company an exploration contract covering the Triassic reservoir and the adjoining territories. NC KMG is currently in preliminary negotiations with MEMR and the Company is not able to determine at this time when, whether or on what terms NC KMG will obtain and transfer to the Company an exploration contract covering these areas. Although the Company has received a letter of consent from MEMR permitting the Company to conduct its current exploration activities in these areas, until the Company obtains an exploration contract, it will not be entitled to commence negotiations with MEMR to obtain a production contract even if commercial discoveries are made. See "—Licences and Contracts" for an overview of the process for obtaining exploration and production contracts in Kazakhstan.

The principal purpose of geological exploration on this territory is to determine the geological structure and discover deposits in the Jurassic and Triassic reservoirs and to search for and explore industrial deposits in the Triassic reservoir within the Uzen and Karamandybas fields themselves. During 2005, the Company completed a 3D seismic survey for 300 square kilometres in the territories adjoining Eastern Uzen. The drilling of the first well in the Triassic reservoir with a depth of 2,500 metres was begun at Eastern Pasmurun. A prospective productive horizon has been discovered in the lower Jurassic formation. The drilling of this well is planned to be completed in 2006. Depending upon results of drilling and testing, the Company plans to drill another two wells on the Uzen and Karamandybas fields. In March 2006, the Company began the drilling of an exploration well on the Karamandybas territory. In 2006, the Company also plans to complete a 2D seismic survey over a length of 700 kilometres.

The Company's internal estimates of recoverable oil resources (according to Kazakhstan methodology) are approximately 13.5 million tonnes (99 million barrels) of category C3.

Areas where neither NC KMG nor the Company has an Exploration Contract

NC KMG is conducting preliminary negotiations with MEMR for an exploration contract with respect to the post-salt deposits located within the area of the Tengiz field which is located at pre-salt deposits and which belongs to TCO. TCO has a licence only for the pre-salt deposits of this area. The Company is currently unable to predict the likelihood of obtaining an exploration contract for this area and the required work programme.

ASSET OPTIMISATION PROGRAMME

In December 2005, the Board of Directors approved an Asset Optimisation Programme to rationalise the Company's business operations by divesting or liquidating most of its non-core businesses and by selling or winding up some parts of its business which can be more efficiently outsourced. The Company inherited these businesses as a result of various asset and share transfers and other internal reorganisations that occurred when the Company's operations were managed by the authorities of the former Soviet Union. The Company's non-core businesses include businesses such as hotels, health centres and sanatoria and the production and sale of bricks. Although the Company will have to pay third parties for the services provided by these businesses the Company believes the divestment or winding-up of its non-core businesses will enable it to streamline its operations and enable it to focus on its position as a pure upstream core oil and gas exploration and production business.

In addition, as part of the Company's Asset Optimisation Programme, the Company also intends to divest or wind up its subsidiary companies that perform drilling, well workovers and related activities, such as equipment and vehicle repair. Rather than continuing to support these operations in-house, the Company intends to engage third party contractors and consultants that have developed specialised expertise and that maintain the equipment and technology necessary to perform these services. The Company has already begun to utilise, to some extent, third party contractors in its UMG division. The use of contractors to carry out drilling and well workovers reflects broader trends in the oil industry, which the Company believes will lead to enhanced operating efficiency. If the Company is unable to sell certain of its non-core or auxiliary businesses on commercially acceptable terms, it may seek to transfer these businesses to the local authorities in the areas where they operate.

In total, the Company intends to divest or wind up approximately 30 non-core and ancillary businesses. The Asset Optimisation Programme will result in a reduction of the Group's workforce but the Company does not expect this will materially affect operating expenses.

As at 31 December 2005, the assets that are subject to the Asset Optimisation Programme accounted for 4% of the Company's net assets. The Asset Optimisation Programme is expected to be completed by the end of 2007.

In addition, in December 2004, the Company acquired a 50% stake from SAT & Co. in JSC Kazakhstan Petrochemical Industries, which wholly-owns a non-operational plastics plant in Atyrau and a polystyrene plant in Aktau which is only occasionally operational due to a lack of raw material (styrene and ethylbenzene). In December 2005, the Company sold its interest in the Atyrau Refinery to a subsidiary of NC KMG. An agreement is in place for the sale, but not yet fully completed, of the Company's 35% interest in JSC Kazakhstan Petrochemical Industries (known as JSC Atoll), to the other shareholder, LLP SAT & Company, for KZT3.4 billion. As at 31 December 2005, a receivable of KZT3.4 billion was recorded within current assets. This amount was due on 20 June 2006, and is still outstanding as an unprovisioned receivable. The Company is currently considering selling its remaining 15% stake in JSC Kazakhstan Petrochemical Industries.

COST REDUCTION PLAN

The Company has developed a cost reduction plan designed to enable significant cost reductions. The central components to this plan include:

- optimisation of production through the application of enhanced reservoir modelling capabilities, so reducing sea water use, power consumption and needs for spare parts;
- extending well lives of existing fields through the application of electric rotary and screw pumps, in addition to monitoring the quality of oil well tubing so reducing power and fuel consumption, maintenance and workover costs and needs for spare parts;
- increasing pipeline life through the replacement of steel pipes with fibreglass pipes, reducing maintenance and replacement costs;
- modernisation of collection and preparation stations including the construction of a new preparation facility at Uzen, reducing power consumption as well as the need for spare parts, chemical reagents and replacement pipes; and
- optimisation of logistics and business processes through the automation and improvement of measurement and other systems.

The objective of these cost saving initiatives is a reduction in annual operating expenses of US\$100 million by 2010 compared with 2005.

ENVIRONMENTAL MATTERS

One of the Company's key strategic priorities is to bring its operations in line with local and international standards for environmental protection. Accordingly, as part of the Company's development plan, it is in the process of implementing policies and making investments that it believes will enable it to adhere to these standards in all of the Company's operations by 2010. In addition and pursuant to the MOU, the Company is aiming to complete the remediation of all historical contamination prior to the expiration of the relevant exploration and production licence, which in most cases is 2025. The Company has made the appropriate provisions for the costs associated with this remediation in its financial statements.

The Company's environmental protection policies include the following key objectives: (i) minimise impact on the environment using the best available technology; (ii) implement both Quality Assurance (ISO 9001) and Environmental Management (ISO 14001) Systems; (iii) develop technologies to deal with waste products; (iv) remediate or recultivate areas impacted by petroleum hydrocarbons; (v) monitor the impact of the Company's operations on the environment; (vi) put in place emergency procedures to deal with the environmental impact of spillage; and (vii) utilise associated production gas to produce low cost power through multi-stage gas turbine power stations.

Compliance with Kazakhstan Requirements

The Company is subject to a variety of Kazakhstan environmental laws, regulations and requirements that govern air emissions, water use and disposal, waste management, impacts on wildlife as well as land use and reclamation. In addition, the Company's exploration and production licences require that all its operations be carried out in conformity with applicable environmental laws and regulations. Licences may be suspended and/or cancelled if these requirements are not addressed. See "—Licences and Contracts".

Environmental regulations in Kazakhstan remain at a developmental stage, and accordingly, current regulations may be amended, changed or re-interpreted. The Company monitors these changes to the extent possible and seeks to adjust its operations to ensure continual compliance with the regulations. MEP, at a national level, conducts inspections on an annual basis and, if violations are found, issues orders requiring that corrective actions be taken. Regional MEP environmental authorities also conduct inspections on a regular basis. When either an external body or an internal audit identifies an environmental issue, the Company endeavours to take corrective action, or develop a corrective action plan to address the issue, as soon as possible. Corrective action plans are supervised internally, and reviewed by the regional MEP authority. At the MEP's most recent inspection in April 2005, issues relating to gas flaring at the EMG fields were raised. To address these issues, the Company has implemented a gas flaring elimination programme approved by the MEP. See "—Air Emissions".

Under the Republic of Kazakhstan Law "On Environmental Protection" (the "LoEP") the Company is obliged to obtain an annual permit for the contamination of the environment and must observe all requirements set out in such permit. Pursuant to the LoEP and the resolution of the Government "On the Approval of the Rules for Issuing Environmental Contamination Permits", the Company is required to apply to the MEP for an environmental permit specifying maximum levels of air emissions, waste water disposal and municipal and industrial waste permitted to be discharged by the Company.

The Company's production divisions have produced fewer emissions than the levels allowed in the permits issued in 2005 and 2004. The following table sets forth the permitted level of discharges by type of contaminant under the Company's permits and the actual level of discharges by it for the periods indicated.

	For the year ended 31 December			
	2005		2004	
	Permissible level of discharge	Actual level of discharge	Permissible level of discharge	Actual level of discharge
	(thousand tonnes)			
Solid	0.5	0.4	1.0	0.2
Liquid and gaseous	24.8	22.5	30.6	23.4
Total	<u>25.3</u>	<u>22.9</u>	<u>31.6</u>	<u>23.6</u>

In the event that the permitted limits are exceeded, penalty payments are calculated by multiplying the original specified fee by 10. In 2005, the Company's environmental fees, fines and penalties were KZT700 million; in 2004 these increased to KZT258 million and in 2003 they were KZT241 million. The substantial increase between 2004 and 2005 is primarily due to the Government's increase in applicable fee rates and an increased number of environmental fees paid. The Company expects that the Government will continue to increase these fees in the future.

Every five years, the Company submits a five-year forecast of all emissions to the MEP and other associated agencies for review and approval. The Company revises these forecasts annually to account for any change in its operations and circumstances. The accuracy of these forecasts are strengthened by various scientific and technological studies conducted by the Company and third parties.

AMEC Report

To assist in the creation of accurate emission forecasts and to properly assess the environmental and financial impacts of historical contamination, the Company commissioned AMEC Earth and Environmental UK Ltd ("AMEC") in 2005 to undertake an independent environmental due diligence assessment of the Company's assets including EMG, UMG and the Uzen Gas Condensate facility. After completing this assessment, AMEC delivered a report on 26 June 2006, in accordance with the requested scope of work, per the requirements of ISO 14015 and, in addition, incorporated International Accounting Standard no 37 (IAS 37). The key elements of the assessment included detailed reviews of documentation provided by the Company, site visits comprising physical inspections, interviews with key personnel and the MEP and detailed discussions with the Company's management.

AMEC reported that the aggregate anticipated obligatory expenditure necessary for the Company to address non-compliance with the current regulatory regime in Kazakhstan for the period to 2025 is approximately KZT31.0 billion (this includes remediation of historically contaminated land for which the Company is responsible or for which it has accepted responsibility pursuant to the MOU with the MEP but excludes well remediation on closure which is separately provided for). In accordance with this assessment, the Company has made a provision for this amount in its balance sheet as at 31 December 2005. Dependent upon possible future changes in Kazakhstan's legislation associated with compliance to international standards or the presence of more extensive, as yet unconsidered contamination, the Company has, according to the AMEC report, an additional contingent liability of approximately KZT20.4 billion for the period to 2025.

AMEC's estimates of the Company's obligatory costs are set out in the table below.

	Expenditure for the period 2006-2025	
	Obligatory Costs	
	(US\$ millions) ⁽¹⁾	(KZT millions)
Contaminated Land	114.9	14,941.0
Air Emissions ⁽²⁾	—	—
Waste Management	120.4	15,650.3
Waste Water	—	—
Environmental Compliance	3.4	442.4
Total ⁽³⁾	<u>238.7</u>	<u>31,033.7</u>

(1) AMEC has translated US dollar amounts from Tenge at the rate of KZT130.00 to US\$1.00.

(2) AMEC made no provision for air emission mitigation expenditure as the Company has already commenced a gas flaring elimination programme which is fully provided for in its current budget.

(3) Figures are not discounted and represent current costs.

Obligatory costs are costs associated with current liabilities under Kazakhstan legislation. They are, in the most part, issues that the Company is aware of through regulatory audits, site visits and annual reports. In addition, obligatory costs also include costs that were identified by AMEC and associated with regulatory non-compliance of which the Company may not have been aware.

AMEC's estimates of the Company's contingent costs are set out in the table below.

	Expenditure for the period 2006–2025	
	Contingent Costs	
	(US\$ millions) ⁽¹⁾	(KZT millions)
Contaminated Land	153.1	19,896.4
Air Emissions ⁽²⁾	—	—
Waste Management	0.6	81.9
Waste Water	0.1	13.0
Environmental Compliance	2.9	373.0
Total ⁽³⁾	<u>156.7</u>	<u>20,364.3</u>

- (1) AMEC has translated US dollar amounts from Tenge at the rate of KZT130.00 to US\$1.00.
- (2) AMEC made no provision for air emission mitigation expenditure as the Company has already commenced a gas flaring elimination programme which is fully provided for in its current budget.
- (3) Figures are not discounted and represents current costs.

Contingent costs are the costs associated with potential future changes in legislation or adherence to international best practice standards requiring possible additional expenditure to remain in compliance and also include the potential increase in costs, pending further investigation of specific obligatory issues.

No contingent costs identified in the AMEC report have been provided for in the Company's financial statements.

Environmental Impact of the Company's Operations

The principal sources of material environmental liability for the Company arise from the requirement to remediate historically contaminated land. In addition, the significant environmental impacts from the Company's operations are air emissions, in particular flaring of associated gas and waste management.

The Company has a dedicated remediation programme in place including to address the environmental issues as agreed with the MEP. Annual expenditures for 2005, 2004 and 2003 were KZT1.4 billion, KZT2.2 billion and KZT1.1 billion, respectively.

Contaminated Land

Historical Oil Pits

Under the oil production technology prevailing during the time of the Soviet Union, open reservoirs ("Pits") were formed in natural ground folds or specifically constructed on the land surface to store accumulations of water-oil fractions for emergency purposes or for the disposal of oil and water-oil mixtures. The Company currently does not use the Pits for these purposes and it is in the process of gradually removing the accumulations in them with the assistance of external contractors. The Company has reduced the number of Pits from 79 in 2002 to only one in 2006 at the Central Oil Transfer Station (the "COTS Pit" which is internally divided into three sections to aid the remediation process). The COTS Pit was formed by the discharge of oil, mud waste and a water-oil mixture as a result of previous oil production operations and due to an emergency oil flood in 1974.

The Uzen Lake was principally formed in the Uzen depression as a result of UMG business operations, specifically as a result of many years of collecting oil-containing waste water from overflows at the COTS Pit from 1974 until 1996 and from the general contaminated run-off from the surrounding oil fields. The total volume of oily emulsion in the lake is sufficiently substantial to have allowed the Company to engage a third party contractor to remove the emulsion and sell the oil recovered for its own account in an exercise that is expected to continue for several years. As a result of measures taken, no oil or water effluents are now discharged by the nearby oil production sites into the lake and the situation is closely monitored by relevant departments of the UMG.

The Company remediates land contaminated as a result of crude oil discharge using the Company's own resources and by hiring third-party contractors. In addition, the Company also takes measures to remediate historical contamination that occurred during the period of the Soviet Union. Pursuant to a

Memorandum on Understanding between the Company and the MEP, the MEP has agreed to waive fines and penalties relating to contamination that occurred prior to the Company's incorporation in return for the Company agreeing to remediate such contamination. Notwithstanding the MOU, one fine was recently assessed by the Mangistau regional branch of the MEP, but has been rejected on appeal by the Company. See “—Mangistau Claim”. In addition, the MEP has indicated it wishes to renegotiate the MOU.

Historical Contaminated Earth

In order to clean up contaminated earth, the Company has made an inventory of the fields and has developed an overall remediation plan. The Company is conducting experimental work involving the testing and treatment of contaminated earth using various biological methods and is conducting a scope evaluation to determine the extent of the contamination so that the nature of the remediation required and related costs can be determined.

The remediation of contaminated earth occurs in two separate stages. Firstly, the contaminated earth is excavated and transported to waste collectors that have a waste water drainage system, fencing and a waterproof membrane. During this stage of remediation, the waste is only managed and not actually treated. See “—Waste Management”. The second stage involves remedial treatment of the contaminated soil, principally by thermal desorption to produce an inert material. Both UMG and EMG are in the process of selecting new treatment facilities to ensure the accumulated waste soil can be treated.

AMEC estimates that the total land area requiring remediation at the EMG and UMG fields are approximately 2,280,000 square metres and 187,000 square metres, respectively. During 2005, 387,000 square metres of contaminated earth had been through stage one remediation and 857 tonnes had been through stage two remediation at EMG. AMEC understand that UMG processed 29,600 square metres of contaminated earth through stage one in 2005, while the stage two process is still awaiting the purchase of a suitable facility.

The Company's historical costs for remediating the crude oil-contaminated areas were KZT1.0 million in 2004 and KZT404.0 million in 2005. Expenditure in 2004 was primarily directed towards the assessment and establishment of the remediation programme, whereas expenditure in 2005 was solely related to the process of actual remediation. The obligatory expenditure considered necessary by AMEC to address contamination issues is KZT12.6 billion for EMG and KZT2.3 billion for UMG. AMEC has proposed a potential further liability of KZT1.3 billion for EMG and KZT18.2 billion for UMG contingent on the possible need for further remediation to a greater depth as a result of deeper than anticipated penetration of contaminants. AMEC has estimated that for the period to 2025, the Company's related obligatory costs incorporating all contaminated land issues will total KZT14.9 billion and additional contingent costs may total KZT19.5 billion.

The Company commissioned pilot trials in 2006 that confirmed that the Uzen Lake could be remediated with no significant cost to the Company through engaging specialist contractors who would retain certain rights to the salvageable fraction of oil recovered from the oily emulsion. Although certain contractual arrangements have been entered into, no assurance can be provided that the Uzen Lake can be remediated at no significant cost to the Company pursuant to such or similar contracts. If the Company had to undertake the removal and treatment of this lake itself, it would be at an estimated contingent cost of KZT13.3 billion (this amount is included in the above table). See “Risk Factors—The Company and its predecessors have generated substantial environmental liabilities that the Company is required to remediate at its cost”.

Mangistau Claim

In November 2003, the Mangistau regional branch of the MEP approved, in respect of the years 2004–2010, the Company's plan for cleaning the Uzen Lake and, in respect of the years 2003–2010, for cleaning the COTS Pit. The continuation of removal operations is annually reflected in the Company's environmental protection plans for the UMG production division. The Company spent approximately KZT141.0 million in 2005 on both the Uzen Lake and the COTS Pit in relation to this plan.

In March 2006, the Mangistau department of MEP presented the Company with a claim for KZT11.4 billion relating to the COTS Pit. This claim was calculated based on a multiple of the volume of waste (26,548 tonnes) alleged to have been discharged into the COTS Pit during 2005. On 7 July 2006, the Specialised Inter-District Economic Court of the city of Astana (“SIDECA”) decided the case in favour of the Company and fully dismissed the claim. On 20 July 2006, the Mangistau department of the MEP filed

an appeal of the above court decision with the Collegium on Civil Cases of the Astana City Court which was subsequently rejected on 9 August 2006, reaffirming the SIDECA's decision. The Mangistau department of the MEP or the public prosecutor can, until 9 August 2007, ask the Astana City Court or the Supreme Court to reconsider the case as a whole.

Air Emissions

The flaring of gas refers to the burning of gas as a means of disposal when the operator does not or cannot use the gas for another purpose. Pursuant to the Republic of Kazakhstan Law "On Oil" (Article 30-5), as amended in 2005, the flaring of gas and associated gas is prohibited, except for emergency situations and where there is a threat to human life or the environment. Despite this prohibition, the Company has historically had no viable alternative available other than the flaring of gas. The following table sets forth the volume of gas flared by the Company for the periods specified.

	For the year ended 31 December	
	2004	2005
	(cubic metres)	
EMG	73,957,000	73,006,644
UMG	8,562,000	4,997,100
Total	<u>82,519,000</u>	<u>78,003,744</u>

Pursuant to the LoEP, the Company has paid penalties as a result of gas flaring totalling KZT231.4 million for 2005. Prior to 2005, no fines or penalties were levied by the MEP in relation to gas flaring.

At UMG there is a gas processing plant which allows gas to be collected, stored and later transported therefore avoiding the need for gas flaring. In 2006, MEP agreed to suspend future sanctions and penalties for the Company's gas flaring violations, provided that the Company developed programmes that seek to reduce and eliminate gas flaring across its entire operations at EMG. MEMR approved the Company's gas flaring elimination programme in June 2006. The suspension of future sanctions is dependent upon the Company complying with this programme. At EMG, the use of associated gas for internal heating has enabled a reduction in the flaring of gas.

As a part of the overall gas flaring elimination programme, in 2005, the Company implemented a KZT284.0 million project for the utilisation of associated gas from the Prorva group of fields. The first stage of this programme was completed in 2005 and enables the utilisation of associated or natural methane for internal heating. The plant is currently moving towards a production phase and has received a positive review from the MEP regional department in Atyrau. The second stage of the project includes the installation of a gas turbine for heat and electricity generation, which the Company believes will eliminate the need for any gas flaring at the Prorva group of fields. The Company plans to finalise the second stage of the project by the end of 2008. The Company estimates that completion of the first stage of the project will reduce gas flaring in the Prorva fields by approximately 70%. The experience and skills obtained at the Prorva fields will be utilised across the remaining EMG fields over time.

Given that the Parliament of Kazakhstan has yet to ratify the country's accession to the Kyoto Protocol, the current gas flaring operations of the Company remain compliant with domestic regulations. When and if the Kyoto Protocol is implemented, it is more than likely that the Company will be required to both conduct process engineering works to reduce emissions and accordingly, this may impact on the Company's capital expenditure which may in turn be affected by the utilisation of gas.

Waste Management

Pursuant to the terms of the Company's environmental permit issued by the MEP in 2005, it is obliged to comply with strict regulations regarding the storage, transport, packaging and handling of contaminated earth and hazardous materials, including radioactive waste. The Company has significant quantities of contaminated earth currently stored in various polygons and waste collectors which were inherited from the the Company's predecessors. There are also a number of unauthorised storage areas. The contents of all of the storage areas will require treatment and disposal, and the unauthorised storage areas will need to be remediated in the same manner as contaminated earth. According to AMEC, the total obligatory expenditure associated with all waste management issues over the duration of the current operating

licences held by the Company is approximately KZT15.7 billion, in addition to a contingent liability of KZT81.9 million which is based upon AMEC's recommendation of increased monitoring and potential infrastructure upgrades of certain radioactive storage areas to bring them inline with current international standards.

Due to the natural radioactivity of soils and ground water in the UMG oil fields, all production related equipment is checked for radiation levels. Metal scrap which is found to have excessive radiation is collected and stored in a temporary radioactive waste polygon ("TSRWP") by a team of specialists from the Company's Chemical and Ecology Department. The Company simultaneously registers this waste. The TSRWP was constructed according to the designs set by NIPImunaigas of Aktau and complies with all MEP permit guidelines. The surrounding area of the TSRWP is protected with concrete, underground cells for containers, tanks for storage and designated areas for transport decontamination. The vicinity of the TSRWP is guarded, equipped with radiation safety warning signs and the approach roads are paved with asphalt.

Waste Water

Water usage forms an integral part of oil extraction and each individual field is required to possess a permit in relation to water usage. Both EMG, UMG and other assets operate closed process water systems, minimising any adverse impacts on the environment. Process water is re-injected back into the geological formation via pumping stations. According to the AMEC report, the Company is in compliance with all permit conditions and no significant issues have been identified in relation to any associated obligatory or contingent costs.

Environmental and Regulatory Compliance

The Company is required under article 25 of the LoEP to monitor and assess its impacts upon the environment and regulatory compliance. This work is undertaken by two independent contractors. The Company's anticipated expenditure for the period to 2025, for environmental compliance is US\$3.4 million. A potential further US\$2.9 million in contingent costs may be required if more stringent legislation is introduced.

EMPLOYEES, HEALTH AND SAFETY

Employees

The table below sets out the number of people (full-time equivalents) employed by the Group as of the periods indicated:

	As of 31 May 2006	As of 31 December		
		2005	2004	2003
UMG	10,033	10,107	9,918	9,355
EMG	6,332	5,952	5,722	6,131
Corporate Headquarters	213	218	116	0 ⁽¹⁾
Subsidiaries	4,535	6,386 ⁽²⁾	9,516 ⁽²⁾	6,836
Total	<u>21,113</u>	<u>22,663</u>	<u>25,272</u>	<u>22,322</u>

(1) The Company was created in March 2004. See "—History and Organizational Structure".

(2) The increase in 2004 was due to the purchase of the Atyrau Refinery and the decrease in 2005 was due to its sale.

Trade Union

All employees of the Group's production divisions are offered membership in the Company's trade union upon commencement of employment. The trade union represents the majority of employees and assists with legal matters on behalf of employees, monitors compliance with labour laws and internal labour procedures and mediates in the case of labour conflicts and lawsuits.

There have been no strikes in the history of the Group and good relations exist with the trade union. Regular communication between the trade union and the Group's management has prevented significant

labour conflicts from arising. The Group is one of the largest employers in the South-West region of Kazakhstan.

The general terms and conditions of employment at the Group's production divisions are governed by a collective agreement (the "Collective Agreement") signed on 27 December 2004, between the Company and the trade unions of the UMG and EMG production divisions as well as a Provision on Employee Social Support board resolution issued by the Board of Directors on 13 October 2004. In addition, each employee signs an individual employment contract. Under the Collective Agreement, the terms and conditions of employment in the Company must be in full compliance with relevant Kazakhstan legislation, including "Labour Law", "Law on the Security and Safety of Labour", "Law on Collective Agreements", "Law on Social Partnership" and "Law on Trade Unions". The Collective Agreement also provides for additional unpaid leave of absence for employees in a number of circumstances.

Management Compensation Plan

An executive compensation system has been developed for the Company by outside consultants. The objective was to implement a fair, transparent and competitive compensation system which will be aligned with shareholders' interests, the Company's strategy and best practice, including the practices of companies listed on LSE.

The new compensation system consists of three parts:

- Fixed pay (salary)—employees' salaries are set in accordance with job duties and seniority, functional responsibilities and other specifically selected factors. To achieve this target the following steps were completed: job analysis and job evaluation followed by building up job hierarchy and salary benchmarking exercise using information available on the market and relevant for comparison. The Company introduced a system of 15 job grades with respective salary bands for the head office.
- Variable pay (performance bonus)—the system was developed to motivate management on the annual basis for achieving short-term targets, set for individuals, business units and the Company. Key Performance Indicators (KPIs) are used to evaluate the level, at which targets are met. An average bonus amount may get up to 60-70% of annual salary if targets are met. The percentage varies depending on job level.
- Share Option Plan—to motivate top management and to retain key employees on a long-term basis.

JSC KazMunaiGas EP Option Plan

The principal features of the Company's Option Plan (the "Plan") are outlined below. The Plan was approved in principle by the Company's shareholders in general meeting on 28 August 2006.

Operation The Plan will be administered by the Board of Directors, which is responsible for granting Options and IPO Awards (as defined below) and administering the Plan. The Plan is discretionary and will only operate in those years that the Board of Directors determines. It is currently anticipated that Options will be granted once every three years. IPO Awards will be granted only once, following Admission.

Eligibility All employees or directors (except independent directors) of the Company or subsidiaries of the Company are eligible to participate in the Plan at the discretion of the Board of Directors. However, it is currently intended to offer participation only to senior employees and directors of the Company.

Grant of Options Options to acquire GDRs under and subject to the Plan ("Options") may be granted at any time on or following Admission. It is currently intended that the first grant of Options will be made on or shortly after Admission. Further grants of Options may then be made three years after the first grant of Options. Options may also be granted at different times in connection with the commencement of an eligible employee's employment or other exceptional circumstance if this is appropriate.

Selected employees or directors (excluding the Independent Non-Executive Directors) may be granted a one-time award ("IPO Award") within three months of Admission. The purpose of an IPO Award (which will take the form of an option with a zero exercise price) is to recognise the exceptional efforts of the relevant participant in the lead-up to Admission.

No payment will be required for the grant of Options or IPO Awards. Options and IPO Awards will not be taken into account in determining a participant's pension rights. Options and IPO Awards are not transferable, other than on death.

Option exercise price The price per GDR payable on the exercise of an Option shall be the closing middle market quotation for a GDR on the dealing day immediately preceding the date of grant. No price will be payable on the exercise of IPO Awards.

Limits on the use of GDRs The number of Shares underlying each GDR which may be purchased to satisfy Options and IPO Awards granted under the Plan shall not exceed 1,358,440, which, for the avoidance of doubt shall represent 5 per cent of the issued ordinary share capital of the Company as calculated on the first date on which the listing of Shares or GDRs becomes effective. Options which have lapsed or have been released are ignored for the purposes of these limits.

Individual limits No employee or director may be granted Options under the Plan in any Plan Cycle over GDRs with an aggregate market value at the date of grant in excess of 375 per cent of his base salary, unless the Board determines that exceptional circumstances exist which justify exceeding this limit, in which case, the limit shall be 500 per cent of salary. No employee or director may be granted an IPO Award under the Plan with an aggregate market value at the date of grant in excess of 200% per cent of his base salary.

Exercise of Options Subject to the participant discharging any relevant tax liability, Options (excluding IPO Awards—see below) will normally be exercisable (“vest”) at the following times:

- as to one-third of the GDRs under option, on the first anniversary of the date of grant;
- as to a further one-third, on the second anniversary of the date of grant; and
- as to the remaining one-third, on the third anniversary of the date of grant.

IPO Awards will normally be exercisable on the first anniversary of the date of grant. Generally, to the extent that the IPO Award has not been exercised, it shall lapse on the first day of the second month following the date on which it becomes exercisable.

Exercise conditions Normally, in order for Options (including IPO Awards) to vest, participants must remain in employment until the vesting date. For the initial grant of Options, it is not intended that the vesting of Options will be subject to any performance targets. The Board may, however, determine that Option granted in future should be subject to performance targets. The vesting of IPO Awards will not be subject to any performance targets.

Special situations If a participant in employment with the Company or a subsidiary dies, his Options and IPO Awards will be capable of exercise within a period of twelve months following his death. If a participant leaves employment by reason of injury, disability, redundancy, the sale of the business for which he works to a third party or retirement, his Options and IPO Awards may generally be exercised within 30 days of cessation. The Board of Directors will have discretion to determine what proportion of the Options and IPO Awards shall vest taking into account the length of time the participant has held office or employment and, where applicable, the extent to which any performance targets have been met.

If a participant ceases to be an employee or director of the Company or a subsidiary for any other reason, his Option or IPO Award will normally lapse unless and to the extent the Board of Directors decides otherwise.

In the event of a takeover, reconstruction or winding up of the Company, an Option and IPO Award may be exercised to the extent that any relevant performance targets (if applicable) have been met and the period elapsed since the date of grant. Alternatively, Options and IPO Awards may be exchanged for new equivalent options where appropriate.

Rights attaching to GDRs GDRs transferred under the Plan will rank equally with all other GDRs of the Company for the time being in issue (except for rights attaching to such GDRs by reference to a record date prior to the exercise of the Option or IPO Award).

The Board may satisfy (generally with the consent of the participant) an Option or IPO Award on exercise by paying to the participant in cash or other assets the gain (i.e. the difference between the market value of the relevant GDRs on the date of exercise and the exercise price), as an alternative to transferring or procuring the transfer of GDRs to the participant.

Variation of Capital In the event of any variation of share capital, demerger or other corporate event, the Board may make such adjustments as they consider appropriate to any exercise conditions (where applicable), the number of GDRs subject to Options and IPO Awards and the price payable on the exercise of Option.

Alterations to the Plan The Board may recommend alterations or additions to the provisions of the Plan. These will require approval at the next general shareholders meeting.

Termination of the Plan The Plan shall terminate upon the tenth anniversary of its approval by the Company or at any earlier time by the passing of an ordinary resolution of the Company in a general shareholders meeting. Termination of the Plan shall be without prejudice to the subsisting rights of Participants.

Overseas Employees The Board of Directors may grant Options and IPO Awards to overseas employees or directors on different terms so as to take account of relevant overseas tax, securities or exchange control laws provided that the Options are not overall more favourable than the terms of Options and IPO Awards granted to other employees or directors.

JSC KazMunaiGas EP Employee Trust

The Company's Employee Trust is a discretionary trust established in Jersey for the benefit of current and former employees and directors of the Company and other group companies, and their dependants. The object of the Trust is to encourage and facilitate the holding of Shares or GDRs by or for the benefit of the beneficiaries. The trustee of the Trust is Abacus Corporate Trustee Limited, a company which is independent of and unrelated to the Company (the "Trustee"). The Company has provided the Trustee with a credit facility, advances under which may not exceed US\$100 million in aggregate. The Trustee has drawn down US\$100 million and has applied for GDRs with a value of approximately US\$30 million in the Global Offer. The Company proposes to demand repayment by the Trustee of any funds remaining after the Trustee's participation in the Global Offer.

Retirement benefits and pensions

The Company provides the following social benefits and financial grants to its non-working retired employees within the limit stipulated in the approved annual budget of the Company:

Lump sum payments are made upon retirement by reference to monthly salary.

Social benefits such as three tonnes of coal per retired employee with delivery per retired employee free of charge every year to those who do not have a central heating system in their houses, upon application, an annual subscription for one of the regional or town newspapers of a retired employee's choice, upon application and a free voucher for recreation and medical treatment at spa centres in Kazakhstan subject to the number of vouchers determined in the approved annual budget. This type of benefit is granted once in three years.

Financial grants including a grant of KZT5,000 payable to retired women employees on the International Women's Day of 8 March, a grant of KZT10,000 payable on the Nauryz Meiramy holiday, a grant of KZT10,000 payable to WWII veterans on Victory Day, a grant of KZT5,000 payable to former workers of labour fronts on Victory Day, a grant of KZT10,000 payable on the Day of Workers of the Oil and Gas Complex, a grant of KZT10,000 payable on Elderly People's Day, a grant of KZT10,000 payable on the Republic of Kazakhstan Independence Day, a payment of KZT30,000 on the death of a pensioner or his/her spouse, upon application filed by members of the family, a payment of KZT30,000 payable on the 60th, 70th, 80th and 90th birthdays of retired employees, upon application and a payment for medicines, upon application with supporting documents.

All such payments are subject to taxes and other obligatory payments required by Kazakhstan legislation and are made at the Company's expense. In addition, the Company contributes towards the national pension scheme operated by the Government but does not itself provide a pension scheme.

Health and Safety

The Group is focused on the systematic improvement of labour safety. The Company's health and safety policies focus on providing safe working conditions, preventing technical failures and accidents and increasing employees' understanding of health and safety issues across its operations. To protect the health

and safety of its workforce and to prevent accidents and injuries in its facilities, the Group aims to continuously improve labour conditions and has developed labour safety policies which meet Kazakhstan standards, which in many cases are similar to international standards. The Group has also conducted scientific and technological studies to help it implement new engineering mechanisms in its operations that are aimed at improving health and safety conditions. The Group believes that establishing and adhering to stringent health and safety standards is an important factor in its success. Therefore, it monitors and records health and safety incidents and promptly reports them to governmental agencies. The Group currently maintains an overall health and safety management system for its production divisions and reviews the performance of its production divisions on a regular basis.

The Group's Department of Environmental Protection, Labour Protection and Safety develops internal safety procedures, monitors compliance, investigates production accidents, coordinates safety training and provides medical check-ups for employees.

The Group's Department of Environmental Protection, Labour Protection and Safety also conducts internal annual technical audits of the UMG and EMG production divisions regarding health and safety conditions. The Group's most recent internal audit, conducted in November 2005, found a consistent decline in the levels of work-related injuries at its production divisions. Additional annual inspections are conducted by the relevant governmental authorities in Kazakhstan. The Group's monthly management financial reports also provide health and safety statistics. For the Company, there were 14 accidents and 17 injured persons (including three fatalities) in 2003; 12 accidents and 13 injured persons (including two fatalities) in 2004; five accidents and eight injured persons (none of which were fatal) in 2005; and two accidents and two injured persons (including one fatality) for the five month period as at 31 May 2006.

As a result of its continuous audits of health and safety conditions and in conjunction with expert advice from State agencies, the Group has implemented and is continuing to implement policies to detect possible unsafe or harmful industrial conditions to protect the Group's employees from work-related accidents, injuries and illnesses in each of the Group's production divisions. As part of the Group's policies, it is in the process of implementing ISO 9001:2000, ISO 14001:1996 and OHSAS 18001:1999 policies. By the end of 2007, the Group expects to have fully implemented these policies and will aim to adhere to established standards for health and safety protection.

Compliance with Kazakhstan Requirements

The Group's operations are subject to legislation, regulations and other requirements of Kazakhstan relating to health and safety requirements applicable to oil and gas companies operating in Kazakhstan, which are regulated by state authorities, including the Ministry of Labour and Social Protection. The Group's contracts and production licences require that all its operations be carried out in conformity with applicable safety and health requirements and in accordance with methods and practices customarily used in good international oilfield practice. See "—Licences and Contracts".

As required by Kazakhstan regulations, the Group receives health and safety certification once every three years.

At present, there are no significant disputes or legal proceedings with regulatory authorities with respect to the Group's compliance with the safety or health laws and regulations of Kazakhstan. In 2005, the Company recorded no safety related liabilities that exceeded US\$100,000 and the Company believes that its work-related fatality rate is well below industry average.

Employer's Liability Insurance

Pursuant to clause 20 of Article 20 of the Republic of Kazakhstan Law "On Labour Safety" (No.528-II, dated 28 February 2004) and the Republic of Kazakhstan Law "On Obligatory Insurance of Civil Liability of Employer for Infliction of Injury to the Life and Health of Employee when Carrying Out Work Duties" (No. 30-III, dated 7 February 2005), an employer is obliged to maintain employer's liability insurance. On this basis, on 30 December 2005 the Company acquired from JSC Kazakhinstrakh ("Kazakhinstrakh") an annual policy insuring its liability arising from damage to the life and health of all of its employees as a result of occupational accidents occurring during the period covered by the policy. Under this policy, the limit of liability is equal to the annual payroll fund of the Company, which conforms to legislative requirements.

SOCIAL PROJECTS

The Company is required under the terms of its production contracts and licences to make financial contributions to assist in implementing various social projects in the regions and cities where the Company operates. Furthermore, the Company has an obligation under its subsoil use licenses and contracts to invest in training the local workforce, upgrade the qualifications of its employees and provide educational grants. Such obligations include funding the construction of medical, cultural, recuperation and rehabilitation facilities, community centres, athletic facilities, housing and infrastructure in the areas in which the Company operates.

The Group's total costs for social projects mandated by subsoil contracts totalled KZT0.8 billion, KZT0.5 billion and KZT0.5 billion in 2005, 2004 and 2003, respectively, and totalled KZT0.3 billion and KZT0.1 billion for the five month periods ended 31 May 2006 and 31 May 2005, respectively.

In addition, at its own initiative or, in the past, at the direction of NC KMG, the Company has implemented and implements social projects in the areas where it has operations and other areas in Kazakhstan. The Company's divisions, for example, are usually the primary employers in towns where they are located, and the Company provides social aid by, among other things, providing special payments and sponsor assistance for building roads and recreation centres, constructing residential dwellings and providing residents with gas, heating and water.

The Group's total costs for voluntary social projects totalled KZT3 billion, KZT1.9 billion and KZT1.9 billion in 2005, 2004 and 2003, respectively, and totalled KZT3.2 billion and KZT0.6 billion for the five month periods ended 31 May 2006 and 31 May 2005, respectively.

LITIGATION

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during the period covering the 12 months prior to the date of this document, which may have or have had in the recent past significant effects on the Group's financial position or profitability, save for those matters described in “—Environmental Matters—Mangistau Claim” and “—Taxation—Tax Claims”.

TAXATION

The Company believes that it has paid or accrued all taxes that are applicable to its operations. Where practice concerning tax law application is unclear, the Company has accrued tax liabilities based on management's best estimates. The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. To date, the tax authorities of the Ministry of Finance of the Government have brought a limited number of claims against the Company in relation to cash royalties and taxes that are alleged to be owed by the Company. Other than these disputes, which are described in more detail below, the Company is not currently party to any other material legal or environmental regulatory proceedings relating to any tax claims. The Company is also not aware of any threatened or unasserted legal or regulatory proceedings relating to any tax claims that it believes would be material to it. Based on a consideration of all relevant facts and circumstances, the Company does not believe the ultimate outcome of any currently pending matter against the Company either individually or in the aggregate will have a material adverse effect upon the Company's results of operations or financial condition.

Tax Claims

The Company has drawn on the assistance of its sister company, KMG Consulting, to process and resolve the following tax claims:

Tax audit of UMG for 2002–2003

In November 2004, the Company was assessed taxes, fees and penalties totalling KZT14.6 billion by the tax authorities in Kazakhstan with respect to the operations of the Company's predecessor, UMG, for the years 2002 through 2003 in respect of allegedly unpaid corporate income tax, excess profit tax, VAT and other incidental amounts, including an administrative penalty in the amount of approximately KZT4.4 billion. Corporate income tax and excess profit tax assessments were made in relation to the alleged improper deduction of repair expenses and capitalisation of costs. The amount of VAT claimed by tax authorities represents the difference between the rate of 16% which the Company was applying for

sales of refined products and the stabilised rate of 20% which was stipulated under the relevant subsurface use contracts. After a successful appeal and an agreement to pay an amount in respect of the corporate income tax, the VAT claim relating to the supplies of oil to the Atyrau Refinery is the only one that remains outstanding. The Company appealed this issue to the SIDECA in May 2006. In August 2006, the SIDECA denied the Company's appeal. The Company has further appealed this issue to the Astana City Court and is expecting a hearing before 31 December 2006.

Transfer pricing audit of UMG for 2001–2003 and of EMG for 2003

Historically, provisions for taxes have been substantial following assessments alleging incorrect application of transfer pricing legislation during the years 2001 to 2004. As at 31 May 2006, provisions for taxes were KZT23.5 billion compared to KZT23.5 billion as at 31 December 2005 and KZT6.1 billion as at 31 December 2003. See “Operating and Financial Review—Liquidity and Capital Resources—Liquidity and Working Capital”. Future tax provisions are not expected to be of the same magnitude, because the transaction for supplies of oil to Ukraine, which gave rise to the biggest tax risks, have been terminated. Currently, the Company does not supply oil to Ukraine.

Another part of the tax provision referred to above related to the VAT on oil transferred to the Atyrau Refinery for tolling. The Company dramatically decreased tolling operations with the Atyrau Refinery in 2005 and plans to stop them at the end of 2006.

In November 2004, the tax authorities, together with the Department of National Security, the Department of Customs and Control and the Department of Economic Crimes, commenced a joint audit of UMG and EMG. The joint audit covered the years 2001 through 2003 for UMG and the year 2003 for EMG and related to alleged violations of transfer pricing laws and regulations in Kazakhstan. Specifically, the joint audit concerned the calculation of the amount of the Discount on the export price of the Company's crude oil that UMG and EMG provided to KMG TradeHouse AG for the periods covered by the joint audit. As a result of the joint audit, the tax authorities determined that certain of the discounts made on a notional FOB price provided to KMG TradeHouse AG for the periods under review either exceeded the amounts permitted under applicable transfer pricing laws and regulations or were not supported by adequate documentation and, therefore, were deemed by the tax authorities to exceed such permitted amounts. In February 2005, the tax committee made an assessment against the Company totalling approximately KZT2.3 billion, which represents the tax authorities estimate of the amount of additional income tax and royalties that the Company would have had to pay if the Discounts provided to KMG TradeHouse AG had not exceeded the permitted amounts. The Company was also assessed approximately KZT1.4 billion by the tax authorities, which represents interest, administrative fines and penalties for the alleged violation of applicable transfer pricing laws and regulations.

The Company believes that the position of the tax authorities is without merit and has successfully challenged the assessments. In February 2006 the Supreme Court of Kazakhstan dismissed the tax authorities claims of transfer pricing abuses against the Company in respect of the claims related to trader's and operator's commission, however remained silent in respect of risk hedging expenses which were not a significant part of the total claim. However, KMG TradeHouse AG will remain the Company's affiliate, and the Company recognises the inherent tax risk in such a relationship. While the Company has in the past successfully challenged allegations of transfer pricing there can be no assurance that similar claims will not be brought successfully in the future. As a consequence, the Company's financial statements for the year ended 31 December 2004 and 31 December 2005 include a tax reserve in respect of the additional taxes, fees and penalties that may be assessed by the tax authorities for the alleged violation of applicable transfer pricing laws and regulations by UMG and EMG.

Tax audit of EMG and the Company's operations in 2002-2004

In August 2005, the Company was assessed approximately KZT1.2 billion of excess profit taxes and approximately KZT86 million in fees and penalties. The tax authorities claim that for the years of 2002–2004 the EMG production unit of the Company incorrectly reduced its net profit from some of its hydrocarbon contracts by unlawfully deducting the current year's withholding tax on dividends and excess profit tax for the preceding year.

The Company appealed the tax authorities' decision to the central Tax Committee and then to the city and Supreme courts. However, the Company's appeal has been dismissed both at the Tax Committee and in the courts. The Company has the right to further appeal the decision to the supervisory board of the Supreme Court. The Company has already paid the whole amount of taxes together with fines and penalties assessed pursuant to the results of this tax audit.

See “Risk Factors—Risk Factors Relating to the Company’s Business—The Company is subject to an uncertain tax environment which may lead to disputes with taxation authorities”.

REGULATORY MATTERS IN KAZAKHSTAN

The main regulatory bodies that are relevant to the Company’s operations in Kazakhstan include:

- *Ministry of Energy and Mineral Resources.* MEMR is the central executive body of Kazakhstan with responsibility for the regulation of the energy industry, including mineral resources and petrochemical industries. MEMR’s functions include regulating the exploration, development and use of subsoil resources including the preparation of contracts for subsoil use and monitoring the production, transportation and processing of hydrocarbons and sales of oil products. Additional regulation is promulgated through MEMR’s committee of geology and subsoil use as well as through the organisational and territorial departments of the Ministry and its committees.
- *Committee for Financial Control and State Procurement of the Ministry of Finance (State Procurement Committee).* The State Procurement Committee is a committee of the Ministry of Finance that is responsible for implementing and enforcing the State Procurement Law. The State Procurement Law establishes mandatory procedures for the procurement of goods and services by state-owned companies and other companies organised under the laws of Kazakhstan in which the state has a 50% or more direct or indirect ownership interest which gives it control over such company. Generally, the State Procurement Law requires such companies to conduct a formal public tender in order to procure most types of goods and services, subject to certain limited exceptions, such as for goods and services not exceeding the current limit of approximately KZT4.0 million in amount in any year. The procurement of certain limited categories of goods and services, as well as goods and services provided by companies that are subject to the anti-monopoly laws of Kazakhstan, are also not subject to the State Procurement Law.
- *Ministry of Environmental Protection.* The MEP is the central executive body of Kazakhstan performing intra-industry coordination and the functions of state regulation and control in the area of environmental protection. Its functions include approving or coordinating requirements and establishing limits on discharges of polluting substances and disposal of production and consumption waste and issuing permits and licences for certain ecologically dangerous activities and nature use.
- *Ministry of Labour and Social Protection.* The Ministry of Labour and Social Protection is the central executive body of Kazakhstan regulating and coordinating industry in the areas of labour and social protection.

For a description of the taxation regulation the Company is subject to, see “—Taxation.”

Other

Other regulatory requirements to which the Group is subject (and which, in addition to compliance, may require reporting, applying for permits or undergoing audits for compliance) include:

- import and export of goods with customs authorities;
- land use and construction permits with regional authorities;
- statistical reporting with the Statistics Agency;
- activities associated with the operation of facilities that are subject to supervision by Kazakhstan’s emergency response authority; and
- licensed activities associated with the operation of mining facilities.

Article 71 of the Subsoil Law

Article 71 of the Subsoil Law provides, amongst other things, that, in respect of both newly-concluded subsoil contracts and subsoil contracts concluded before the coming into effect of the Subsoil Law (other than contracts in respect of underground water and commonly occurring minerals), the state has a priority right over the other party to the contract or over participants in a legal entity which possesses the subsoil right, and over other persons, to acquire (on conditions no worse than those offered to other buyers): (i) all or any part of a subsoil right which is being alienated; and/or (ii) the shares in the legal entity possessing a

subsoil right and also in a legal entity which can directly and/or indirectly determine the decisions and/or influence decisions to be taken by the subsoil user, if the main business of this last-mentioned legal entity is connected with subsoil use in the Republic of Kazakhstan.

In connection with the Global Offer, on 11 July 2006 the Company was granted a formal waiver with respect to this provision of the Subsoil Law, the effect of which is that the Global Offer and trading in the Shares and GDRs are not subject to the state's priority right.

INSURANCE

The Company insures some of its risks under a special insurance programme which includes the following types of insurance coverage:

- assets insurance, including coverage of certain assets for fire, lightning, explosion and earthquake;
- insurance for wells out of control, which includes coverage of environmental damage done thereby;
- general third party liability insurance;
- directors and officers liability insurance;
- employer's liability insurance; and
- environmental insurance for which there is a cap of KZT17.5 million.

The Company currently insures most of its risks with Kazakhinstrakh (for asset coverage, wells out of control, third party liability, directors and officers liability, employer liability and environmental).

The types of coverage structure, limits and quality of the Company's insurance programme are comparable with other major Kazakh oil companies.

Under current Kazakhstan law, since 1 July 2005 all employers are obliged to insure against their liability for damage to the health and life of employees when carrying out their work duties. On 30 December 2005 the Company purchased from Kazakhinstrakh an annual policy to insure against the Company's liability for damage to the health and life of employees caused by on-the-job accidents occurring during the terms of the insurance policy. Under the policy, the limit of liability is the amount of the Company's annual payroll fund, which is in line with legislation.

In addition, pursuant to the Law "On Mandatory Environmental Insurance" dated 13 December 2005 the Company maintains insurance for its environmentally hazardous activities. The limit of liability and other insurance terms are established in line with this legislation. In addition, since the Company owns certain vehicles and facilities the operation of which is potentially liable to cause damage to third parties, it is also obliged by Kazakhstan legislation to insure against its liability in connection with such vehicles and facilities on a yearly basis.

The Company does not maintain business interruption, key-man, terrorism or sabotage insurance. This is because, given the diversification of the Company's oil and gas production assets and the overall political and economic stability in Kazakhstan, the Company believes that the chance of any such event occurring is small. Historically, the Company has authorised NC KMG to purchase certain types of insurance services on its behalf. NC KMG puts in place a unified insurance programme for almost all of its subsidiaries and/or affiliates. This allows the Company not only to reduce its general insurance costs, but also to gain access to insurance of certain risks which are impossible and/or uneconomic to insure on a unit-by-unit basis. In addition the Company itself has determined the scope and terms of insurance coverage on the basis of an analysis of its inherent operation risks, and has entered into agreements for specific types of insurance and has paid its own insurance premiums. The Company intends to continue to participate in this insurance programme after the Global Offer.

The Company is also in the process of establishing a risk management committee. See "Directors and Management Board—Corporate Governance—Risk Management Committee".

A key aspect of the Company's insurance programme is the re-insurance of risks assumed by local insurers with foreign re-insurers having a financial security rating of at least 'A-' (Standard & Poor's, Fitch) or at least 'A3' (Moody's).

As part of the insurance programme, international specialised engineering companies and/or authorised engineers of foreign re-insurers conduct regular engineering reviews of the Company's insured assets. Such reviews are followed by the re-assessment of scenarios and the size of the maximum probable

damage and recommendations concerning how to improve risk quality. The Company takes into account such recommendations when planning and implementing a risk management action plan and when forming a budget for the relevant year (if risk response actions require financial resources).

INTELLECTUAL PROPERTY

The company possesses a trademark for the Russian version of its corporate name “KazMunaiGas” Exploration Production”, but does not possess the trademark for the English version. The Company’s operations are not materially dependent upon any specific patent or other intellectual property right or intellectual property licence.

INTERNAL FINANCIAL CONTROLS AND FINANCIAL REPORTING

Internal controls over financial reporting are controls and procedures that are designed to provide reasonable assurance as to the reliability of financial reporting and the preparation of financial statements, and ensure that information required to be disclosed by a public company in the financial reports that it makes public is recorded, processed, summarised and reported within the appropriate time periods.

In connection with the Global Offer and following identification by its independent auditors of a material weakness in its internal controls over financial reporting, the Company conducted a review of the effectiveness of its internal controls on financial reporting. Based upon this review, the Company decided to implement certain new procedures and processes in order for the Directors to make proper and timely judgments regarding the financial position and prospects of the Company. Deloitte & Touche was hired to assist the Company in developing and implementing the new procedures and processes. These new procedures and processes included the implementation of IFRS and the design of a monthly management IFRS reporting pack which will be reviewed by senior management and the Board each month.

The Company’s management is devoting resources to the development of internal controls in order to minimise the risks to critical business decisions regarding budgeting, planning and other matters that may be based on incomplete or inaccurate information. At present the Company is reliant in part on external consultants. The Company is aiming to hire additional qualified staff and to train existing staff in the operation of IFRS, recognising the difficulty of retaining such staff once trained.

For a discussion of material weaknesses in the Company’s internal controls, see “Risk Factors—Risk Factors Relating to the Company’s Business—The Company’s accounting systems are not as sophisticated or robust as those of companies with a longer history of compliance with IFRS and certain material weaknesses in the Company’s internal controls have been identified by the Company’s independent auditor”.

INFORMATION TECHNOLOGY

In March 2005, the Company began the implementation of a SAP information technology platform to improve the production of accurate financial results in a timely and cost effective manner and to manage the Company’s information technology systems. The platform consists of seven modules that manage the following areas: finance, assets accounts, internal accounting controls, record keeping and budgeting, inventory management, reserve management, sales and distribution, production planning and contract monitoring. The Company expects to complete the roll out of the SAP platform by the end of 2007.

In addition, in 2000 the Company installed a unified geological information system designed by Schlumberger. The system is based on a data management technology called Finder, which assists the Company in monitoring the exploration and development of its oil and gas fields, collecting production data, carrying out hydrodynamic modelling and interpreting geological and geophysical information. This software was also employed as part of the rehabilitation measures taken at the 3A block in the Uzen field.

The Company does not currently have a disaster recovery plan but expects to have this in place prior to the end of 2006.

The Company has improved its information technology security control environment through purchasing security solutions (including firewalls). However, formal reviews of security configurations, application security and data access are not performed on a regular basis.

LICENCES AND CONTRACTS

Overview

The state owns the crude oil and gas in the subsoil of Kazakhstan. It grants hydrocarbon contracts in the form of exploration, production or exploration and production contracts for fixed periods of time. Although exploration may be conducted without an exploration contract, an explorer that does not possess an exploration contract does not have exclusive rights to conduct exploration activities within the explored area and is not entitled to enter into negotiations with MEMR for a production contract until an exploration contract is obtained. When commercial discoveries are made, the holder of an exploration contract has an exclusive right to obtain a production contract through direct negotiations with MEMR. Hydrocarbons may only be extracted and sold if the producer has entered into a production contract with MEMR, except for limited production made for trial purposes. The production contract defines the subterranean zones (for example, the Triassic Zone) from which the holder may extract hydrocarbons. Production contracts may govern the production rights for more than one block.

The negotiation of a hydrocarbon contract is a complex process requiring the agreement of a number of governmental ministries, including MEMR, and requires the preparation of economic models with financial expenditure commitments. In the event a hydrocarbon contract cannot be negotiated, an explorer or producer risks losing all rights to its exploration and/or production for the geography in question. In addition, the explorer or producer and a department of the Government, known as a research and design institute, must formulate a development plan for each field specifying detailed drilling and production targets once commercial discovery is made. The development plan may be periodically modified with the approval of MEMR in order to reflect changing circumstances. Default by a producer under the terms of a hydrocarbon contract or development plan can result in the loss of a hydrocarbon contract and, accordingly, all production rights.

Prior to 1999, subsurface use rights in Kazakhstan were granted through issuance of an exploration and/or production licence and a related contract which was negotiated after the issuance of a licence. A contract would set forth the specific terms of the exploration and/or production activities based upon the licence terms. Contract terms could not contradict the license as the latter had prevailing force over the contract. In 1999, Kazakhstan law changed such that licences were no longer separately required. Licences granted prior to the change in law remain in force until they expire. Since 1999, exploration and/or production rights are granted pursuant to a contract only.

Royalty and other Payments

The Company is subject to a variety of taxes, fees and royalty payments under its contracts and licences, including the payment of excess profit taxes. The table below sets forth a description of the Company's royalty payments for its UMG oil fields and the eight major EMG fields. All royalty payments in respect of the Company's contracts are paid in cash or in kind. Where more than one field is covered by a single contract, the royalty is calculated on the basis of the level of production achieved at all of the fields included in the contract. The royalties payable depend upon the cumulative production levels and increase over time. Due to the length of time during which its fields have been in use, the Company pays the

maximum level of royalties with respect to its fields. The table sets forth examples of the royalty rates payable under the contracts relating to the following fields.

Field ⁽¹⁾	Effective Average Royalty Rate for 2005 ⁽²⁾	Effective Average Royalty Rate for 2004 ⁽²⁾
UMG Fields:		
Uzen	3.0%	3.0%
Karamandybas	3.0%	3.0%
EMG Fields:		
Kenbai (Moldabek East/North Kotyrtas)	8.0%	8.0%
Nurzhanov	5.0%	5.0%
Kamyshitovoye South-West	4.6%	4.6%
Botakhan	4.6%	4.6%
Zaburunye	4.6%	4.6%
Makat East	4.6%	4.6%
Zhanatalap	4.6%	4.6%
Kamyshitovoye South-East	4.6%	4.6%

- (1) Royalty terms remain the same throughout the term of the contract unless the contract is amended.
- (2) The average royalty rate per contract was calculated by dividing the total annual royalty liabilities by the total annual royalty base.

As described below, the rate of excess profit tax applicable to a field is set forth in the relevant licence. In light of the fact that it has made substantial voluntary social payments in the past in connection with the Uzen fields, the Company is seeking to negotiate a reduction in the rate of excess profit tax applicable to those fields.

Licences and Contracts

UMG Fields

The following table lists each of the UMG fields according to contract number and sets forth the licence number, date of issue of the licence and the execution and expiration dates of each contract.

UMG FIELDS					
Contract Number	Field	Licence	Expiration Date of License	Execution Date of Contract	Expiration Date of Contract
40	Uzen (oil and gas)	MG#254(H) 05.09.95	05.09.2020	29.05.96	29.05.2021
40	Karamandybas (oil)	MG#255(H) 05.09.95	05.09.2020	29.05.96	29.05.2021
67	Karamandybas (gas)	MG#289(H) 17.07.97	11.12.2020	17.06.97	17.06.2022
68	Tenge West (gas)	MG#287(H) 11.12.95	11.12.2020	17.06.97	17.06.2022
66	Tasbulat (gas)	MG#288(H) 01.02.96	01.02.2021	17.06.97	17.06.2022
69	Zhetybai South (gas)	MG#927(B) 24.10.96	24.10.2021	17.06.97	17.06.2022
65	Aktas (gas)	MG#286(H) 01.02.96	01.02.2021	17.06.97	17.06.2022
458	East Uzen (gas)	AI#1561 14.12.99	13.12.2024	28.04.2000	13.12.2024

The following is a summary of the principal terms of Contract No. 40, which is the main production contract for the Uzen fields.

Contract No. 40

<i>Contract Area</i>	Contract No. 40 covers 366.26 square kilometres and is divided into two fields, Uzen and Karamandybas. The fields are located in the Karakiyansky region of Mahgistan Oblast.								
<i>Term</i>	Expires 29 May 2021.								
<i>Royalty Payments</i>	Monthly payment to the state budget of a fixed royalty, equal to 3% of the volume of extracted hydrocarbons, calculated on the basis of the average price for the reporting period, payable during the term of the contract.								
<i>Corporate Income Tax</i>	Monthly payment of corporate income tax at a fixed rate of 30% of the Company's taxable income, each year during the term of the contract.								
<i>Value Added Tax</i>	Fixed at 20% of the value of taxable turnover.								
<i>Excess Profit Tax</i>	Annual payment of excess profit. Excess profit tax ("EPT") is calculated at the following rates:								
	<table> <thead> <tr> <th><u>Real rate of return</u></th> <th><u>Rate</u></th> </tr> </thead> <tbody> <tr> <td>less than 20%</td> <td>0%</td> </tr> <tr> <td>more than 20% but less or equal to 25%</td> <td>30% of the profit exceeding 20%</td> </tr> <tr> <td>more than 25%</td> <td>50% of the profit exceeding 25%</td> </tr> </tbody> </table>	<u>Real rate of return</u>	<u>Rate</u>	less than 20%	0%	more than 20% but less or equal to 25%	30% of the profit exceeding 20%	more than 25%	50% of the profit exceeding 25%
<u>Real rate of return</u>	<u>Rate</u>								
less than 20%	0%								
more than 20% but less or equal to 25%	30% of the profit exceeding 20%								
more than 25%	50% of the profit exceeding 25%								
<i>Property Tax</i>	Quarterly payment to the relevant local budget at a fixed rate of 0.5% of the residual book value of main production and non-production assets, payable during the term of the contract.								
<i>Road Use Tax</i>	Monthly payment to the relevant local budget at a fixed rate of 0.5% of the volume of the hydrocarbon sales revenues, payable during the term of the contract.								
<i>Land Fee</i>	Quarterly payment to the relevant local budget.								
<i>Employment Fund Fee</i>	Monthly payment to the state budget at a fixed rate of 12% of employees' salaries and wages payable by the Company during the term of the contract.								
<i>Social Insurance Fund Fee</i>	Monthly payment into the relevant local budget at a fixed rate of 30% of the employee's salaries and wages fund, payable by the Company during the term of the contract.								
<i>Social Programmes</i>	The Company's participation in the development of social infrastructure in the contractual area is stipulated in the Company's work programmes.								
<i>Environmental Fund Fee</i>	Quarterly payment of a fee into the Kazakhstan Environmental Fund at annual rates set by local authorities depending on factual emissions of pollutants during the term of the contract.								
<i>Training of Personnel</i>	No less than one per cent of annual capital expenditure.								
<i>Other Provisions</i>	Contract No. 40 requires the Company to shut down all wells drilled on the Uzen and Karamandybas fields that are no longer used by the Company in its operations.								

EMG Fields

The following table lists each of the EMG fields according to contract number and sets forth the licence number and the execution and expiration dates of each contract.

EMG FIELDS					
Contract Number	Field	Licence and date of issue	Expiration Date of License	Execution Date of Contract	Expiration Date of Contract
413	Western field of Nurzhanov	AI#1007 (oil) 08.04.1999	08.10.2025	03.03.2000	03.03.2020
413	Akingen	MG#225 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Aktyube	MG#233 (oil) 27.07.1995	27.07.2010	03.03.2000	03.03.2020
413	Dosmukhambetovskoye	MG#96 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Karaton	MG#226 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Koshkimbet	MG#227 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Kisimbai	MG#230 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Koshagyl	MG#223 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Kulsary	MG#221 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Nurzhanov	MG#232 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Teren-Uzyuk West	MG#229 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Akkuduk	MG#231 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Tyulyus	MG#224 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	West Prorva	MG#97 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
413	Tazhigali (abandoned)	MG#228 (oil) 27.07.1995	27.07.2015	03.03.2000	03.03.2020
211	Altykul	MG#262 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Baichunas	MG#263 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	S. Balgimbaev	MG#279 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Bek-Beke	MG#264 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Botakhan	MG#265 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018

EMG FIELDS					
Contract Number	Field	Licence and date of issue	Expiration Date of License	Execution Date of Contract	Expiration Date of Contract
211	Dossor	MG#274(oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Gran	MG#283 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Iskine	MG#266 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Kamyshitovoye South-East	MG#282 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Kamyshitovoye South-West	MG#281 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Karsak	MG#267 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Komsomolskii (Narmundanak)	MG#268 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Koshkar	MG#269 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Makat	MG#275 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Makat East	MG#276 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Sagiz (abandoned)	MG#270 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Rovnoe	MG#280 (oil) 01.12.1995	01.12.2005	13.08.1998	13.08.2018
211	Tanatar	MG#271 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Zaburunje	MG#284 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	Zhanatalap	MG#285 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
211	B. Zholamanov	MG#278 (oil)	01.12.2015	13.08.1998	13.08.2018
211	Zholdybay North	MG#277 (oil) 01.12.1995	01.12.2015	13.08.1998	13.08.2018
37	Kenbai (Moldabek East/North Kotyrtas)	MG#88 (oil) 08.02.1995	08.02.2020	16.01.1996	16.01.2021
61	Novobogatinsk South-East	MG#94 (oil) 05.01.1996	05.01.2016	28.05.1997	28.05.2017
327	Taisogan	GK1#1529 09.01.1999	09.01.2030	12.05.1999	12.05.2030
406	Liman	—	—	19.02.2000	19.02.2027

The following tables summarise the principal terms of Contract No. 37, Contract No. 61, Contract No. 211 and Contract No. 413 respectively, which are the main production contracts for the EMG fields.

Contract No. 37

<i>Contract Area</i>	Contract No. 37 covers the 112 square kilometre area that comprises the Kenbai licence area which is divided into two fields, East Moldabek and North Kotyrtas. The fields are located in the Kzylkolginsky region of the Atyrau Oblast in the south-eastern part of the Pre-Caspian Basin.										
<i>Term</i>	Expires 16 January 2021.										
<i>Royalty Payments</i>	Annual payments of a fixed royalty, equal to 8% of oil sales proceeds, each year during the term of the contract. Royalty payments are made in Tenge. The Government reserves the right to require royalty payments in kind with prior notification to subsoil user.										
<i>Corporate Income Tax</i>	Monthly payments of corporate income tax at a fixed rate of 30% of the Company's net income during the term of the contract.										
<i>Value Added Tax</i>	Fixed at 20% of the value of taxable turnover and taxable imports.										
<i>Excess Profit Tax</i>	Annual payment on excess profits depending on the Company's internal rate of return.										
<i>Property Tax</i>	Quarterly payments of a property tax to the relevant local budget authorities at a fixed rate of 0.5% of the residual book value of main production and non-production funds payable during the term of the contract. Intangible assets are not subject to the property tax.										
<i>Road Use Tax</i>	Monthly payments of a road use tax to the relevant local budget at a fixed rate of 0.5% of the taxable revenue, payable annually during the term of the contract.										
<i>Land Tax</i>	Quarterly payments to the relevant local authorities of a land tax.										
<i>Employment Fund Fee</i>	Monthly payments to the state at a fixed rate of 2% of employees' salaries and wages, payable by the Company during the term of the contract.										
<i>Social Insurance Fund Fee</i>	Monthly payments to the state at a fixed rate of 30% of employees' salaries and wages, payable by the Company during the term of the contract.										
<i>Social Programmes</i>	The Company must participate in the development of the social infrastructure in the area of operation of the contract in accordance with Kazakhstan legislation and project feasibility.										
<i>Environmental Fund Fee</i>	Quarterly payments into the Kazakhstan Environmental Fund at annual rates set by local authorities depending on factual emissions of pollutants during the term of the contract.										
<i>Training of Personnel</i>	Up to 1% of total expenditures.										
<i>Production Bonus</i>	Production bonuses payable as follows:										
	<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Volume of extracted oil</th> <th style="text-align: right; border-bottom: 1px solid black;">Production bonus</th> </tr> </thead> <tbody> <tr> <td>1 million tonnes of oil</td> <td style="text-align: right;">US\$500,000</td> </tr> <tr> <td>5 million tonnes of oil</td> <td style="text-align: right;">US\$1,000,000</td> </tr> <tr> <td>10 million tonnes of oil</td> <td style="text-align: right;">US\$1,500,000</td> </tr> <tr> <td>15 million tonnes of oil</td> <td style="text-align: right;">US\$2,000,000</td> </tr> </tbody> </table>	Volume of extracted oil	Production bonus	1 million tonnes of oil	US\$500,000	5 million tonnes of oil	US\$1,000,000	10 million tonnes of oil	US\$1,500,000	15 million tonnes of oil	US\$2,000,000
Volume of extracted oil	Production bonus										
1 million tonnes of oil	US\$500,000										
5 million tonnes of oil	US\$1,000,000										
10 million tonnes of oil	US\$1,500,000										
15 million tonnes of oil	US\$2,000,000										
	Production bonuses are not calculated for the purposes of ascertaining the corporate income tax or excess profit tax.										

Contract No. 61

<i>Contract Area</i>	Contract No. 61 covers the 9.2 square kilometre area that comprises the South Eastern Novobogatinskoye Field which is located 40 kilometres to the west of the Ural river in the south-eastern part of the Volga-Ural interfluvium.
<i>Term</i>	Expires 28 May 2017.
<i>Royalty Payments</i>	Annual payments of a fixed royalty, equal to 6% of the volume of extracted oil, each year during the term of the contract. The Government reserves the right to change the monetary form of the royalty payments to payments in kind, with 60 days prior notice to subsoil user.
<i>Corporate Income Tax</i>	Monthly payments of corporate income tax at a fixed rate of 30% of the Company's taxable income during the term of the contract.
<i>Value Added Tax</i>	Fixed at 20%.
<i>Excess Profit Tax</i>	Annual payments on the excess profit depending on the Company's internal rate of return.
<i>Property Tax</i>	Quarterly payments of property tax to the relevant local authorities at a fixed annual rate of 1.0% of the residual book value of main production and non-production funds payable during the term of the contract.
<i>Road Use Tax</i>	Monthly payments of road use tax to the relevant local authorities at a fixed rate of 0.5% of the value of hydrocarbon sales revenues, each year during the term of the contract.
<i>Land Tax</i>	Quarterly payments to the relevant local authorities of a land tax.
<i>Employment Fund Fee</i>	Monthly payments into the relevant local budget at a fixed rate of 2% of the salaries and wages fund, payable in the course of the contract.
<i>Social Insurance Fund, Obligatory Medical Insurance Fund and Pension Fund Fee</i>	Monthly payments into the relevant local budget at a fixed rate of 30% of the salaries and wages fund, payable in the course of the contract.
<i>Social Programmes</i>	The Company is required to participate directly in social infrastructure development in accordance with the feasibility study.
<i>Environmental Fund Fee</i>	Quarterly payments into the Kazakhstan Environmental Fund at annual rates set annually by local authorities depending on factual emissions of pollutants during the term of the contract.
<i>Training of Personnel</i>	Not less than 1% of total expenditure.
<i>Signing Bonus</i>	Payment of an amount of US\$15,000 within 30 days from the signing date.
<i>Production Bonus</i>	Payment of US\$50,000 once production volume reaches 200,000 tonnes, 400,000 tonnes and 600,000 tonnes.

Contract No. 211

<i>Contract Area</i>	Contract No. 211 covers the operation of 23 fields in two regions within the Atyrau Oblast. Of these 23 fields the following are still operational: <ul style="list-style-type: none">○ Isataisky Region: Zaburunye, Zhanatalap, Gran, Balgimbaev, Kamyshitovoye SW, Kamyshitovoye SE, Rovnoye.○ Makatsky Region: Botakhan, Karsak, Altykul, Bek-Beke, Komsomolskoye, Dossor, Iskine, Baichunas, Koshkar, Makat, Makat East, North Zholdybai, Sagiz.○ Kzylkoginsky Region: B. Zholamanov.
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Terms

Expires 13 August 2018.

Royalty Payments

Annual payments of a variable royalty on the value of extracted hydrocarbons excluding natural gas. The tax is calculated at the average cost minus transportation expenses and other taxes, and varies as follows:

<u>Royalty Rate</u>	<u>Annual Production</u> <i>(in tonnes per year)</i>
3.5%	0 to 500,000
4.0%	500,000 to 1,000,000
5.0%	1,000,000 to 1,500,000
6.0%	Over 1,500,000

Annual payments of a royalty on the value of extracted gas at a rate of 3.5%.

In case of the cancellation of the excise tax on crude oil and oil sale either to the CIS or the domestic market, a monthly payment of a fixed royalty must be made by the Company equal to EUR 3.00 per tonne of oil.

Liquidation Fund

US\$110,000,000, by annual payments of US\$5,500,000.

Corporate Income Tax

Monthly payments of corporate income tax at a fixed rate of 30% of the Company's taxable income during the term of the contract.

Value Added Tax

Fixed at 20%.

Excess Profit Tax

Annual payments on excess profit depending on the Company's internal rate of return and varies as follows:

<u>Internal rate of return, %</u>	<u>Tax rate for excess profit, % to the net income for the taxable year</u>
Lower or equal to 20	0
Exceeds 20, but lower or equal to 22	4
Exceeds 22, but lower or equal to 24	8
Exceeds 24, but lower or equal to 26	12
Exceeds 26, but lower or equal to 28	18
Exceeds 28, but lower or equal to 30	24
Exceeds 30	30

Property Tax

Quarterly payments of property tax to the relevant local budget authorities at a fixed annual rate of 1.0% of the residual book value of main production and non-production funds payable during the term of the contract.

Road Use Tax

Monthly payments of a road use tax to the relevant local authorities at a fixed rate of 0.1% of the value of hydrocarbon sales revenues, each year during the term of the contract.

Land Tax

Quarterly payments to the relevant local authorities of a land tax.

Employment Fund Fee

Monthly payments into the relevant local budget at a fixed rate of 2% of the salaries and wages fund, payable in the course of the contract.

*Social Insurance Fund and
Obligatory Medical Insurance
Fund Payment*

Monthly payments into the relevant local budget at a fixed rate of 19.5% of the salaries and wages fund, payable in the course of the contract.

<i>Social Programmes</i>	The Company must pay US\$1,500,000 within 90 days of the beginning of each calendar year, during the entire term of the contract.
<i>Environmental Fund Fee</i>	Quarterly payments into the Kazakhstan Environmental Fund at annual rates set by local authorities depending on factual emissions of pollutants during the term of the contract.
<i>Ecological Programme</i>	The Company must pay US\$21,698,000 during the term of the contract.
<i>Training of Personnel</i>	Not less than 1% of annual capital expenditure.
<i>Signing Bonus</i>	Payment in the amount of US\$300,000 within 30 days from the signing date
<i>Commercial Discovery Bonus</i>	Payment at a rate of 0.05% out of the cost of additional reserves extracted, payable in the course of discovery of additional reserves not ascertained by the licences.
<i>Production Bonus</i>	Payment at a rate of 0.1% out of the factual cost of the extracted hydrocarbons payable by a single payment every five years.
<i>Historical Costs Compensation</i>	Compensation of historical costs is payable under the separate agreement to be concluded not later than 60 days after the signing of the contract.

Contract No. 413*Contract Area*

Contract No. 413 covers the Tengiz group of fields in the Zhylyoisky region of the Atyrau Oblast, in the Southern part of the PreCaspian Basin, which are the following:

- Teren-Uzyuk, Karaton-Koshkimbet, Kulsary, Koschagyl, Akkuduk, Akingen, Tyulyus, Aktyube, Dosmukhambetovskoye, Nurzhanov, Western Prorva, Kisimbai.

Terms

Expires 3 March 2020.

Royalty Payments

Annual payments of a variable royalty on the value of extracted hydrocarbons. The tax is calculated at the average cost minus transportation expenses and other taxes and varies as follows:

Royalty Rate	Annual Production
	<i>(in thousands of tonnes per year)</i>
2.0%	0 to 500
5.0%	500 to 5,000
6.0%	5,000 to 15,000
5.0%	15,000 to 17,500
3.0%	Over 17,500

The Government reserves the right to change the monetary form of the royalty payment to payment in kind with 60 days' prior notice to subsoil user.

No fixed royalty

Liquidation Fund

Annual payment in the amount of US\$1,753,000 for the term of the contract.

Corporate Income Tax

Monthly payments of corporate income tax at a fixed rate of 30% of the Company's taxable income during the term of the contract.

Value Added Tax

Fixed at 20%.

Excess Profit Tax

Annual payments on excess profits depending on the Company's internal rate of return and varies as follows:

Internal rate of return, %	Tax rate for excess profit, % to the net income for the taxable year
Lower or equal to 20	0
Exceeds 20, but lower or equal to 22	4
Exceeds 22, but lower or equal to 24	8
Exceeds 24, but lower or equal to 26	12
Exceeds 26, but lower or equal to 28	18
Exceeds 28, but lower or equal to 30	24
Exceeds 30	30

Property Tax

Quarterly payments of a property tax to the relevant local budget authorities at a fixed annual rate of 1.0% of the residual book value of main production and non-production funds payable during the term of the contract.

Land Fee

Quarterly payments into the relevant local budget of land tax at a rate to be established pursuant to Part VII of the Law No. 2235 "On taxes and other obligatory payments to the budget" dated 24 April 1995.

Social Insurance Fund Fee

Monthly payments into the relevant local budget at a fixed rate of 26% of the salaries and wages fund, payable in the course of the contract.

<i>Ecological Programme</i>	To be implemented by the Company for a total amount of US\$50,000,000 for the term of the contract.
<i>Social Programmes</i>	Payments total into US\$1,753,000 for the term of contract.
<i>Environmental Fund Fee</i>	Quarterly payments into the Kazakhstan Environmental Fund at annual rates set by local authorities depending on factual emissions of pollutants during the term of the contract.
<i>Training of Personnel</i>	Not less than 1% of total annual expenditure.
<i>Signing Bonus</i>	Payment in the amount of US\$355,000 within 30 days from the signing date.
<i>Commercial Discovery Bonus</i>	Payment at a rate of 0.05% out of the cost of additional reserves extracted payable in the course of discovery of additional reserves not ascertained by the licences.
<i>Historical Costs Compensation</i>	The total compensation of historical costs for geological exploration works is ascertained in the amount of US\$1,298,000. Payment for the right to use information: US\$6,490. If the Company enters into agreement to incorporate the joint venture with the foreign company, the payment for the right to use information will amount to US\$38,940 (these payments are within the total compensation sum).

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth certain historical consolidated financial information derived from the Company's unaudited consolidated financial statements as at and for the five month period ended 31 May 2006 and from the Company's consolidated financial statements as at and for the years ended 31 December 2005, 2004 and 2003, which have been audited by Ernst & Young Kazakhstan LLP. Prospective investors should read this section together with "Operating and Financial Review" and the Company's consolidated financial statements and the notes thereto included herein, which have been prepared in accordance with IFRS and in relation to EBITDA should see "Presentation of Financial and Other Information".

Amounts shown in US dollars have been translated solely for the convenience of the reader at the average rate over the applicable period for information derived from the consolidated statements of income and consolidated statements of cash flows and the end of the period rate for information derived from the consolidated balance sheets. See "Exchange Rate Information".

Consolidated Balance Sheets

	As at 31 May		As at 31 December			
	2006	2006	2005	2005	2004	2003
	(US\$ thousands)	(KZT thousands)	(US\$ thousands)	(KZT thousands)		
	(unaudited)		(unaudited)	(audited)		
ASSETS						
Property, plant and equipment . . .	2,021,779	245,605,660	1,817,536	243,131,834	257,958,200	223,984,629
Other non-current assets	172,651	20,973,624	468,181	62,628,519	31,961,170	6,926,019
Cash and cash equivalents	249,645	30,326,888	150,913	20,187,588	14,127,579	9,310,184
Other current assets	1,071,834	130,206,376	825,565	110,435,767	76,706,675	47,475,495
Total assets	<u>3,515,909</u>	<u>427,112,548</u>	<u>3,262,195</u>	<u>436,383,708</u>	<u>380,753,624</u>	<u>287,696,327</u>
EQUITY AND LIABILITIES						
Total equity	1,775,018	215,629,213	1,298,741	173,732,563	168,733,696	155,559,157
Non-current borrowings	345,650	41,989,591	403,893	54,028,740	50,758,435	8,145,588
Other non-current liabilities . . .	538,871	65,462,032	477,681	63,899,328	67,291,605	65,120,194
Current borrowings	157,468	19,129,206	157,892	21,121,175	18,100,418	10,160,262
Other current liabilities	698,901	84,902,506	923,988	123,601,902	75,869,470	48,711,126
Total liabilities and equity	<u>3,515,908</u>	<u>427,112,548</u>	<u>3,262,195</u>	<u>436,383,708</u>	<u>380,753,624</u>	<u>287,696,327</u>

Consolidated Statements of Income

	Five months ended 31 May			Year ended 31 December			
	2006	2006	2005	2005	2005	2004	2003
	(US\$ thousands) (unaudited)	(KZT thousands) (unaudited)		(US\$ thousands) (unaudited)	(KZT thousands) (audited)		
CONTINUING OPERATIONS							
Revenue							
Export:							
Crude oil	1,618,910	150,286,721	104,690,882	2,257,904	300,030,298	203,059,607	146,167,659
Refined products . . .	0	0	651,491	4,903	651,491	6,791,761	3,347,074
Domestic:							
Crude oil	101,577	13,059,758	0	52,159	6,930,889	94,638	3,153,951
Refined products . . .	32,252	4,146,619	13,681,276	246,930	32,812,045	18,487,681	19,641,750
Gas products	12,223	1,571,511	1,408,663	30,720	4,082,068	3,886,963	2,905,790
Other sales and services	12,910	1,659,852	1,323,849	14,469	1,922,654	4,782,568	2,541,149
	1,327,872	170,724,461	121,756,161	2,607,085	346,429,445	237,103,218	177,757,373
Operating expenses . . .	(530,182)	(68,165,441)	(70,956,733)	(1,539,551)	(204,575,552)	(162,276,362)	(136,586,864)
Profit from operations . .	797,690	102,559,020	50,799,428	1,067,534	141,853,893	74,826,856	41,170,509
Finance (expense)							
income	(32,498)	(4,178,210)	509,732	8,237	1,094,568	(3,436,830)	(2,228,285)
Profit before tax and minority interest . . .	765,192	98,380,810	51,309,160	1,075,771	142,948,461	71,390,026	38,942,224
Income tax expense . . .	(443,412)	(57,009,517)	(32,195,396)	(746,483)	(99,192,639)	(58,209,157)	(31,513,204)
Profit for the period from continuing operations	321,780	41,371,293	19,113,764	329,288	43,755,822	13,180,869	7,429,020
DISCONTINUED OPERATIONS							
Profit for the period from discontinued operations	0	0	701,563	11,447	1,521,130	283,718	74,211
Profit for the period . . .	321,780	41,371,293	19,815,327	340,736	45,276,952	13,464,587	7,503,231
Attributable to:							
Equity holders of the							
Company	321,780	41,371,293	19,721,658	339,213	45,074,642	13,426,853	7,493,361
Minority interest	0	0	93,669	1,523	202,310	37,734	9,870

Consolidated Statements of Cash Flows

	Five months ended 31 May			Year ended 31 December			
	2006	2006	2005	2005	2005	2004	2003
	(US\$ thousands) (unaudited)	(KZT thousands) (unaudited)		(US\$ thousands) (unaudited)	(KZT thousands) (audited)		
Net cash generated from operating activities	203,383	26,148,964	26,687,846	564,823	75,053,723	60,494,214	45,211,534
Net cash used in investing activities	(94,125)	(12,101,652)	(54,238,665)	(748,769)	(99,496,430)	(82,338,545)	(33,465,385)
Net cash (used in) from financing activities	(24,037)	(3,090,452)	57,393,020	226,385	30,082,102	27,160,949	(5,080,542)

Other measures

	Five months ended 31 May			Year ended 31 December			
	2006	2006	2005	2005	2005	2004	2003
	(US\$ thousands)	(KZT thousands)		(US\$ thousands)	(KZT thousands)		
Oil Production and other costs ⁽¹⁾	267,686	34,416,432	31,592,819	698,525	92,819,968	64,732,557	52,888,027
Oil Production and other costs (KZT/USD per bbl) ⁽¹⁾	9.43	1,212	1,133	10.16	1,350	989	911
Consolidated EBITDA ⁽²⁾⁽³⁾	893,656	114,897,380	59,475,712	1,250,879	166,216,789	95,926,316	58,906,540
Capital expenditure ⁽⁴⁾	121,118	15,572,081	14,512,853	365,106	48,515,340	42,863,008	28,488,186
Consolidated net debt ⁽⁵⁾	(215,336)	(26,158,957)	—	(47,504)	(6,354,581)	20,012,908	2,727,264

(1) Oil production and other costs represent an aggregate of the following operating expenses line items (as presented in the Company's IFRS financial statements included elsewhere in this document): employee costs, materials expense, repair, maintenance and other services, energy and other costs. These include costs related to gas producing and processing activities, oil processing activities and general and administrative costs which are not directly related to oil production and which increased the US dollar cost per barrel by approximately US\$1 to US\$2 for both the year ended 31 December 2005 and for the five months ended 31 May 2006. Oil production and other costs exclude royalties (production tax) and all other taxes.

(2) The following table provides a reconciliation of the Company's EBITDA to the Company's profit before tax and minority interest for the periods concerned:

	Five months ended 31 May		Year ended 31 December		
	2006	2005	2005	2004	2003
	(KZT thousands)				
Profit before tax and minority interest	98,380,810	51,309,160	142,948,461	71,390,026	38,942,224
Add back:					
Finance (income)/expense	4,178,210	(509,732)	(1,094,568)	3,436,830	2,228,285
Depreciation, depletion and amortisation	12,338,360	8,676,284	24,362,896	21,099,460	17,736,031
Consolidated EBITDA	<u>114,897,380</u>	<u>59,475,712</u>	<u>166,216,789</u>	<u>95,926,316</u>	<u>58,906,540</u>

(3) See also "Presentation of Financial and Other Information".

(4) Capital expenditures relate to continuing operations and have been calculated on a cash basis. See "Operating and Financial Review—Capital Expenditures and Commitments".

(5) See "Operating and Financial Review—Liquidity and Capital Resources".

Ratio Analysis

The following table sets out a summary of interest cover, relating to the continuing operations of the Company, and debt/equity ratios relating to the Company. The data used in the ratio calculations has been extracted without material adjustment from, and should be read in conjunction with, the Company's consolidated financial statements.

	Five months ended 31 May		Years ended 31 December		
	2006	2005	2005	2004	2003
	(Unaudited)		(KZT thousands)		
			(Audited)		
Interest Cover Ratio					
Profit from operations ⁽¹⁾ (A)	102,559,020	50,799,428	141,853,893	74,826,856	41,170,509
Interest expense/(income) ⁽²⁾ (B)	(924,270)	(217,633)	(818,527)	2,314,065	4,253,183
Interest cover (A/B)	(111.0)	(233.4)	(173.3)	32.3	9.7
Debt/equity ratio					
Borrowings (A)	61,118,797	—	75,149,915	68,858,853	18,305,850
Cash and cash equivalents (B)	30,326,888	—	20,187,588	14,127,579	9,310,184
Current and non-current financial assets ⁽³⁾ (C)	56,950,866	—	61,316,908	34,718,366	6,268,402
Net debt/(cash) (D = A – B – C)	(26,158,957)	—	(6,354,581)	20,012,908	2,727,264
Total net assets (E)	215,629,213	—	173,732,563	168,733,696	155,559,157
Gross gearing ratio (A/E)	28.34%	—	43.3%	40.8%	11.8%
Net gearing ratio (D/E)	(12.13%)	—	(3.7%)	11.9%	1.8%

(1) From continuing operations.

(2) Excluding foreign exchange gains/(losses).

(3) Current financial assets exclude loans receivable from NC KMG and other companies under common control, as at 31 May 2006 and 31 December 2005 respectively, of KZT5.6 billion and KZT12.6 billion.

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in the Group's results of operations and financial condition. Historical results may not indicate future performance. The forward-looking statements contained in this review are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such a difference include, but are not limited to, those discussed in "Forward-Looking Statements" and "Risk Factors". In this document, the consolidated financial statements presented are those of the Company. This discussion is based on the consolidated financial statements of the Company and should be read in conjunction with its consolidated financial statements and the accompanying notes appearing elsewhere in this Prospectus. Unless otherwise indicated or in relation to production reserve data, all of the financial data and discussions thereof are based upon financial statements prepared in accordance with IFRS.

Overview

The Company was created in March 2004 through the merger of UMG and EMG and is the third largest oil and gas company in the Republic of Kazakhstan (based on 2005 data) in terms of annual crude oil production volumes. Substantially all of the Company's revenue is derived from the production and sale of crude oil. The Company is also engaged in exploration activities. As at 31 December 2005, the Company had proved plus probable reserves of over 1.5 billion barrels of oil.

The Company has steadily increased crude oil production during the period under review. In the first five months of 2006, the Company produced 3.9 million tonnes (28.4 million barrels) of crude oil and realised profit from continuing operations after tax of KZT41.4 billion from revenues of KZT170.7 billion. In 2005, the Company produced 9.3 million tonnes (68.8 million barrels) of crude oil and realised profit from continuing operations after tax of KZT43.8 billion from revenues of KZT346.4 billion. In 2004, the Company produced 8.9 million tonnes (65.5 million barrels) of crude oil and realised profit from continuing operations after tax of KZT13.2 billion from revenues of KZT237.1 billion. In 2003, the Company produced 7.9 million tonnes (58.0 million barrels) of crude oil and realised profit from continuing operations after tax of KZT7.4 billion from revenues of KZT177.8 billion.

As part of the Company's focus on its upstream exploration and production activities, in December 2005 the Company transferred its entire interest in the Atyrau Refinery to a subsidiary of NC KMG. The Atyrau Refinery has been classified as a discontinued operation. See Note 3 to the Company's consolidated financial statements and "—Discontinued Operations".

Key Factors Affecting the Company's Results of Operations and Financial Condition

The key factors affecting the Company's results of operations and financial condition during the periods under review are the following:

- international crude oil prices;
- crude oil production volumes and related costs;
- the Tenge-US dollar exchange rate and domestic inflation rates;
- supplies to the domestic market;
- fees and financial support paid to NC KMG and other affiliates;
- transport routes;
- taxes paid under oil production contracts and licences;
- environmental remediation obligations; and
- seasonality of operating costs.

International Crude Oil Prices

International crude oil prices have increased over the period under review, as shown in the table below:

	Five months ended 31 May		Year ended 31 December		
	2006	2005	2005	2004	2003
<i>Average for the periods indicated</i>	(US\$/bbl)		(US\$/bbl)		
Brent	65.09	48.58	54.38	38.22	28.84
CPC blend	64.35	47.01	53.50	37.31	28.51
Urals	60.67	44.26	50.52	34.61	27.90

Source: Bloomberg, Platts

The Company's export revenues have increased with international market prices for crude oil as its export sales are priced at the average spot rates for three to five consecutive quotation days from the bill of lading. In the first five months of 2006, the Company's average realised price for crude oil exports was US\$418.50 per tonne (US\$56.90 per barrel), compared to US\$298.80 per tonne (US\$40.60 per barrel) for the first five months of 2005. The Company's average realised price for crude oil exports increased to US\$348.00 per tonne (US\$47.30 per barrel) in 2005 from US\$225.30 per tonne (US\$30.60 per barrel) in 2004 and US\$167.90 per tonne (US\$22.80 per barrel) in 2003. For an explanation of the difference between international crude oil price and average realised price, see below "—Results of Operations".

Taking into account the Government's forecast of long term oil prices and other market information and forecasts, the Company generally expects an average oil price of approximately US\$45 per barrel over the longer term.

Crude Oil Production Volumes and Related Costs

Production in the first five months of 2006 was 3.9 million tonnes (188 thousand bopd). During the last three years, the Company has steadily increased its production and sales of crude oil. Annual oil production at the UMG and EMG fields increased 5.0% to 9.3 million tonnes (188 thousand bopd) in 2005 and 12.7% to 8.9 million tonnes (179 thousand bopd) in 2004. Annual sales of crude oil increased 5.6% to 9.2 million tonnes (186 thousand bopd) in 2005 and 14.2% to 8.7 million tonnes (176 thousand bopd) in 2004.

As most of the Company's producing assets are mature, the potential to further increase production from those assets is limited. However, current production levels are expected to remain stable due to an increased use of enhanced recovery techniques. The Company incurs significant costs to maintain crude oil production because it has to rely on enhanced recovery methods such as hydro-fracturing, extensive well workovers, rehabilitation of inactive wells and new drilling. Moreover, the oil of Uzen field, the Company's principal producing field, is highly paraffinic which makes extraction and transportation relatively more expensive.

The Tenge-US dollar exchange rate and domestic inflation rates

Tenge-US dollar exchange rates and domestic inflation, as measured by the consumer price index ("CPI"), for the periods presented were as follows:

	Five months ended 31 May		Year ended 31 December		
	2006	2005	2005	2004	2003
Tenge—US\$ average exchange rate	128.57	130.70	132.88	136.04	149.58
CPI	9.0%	7.2%	7.6%	6.7%	6.4%

Source: National Bank of Kazakhstan, National Statistics Agency

Most of the Company's revenues and borrowings are denominated in US dollars, while most of the Company's operating expenses are denominated in Tenge. The impact of foreign currency fluctuations on the Company's results of operations depends on the Company's net foreign currency position and the magnitude and direction of the fluctuation. In the period under review, the Tenge has strengthened against

the US dollar, which has tended to depress the Company's revenue expressed in Tenge. This is partly mitigated to the extent there has been a net US dollar denominated liability position. In addition, most of the Company's expenses are affected by local inflation which may not be offset by inflation-related increases in the Company's revenues.

Supplies to the Domestic Market

The Company is required to supply a certain portion of its crude oil production to meet domestic market needs at prices agreed with NC KMG. On a per barrel basis, these sales generate substantially less revenue than crude oil sold on the export market. In addition, MEMR may restrict access to export pipeline infrastructure if such supplies are not made or further supply requirements are not met. Until late 2005 the Company had a tolling arrangement with the Atyrau Refinery and sold refined products through agent distributors to meet local market supply requirements. In February 2006, a memorandum was executed between MEMR and the principal Kazakhstan natural resources entities (including the Company), entitled "On Social Partnership for the Provision to the Domestic Market of Oil Products in 2006". Pursuant to this memorandum and to the terms of the Company's Relationship Agreement with NC KMG, the Company is obliged to supply TradeHouse KMG (which now owns the Atyrau Refinery) with 1.9 million tonnes of crude oil per annum between 2006 and 2010 at a price equal to the Company's aggregate cost of production and transportation, together with a margin of 3%. For the years 2011 to 2015, the volume of crude oil to be supplied will be determined in accordance with the Company's business plan (as approved by the Board of Directors, which it currently anticipates will be no more than 1.9 million tonnes per annum) at a price equal to the Company's cost of production and transportation, together with a margin of 3% (the "Supply Obligation"). In addition, to meet the Company's own needs for refined products, a further 0.3 million tonnes (2.2 million barrels) of crude oil is supplied to the Atyrau Refinery which is tolled for a fee with the surplus refined products from this crude being sold on the domestic market. The Company plans to terminate by the end of 2006 the own product tolling arrangement with the Atyrau Refinery and to sell to the Atyrau Refinery at commercial prices sufficient quantities of crude oil and to purchase from the Atyrau Refinery refined products required to meet the Company's own needs. In 2006 the amount tolled was significantly less than 0.3 million tonnes. However notwithstanding the terms of the Supply Obligation, the Government can mandate additional deliveries of crude oil to domestic refineries at levels exceeding the agreed 1.9 million tonnes (38 thousand bopd) of crude oil per annum. For example, the planned volume for the domestic market in 2005 was 2.2 million tonnes, but in fact the total amount so supplied was 2.7 million tonnes (55 thousand bopd) of crude oil, which was 29% of the Company's production and sales volume and represented about 12% of the Company's total revenue, out of which 0.1 million tonnes was supplied to Shymkent refinery and the balance to the Atyrau Refinery. An additional 0.5 million tonnes was sent to the refineries in 2005 at the direction of MEMR. In 2006, the Company expects to be required to supply a total of 2.44 million tonnes of crude oil to the domestic market. For the five month period ended 31 May 2006, the Company has already shipped 1.1 million tonnes to the domestic market which reflects certain additional requirements of MEMR.

Fees and Financial Support Paid to NC KMG and Other Affiliates

The Company has paid substantial fees in consideration of management and other services provided by NC KMG. Management fees paid to NC KMG amounted to KZT11.2 billion in each of 2005, 2004 and 2003. In 2006, the Company agreed to pay to NC KMG the sum of KZT7.0 billion per annum (such amount to increase upon annual renewal of the Services Agreement by the increase in the consumer prices index of the Republic of Kazakhstan which was 7.6% in 2005), in consideration of the grant of certain rights and the provision of certain services by NC KMG to the Company under the Services Agreement. See "Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates—Services Agreement".

The Company has also provided substantial amounts of financial support to NC KMG, in the form of interest-free loans. In April 2005, the Company provided an interest free loan of KZT26.0 billion to NC KMG, of which the principal amount outstanding at 31 December 2005 was KZT9.0 billion and as at 31 May 2006 KZT2.0 billion. It is proposed that this outstanding balance of KZT2.0 billion may be set-off against the obligation by the Company to pay the fee of KZT7.0 billion to NC KMG under the Services Agreement in respect of 2006. In July 2006, the Company made an interest-free loan to NC KMG in the amount of KZT24.4 billion to be repaid by 31 December 2006. This loan to NC KMG supplemented an interest-bearing loan of US\$800 million made by the Company's finance subsidiary to enable NC KMG to

acquire a 50% interest in KazGerMunai. See “—Recent Developments—Bond Issue and Loan.” Also, in 2005, the Company provided a loan to a related party in the amount of KZT3.6 billion which has since been repaid in full.

In 2005, the Company made significant investments in the Atyrau Refinery to finance its reconstruction. Recapitalisation of the Atyrau Refinery prior to its sale resulted in an increase in the Company’s interest in it from 86.7% to 99.1% through cash contributions of approximately KZT25.0 billion and a par value share exchange with NC KMG. On 29 December 2005, the Company disposed of the Atyrau Refinery to a subsidiary of NC KMG for KZT3.5 billion, which resulted in a decrease in shareholders equity of KZT34.2 billion. See Notes 2, 3 and 11 to the Company’s consolidated financial statements and “—Discontinued Operations”.

Transport Routes

The Company delivers its crude oil through three principal routes: export markets via the CPC and UAS pipelines and the domestic market, as outlined in the following table:

	Five months ended 31 May		Year ended 31 December		
	2006	2005	2005	2004	2003
Exports via CPC					
Volume of crude oil (in million tonnes)	0.6	0.6	1.5	1.0	0.4
% total crude oil sales volume	16%	17%	17%	11%	6%
% total sales of oil and oil products	21%	21%	22%	14%	7%
Exports via UAS					
Volume of crude oil (in million tonnes)	2.2	2.1	5.0	5.7	5.4
% total crude oil sales volume	56%	55%	54%	65%	71%
% total sales of oil and oil products	68%	67%	66%	74%	78%
Other⁽¹⁾					
Volume of crude oil (in million tonnes)	1.1	1.1	2.7	2.1	1.8
% total crude oil sales volume	28%	28%	29%	24%	23%
% total sales of oil and oil products	11%	12%	12%	12%	15%

(1) Until 2006, “other” is predominantly sales of refined crude oil, a small proportion of which is exported.

The Company exports crude oil through the UAS pipeline owned by KTO and through the pipeline owned by CPC. See “The Company—Sales and Marketing”. Relative profitability of the two export routes depends on the quality of oil shipped by the Company, prevailing international market prices and applicable pipeline tariffs. Specifically, CPC tends to be more advantageous for shipments of higher quality crude oil in a higher price oil environment even after taking into account quality bank payments. Although it has been more profitable for the Company in recent periods to ship crude oil through the CPC pipeline rather than the UAS pipeline, MEMR controls the volumes of crude oil that can be shipped through the pipelines and the Company’s ability to allocate exported volume to different pipelines is therefore constrained. See “The Company—Crude Oil Transportation”.

Taxes Paid Under Oil Production Contracts and Licences

Under the terms of its production contracts the Company is required to pay excess profit tax, corporate income tax, royalties and certain other fees at rates and under calculation methods that vary according to the contract and the relevant legislation.

The Company’s effective corporate income tax rates are, and are expected to continue to be, higher than the statutory rate as certain of the Company’s expenses are not deductible. This is due to restrictions on deductions set by the Kazakhstan tax code either because certain costs do not relate to the generation of income (e.g., expenses in relation to social activities, fines and penalties) or because they are specifically restricted (e.g., foreign exchange differences).

Pursuant to its production licences and contracts, the Company is required to calculate and pay excess profit tax if the internal rate of return, calculated on the basis of the Company’s tax accounting, exceeds

20%. This tax is only applicable to the Company's crude oil production and sales. The sale of oil and gas products, as well as other activities, are not subject to excess profit tax. Excess profit tax is determined either in the relevant subsoil use contract or by reference to the specific regulation of Kazakhstan tax authorities. For calculating excess profit tax, the internal rate of return is calculated on the basis of cash flows adjusted for the inflation rate and differs from the commonly accepted concept in a number of aspects. The Company's main subsoil use contracts provide for progressive taxation where an increase of the internal rate of return leads to an increase of the tax rate. Corporate income tax is a deductible expense in the calculation of excess profit tax. As the internal rate of return from all of the Company's fields has exceeded the relevant thresholds, the Company is paying the highest levels of excess profit tax, namely 50% for Uzen and 30% for the main Emba contracts. See "The Company—Licences and Contracts". While the taxation terms of the contracts are generally fixed for the duration of the contract, the Company is currently working with MEMR to clarify and amend certain provisions of the Uzen Karamandybas contract relating to social tax, VAT and EPT. Management expects the contract amendments to result in a reduction of those tax rates and an overall reduction in the level of EPT and CIT payable under those contracts.

Royalties are currently paid at an average rate of about 3.6% and are based on volumes produced and current sales prices.

See "—Results of Operations—Explanation of Key Items in the Income Statement—Income Tax and Excess Profit Tax Expenses" for a description of the rates at which the Company is taxed and "The Company—Licences and Contracts" for a description of the Company's obligation to pay corporate income tax, excess profit tax and royalty payments.

Environmental Remediation Obligations

In addition to asset retirement obligations, the Company has certain environmental remediation obligations. See "The Company—Environmental Matters—Environmental Impact of the Company's Operations". For accounting purposes the Company has recorded the obligations relating to pre-existing legislation at the earliest period presented.

In March 2006, the Mangistau department of MEP issued a claim against the Company for KZT11.4 billion in relation to the COTS pit. This claim was calculated based on a multiple of the volume of waste (26,548 tonnes) alleged to have been discharged into the COTS pit during 2005. On 7 July 2006 the Specialised Inter-District Economic Court of the city of Astana ("SIDECA") decided the case in favour of the Company and fully dismissed the claim. On 20 July 2006, the Mangistau department of MEP filed an appeal of the above court decision which was subsequently rejected by the Collegium on Civil Cases of the Astana City Court on 9 August 2006, reaffirming the SIDECA's decision. The Mangistau department of MEP or the public prosecutor can until 9 August 2007 ask the Astana City Court or the Supreme Court to reconsider the case as a whole. Following the favourable outcome of the SIDECA proceedings and the appeal court decision, management has released the accrual of KZT11.4 billion Tenge as at 31 May 2006. While there can be no assurance that the decision will not be appealed, the Company's management believes that any potential loss is no longer probable and has therefore released the provision. See "The Company—Environmental Matters—Oil Storage Pits and Oil Lakes".

Seasonality of operating costs

The Company's operating costs are subject to seasonal fluctuations, with higher expenses for materials and repair, maintenance and other services usually expected in the second half of the year than in the first six months. These fluctuations are mainly due to the requirement to conduct formal public tenders in accordance with state procurement laws.

Results of Operations

Comparison of the Five Months Ended 31 May 2006 and 2005

The information below relates to continuing operations in the five months ended 31 May 2006. Discontinued operations which, in the five months ended 31 May 2005, related to the Company's interest in the Atyrau Refinery, which it divested on 29 December 2005, were insignificant.

Revenue

The following table shows sales volumes and realised prices for the five months ended 31 May 2006 and 2005:

	Five months ended 31 May	
	2006	2005
(KZT thousands, unless otherwise stated)		
Export sales of crude oil		
UAS pipeline		
Net sales	114,373,572	79,441,685
Volume (in thousand tonnes)	2,179	2,062
Average price (KZT/tonne)	52,489	38,527
Average price (US\$/bbl) ⁽¹⁾	56.47	40.77
CPC pipeline		
Net sales	35,913,149	25,249,197
Volume (in thousand tonnes)	614	619
Average price (KZT/tonne)	58,490	40,790
Average price (US\$/bbl) ⁽²⁾	58.40	40.06
Total sales of crude oil — exported	150,286,721	104,690,882
Other sales of oil and oil products		
Net domestic sales of crude oil and total oil products	17,206,377	14,332,767
Volume (in thousand tonnes) ⁽³⁾	1,080	1,060
Average price (KZT/tonne)	15,932	13,521
Average price (US\$/bbl) ⁽⁴⁾	17.14	14.31
Total domestic sales of crude oil and total oil product sales	17,206,377	14,332,767
Total sales of oil and oil products		
Total net sales of crude oil and oil products	167,493,098	119,023,649
Total volume (in thousand tonnes)	3,873	3,741
Average price (KZT/tonne)	43,246	31,816
Average price (US\$/bbl)	45.96	33.24
Other sales	3,231,363	2,732,512
Total revenue	<u>170,724,461</u>	<u>121,756,161</u>

(1) Converted at 7.23 barrels per tonne of crude oil.

(2) Converted at 7.79 barrels per tonne of crude oil.

(3) Volume of crude oil delivered for processing and crude oil sales.

(4) Converted at 7.23 barrels per tonne of crude oil.

Sales of crude oil via the UAS pipeline increased by KZT34.9 billion, or 44.0%, in the first five months of 2006 compared with the same period in the prior year. In the first five months of 2006 the volume of crude oil exported via the UAS pipeline increased by 6%, while the average realised price per tonne (measured in Tenge) from these shipments increased 36%.

Sales of crude oil via the CPC pipeline increased by KZT10.7 billion, or 42.2%, in the first five months of 2006 compared with the same period in the prior year due to an increase in the average realised price per tonne from these shipments.

Other sales of oil and oil products increased by KZT2.9 billion, or 20.0%, in the first five months of 2006 compared with the same period in the prior year almost exclusively due to an increase in the average realised price per tonne from these sales.

In all cases sales of crude oil were positively affected by the increases in international crude oil prices.

The following tables show the Company's realised sales prices for oil and oil products adjusted for transportation and other expenses for the five months ended 31 May 2006 and 2005:

	Five months ended 31 May 2006		
	CPC	UAS	Other
	(US\$/bbl)		
Benchmark end-market quote ⁽¹⁾	64.35	60.67	—
Realised price	58.40	56.47	17.14
Transportation	3.68	5.78	0.80
Sales commissions	0.06	0.07	0.02
Processing fees	—	—	0.75
Adjusted realised price	54.66	50.62	15.57

	Five months ended 31 May 2005		
	CPC	UAS	Other
	(US\$/bbl)		
Benchmark end-market quote ⁽¹⁾	47.01	44.26	—
Realised price	40.06	40.77	14.31
Transportation	3.53	5.62	0.78
Sales commissions	0.06	0.07	0.12
Processing fees	—	—	3.30
Adjusted realised price	36.47	35.08	10.11

(1) The following quoted prices are used as benchmarks: CPC blend (FOB Novorossiysk) for shipments through the CPC pipeline and Urals blend (FOB Odessa) for shipments through the UAS pipeline.

The difference between the benchmark quote and realised price on the sales through the CPC pipeline mainly comprises CPC quality bank payments, port charges, customs fees, certain sales commissions and averaging effects. The difference between the benchmark quote and realised price on the sales through the UAS pipeline mainly comprises port charges, customs fees and certain sales commissions. The price received for other sales of oil and oil products is determined by agreement with NC KMG and the price is at levels significantly below market prices.

Operating Expenses

The Company's operating expenses relate primarily to the cost of producing crude oil. The following table presents the components of the Company's operating expenses:

	Five months ended 31 May	
	2006	2005
	(Unaudited) (KZT thousands)	
Transportation	16,799,017	16,416,459
Employee benefits	14,809,567	14,854,029
Depreciation, depletion and amortisation	12,338,360	8,676,284
Repair, maintenance and other services	7,217,116	4,081,456
Royalties	6,205,485	5,423,922
Materials	5,985,090	7,690,885
Management fees and sales commissions	3,158,851	4,961,571
Social infrastructure projects	3,150,337	511,001
Energy	2,524,995	2,167,203
Taxes other than on income	2,143,707	1,883,515
Other	3,879,664	2,799,246
Fines and penalties	1,381,207	1,491,162
Release of environmental fine	(11,427,955)	—
Total operating expenses	68,165,441	70,956,733

Operating expenses in the five months ended 31 May 2006 were significantly impacted by a non-recurring item, the release of an accrual of KZT11.4 billion for an environmental fine, which is further described in Note 17 to the Company's condensed consolidated interim financial statements as at and for the five months ended 31 May 2006. While most operating expenses remained stable or increased year on year, this non-recurring item led to a decrease in total operating expenses of KZT2.8 billion, or 4%, compared to the first five months of 2005. Total operating expenses in the five months ended 31 May 2006 before the effect of the release were KZT79.6 billion representing a 12.2% period on period increase.

Depreciation, depletion and amortisation increased by KZT3.7 billion, or 42%, in the first five months of 2006 as compared to the first five months of 2005 due mainly to higher rates of depletion and higher average balances of oil and gas production assets in 2006. The depletion rate increased due to a decrease in oil and gas reserves while production remained stable. Also, in 2006 the Company recorded an impairment charge in respect of the Liman licence rights due to the passage of time under the contract and the resulting reduction of the exploration period.

Repair, maintenance and other purchased services increased by KZT3.1 billion, or 77%, in the first five months of 2006 compared to the first five months of 2005 mainly due to the continued purchases of services from former subsidiaries the expense of which was eliminated in consolidation in prior periods. Also, in 2006 the Company incurred higher costs for seismic studies and the application of enhanced recovery techniques.

Materials expense decreased by KZT1.7 billion, or 22%, in the first five months of 2006 as compared to the first five months of 2005 mainly due to costs related to former subsidiaries that were disposed by the Company in late 2005.

Management fees and sales commissions decreased by KZT1.8 billion, or 36%, due to changes in contractual terms negotiated with NC KMG.

Social infrastructure project costs increased by KZT2.6 billion in five months of 2006 compared to the first five months of 2005 due to financing of projects in the Uzen region.

Finance Income (Expense)

The Company incurred net finance expense of KZT4.2 billion in the five months ended 31 May 2006, following net finance income in the same period of the prior year. This fluctuation in 2006 resulted primarily from foreign exchange losses, following a significant strengthening of the Tenge against the US dollar in the first five months of the year, during which time the Company's US dollar-denominated assets (primarily financial assets) exceeded its US dollar-denominated liabilities.

Income Tax Expense

Total income tax expense increased by KZT24.8 billion, or 77%, in the five months ended 31 May 2006 primarily a result of increased revenues due to global crude oil prices. The 4.8% decrease in the Company's effective tax rate in 2006 resulted mainly from an increase in non-taxable items, primarily the release of accrual for environmental fines, which was partially offset by an increase in non-deductible items, most notably foreign exchange losses and social expenses incurred in 2006.

Profit from Continuing Operations

As a result of the factors described above, the Company's profit from continuing operations increased by 116% to KZT41.4 billion in the five months ended 31 May 2006 compared with the first five months of 2005.

Comparison of the Years Ended 31 December 2005, 2004 and 2003

Continuing Operations

Revenue

The following table shows sales volumes and realised prices for the years ended 31 December 2005, 2004 and 2003:

	Year ended 31 December		
	2005	2004	2003
(KZT thousands, unless otherwise stated)			
Export sales of crude oil			
UAS pipeline			
Net sales	224,556,207	170,081,382	134,273,449
Volume (in thousand tonnes)	4,953	5,658	5,397
Average price (KZT/tonne)	45,337	30,060	24,879
Average price (US\$/bbl) ⁽¹⁾	47.19	30.56	23.01
CPC pipeline			
Net sales	75,474,091	32,978,225	11,894,210
Volume (in thousand tonnes)	1,536	967	424
Average price (KZT/tonne)	49,137	34,104	28,052
Average price (US\$/bbl) ⁽²⁾	47.47	32.18	24.07
Total sales of crude oil—exported	300,030,298	203,059,607	146,167,659
Other sales of crude oil and oil products			
Net domestic sales of crude oil and total oil products	40,394,425	25,374,080	26,142,775
Volume (in thousand tonnes) ⁽³⁾	2,733	2,106	1,822
Average price (KZT/tonne)	14,780	12,048	14,348
Average price (US\$/bbl) ⁽⁴⁾	15.38	12.25	13.27
Total domestic sales of crude oil and total oil product sales	40,394,425	25,374,080	26,142,775
Total sales of crude oil and oil products			
Total net sales of crude oil and oil products	340,424,723	228,433,687	172,310,434
Total volume (in thousand tonnes)	9,222	8,731	7,643
Average price (KZT/tonne)	36,914	26,164	22,545
Average price (US\$/bbl)	37.93	26.37	20.76
Other sales	6,004,722	8,669,531	5,446,939
Total revenue	<u>346,429,445</u>	<u>237,103,218</u>	<u>177,757,373</u>

(1) Converted at 7.23 barrels per tonne of crude oil.

(2) Converted at 7.79 barrels per tonne of crude oil.

(3) Volume of crude oil delivered for processing and crude oil sales.

(4) Converted at 7.23 barrels per tonne of crude oil.

Total volumes shipped, both export and domestic via the UAS pipeline in 2005 remained stable, with decreases in export volumes offsetting increases in domestic volumes. Sales of exported crude oil via the UAS pipeline increased by KZT54.5 billion, or 32.0%, in 2005 and by KZT35.8 billion, or 26.7%, in 2004. Although in 2005 the volumes of exported crude oil through the UAS pipeline decreased by 705,000 tonnes, oil prices increased to KZT45,337 per tonne from KZT30,060 per tonne in 2004 which resulted in an increase of sales to KZT224.5 billion from KZT170.1 billion. The increase in sales in 2004 compared to 2003 was due to increases in both volumes and prices. The decrease in the volumes of crude oil exported through the UAS pipeline in 2005 was the result of an increase in domestic market supplies.

Sales of crude oil via the CPC pipeline increased by KZT42.5 billion, or 128.9%, in 2005 and by KZT21.1 billion, or 177.3%, in 2004. The increase in sales was due to increases in both volumes and prices. In 2005 the Company received higher transportation quotas for the CPC pipeline and accordingly reduced the volumes shipped through the UAS pipeline. Volumes increased in 2004 compared to 2003 because the Company began to use the CPC pipeline in mid-2003.

Other sales of oil and oil products increased by KZT15.0 billion, or 59.2%, in 2005 and decreased by KZT0.8 billion, or 2.9% in 2004. Growth of sales in 2005 is explained by increases in both volumes and prices. The relatively flat amount of sales in 2004 was mainly due to falling prices for domestic sales that were offset by an increased volume of exported oil and oil products. Domestic prices were lower in 2004 because the Company's sales of refined products became subject to anti-monopoly price controls which limited selling prices in that year. In 2005 the Company's sales were no longer subject to those restrictions which therefore permitted higher selling prices.

The following table shows the Company's realised sales prices adjusted for oil and oil products transportation and other expenses for the years ended 31 December 2005, 2004 and 2003:

	Year ended 31 December 2005		
	CPC	UAS	Other
	(US\$/bbl)		
Benchmark end-market quote ⁽¹⁾	53.50	50.52	—
Realised price	47.47	47.19	15.38
Transportation	3.71	6.29	0.63
Sales commissions	0.08	0.08	0.08
Processing fees	—	—	2.05
Adjusted realised price	<u>43.68</u>	<u>40.82</u>	<u>12.62</u>
	Year ended 31 December 2004		
	CPC	UAS	Other
	(US\$/bbl)		
Benchmark end-market quote ⁽¹⁾	37.31	34.61	—
Realised price	32.18	30.56	12.25
Transportation	3.22	5.61	0.61
Sales commissions	0.57	0.56	0.14
Processing fees	—	—	2.49
Adjusted realised price	<u>28.39</u>	<u>24.39</u>	<u>9.01</u>
	Year ended 31 December 2003		
	CPC	UAS	Other
	(US\$/bbl)		
Benchmark end-market quote ⁽¹⁾	28.51	27.90	—
Realised price	24.07	23.01	13.27
Transportation	3.36	5.27	0.47
Sales commissions	1.09	0.93	0.14
Processing fees	—	—	2.32
Adjusted realised price	<u>19.62</u>	<u>16.81</u>	<u>10.34</u>

(1) The following quoted prices are used as benchmarks: CPC blend (FOB Novorossiysk) for shipments through the CPC pipeline and Urals blend (FOB Odessa) for shipments through the UAS pipeline.

The difference between the benchmark quote and realised price on the sales through the CPC pipeline mainly comprises CPC quality bank payments, port charges, customs fees, certain sales commissions and averaging effects. The difference between the benchmark quote and realised price on the sales through the UAS pipeline mainly comprises port charges, customs fees and certain sales commissions. The price received for other sales of oil and oil products is determined primarily by agreement with NC KMG and the price is significantly below market prices.

Operating Expenses

The Company's operating expenses relate primarily to the cost of producing crude oil. The following table presents the components of the Company's operating expenses:

	Year ended 31 December		
	2005	2004	2003
		(KZT thousands)	
Transportation	37,647,849	37,562,638	34,947,198
Employee benefits	37,116,032	27,391,069	20,014,387
Depreciation, depletion and amortisation	24,362,896	21,099,460	17,736,031
Materials	21,658,853	13,519,834	12,157,515
Repair, maintenance and other services	16,845,303	13,910,249	6,870,125
Fines and penalties	15,484,134	6,687,529	1,717,173
Royalties	15,180,580	10,663,765	6,902,033
Management fees and sales commissions	11,976,634	15,449,283	17,604,303
Taxes other than on income	7,103,491	6,081,130	4,792,099
Energy	5,824,741	5,816,881	5,548,549
Other	11,375,039	4,094,524	8,297,451
Total operating expenses	<u>204,575,552</u>	<u>162,276,362</u>	<u>136,586,864</u>

Operating expenses increased by KZT42.3 billion, or 26%, in 2005 and KZT25.7 billion, or 19% in 2004 primarily as a result of increases in costs for employee benefits, materials, repair, maintenance and other services, fines and penalties and royalties primarily for the reasons described below.

Employee benefits increased by KZT9.7 billion, or 35.5%, in 2005 and KZT7.4 billion, or 36.9% in 2004 primarily due to the harmonisation of salary policies following the merger of UMG and EMG.

Materials expense increased by KZT8.1 billion, or 60.2% in 2005 and increased by KZT1.4 billion, or 11.2% in 2004. The significant increase in 2005 resulted mainly from increases in material prices, notably steel, and increased drilling activity.

Repair, maintenance and other services expense increased by KZT2.9 billion, or 21% in 2005 and increased by KZT7.0 billion, or 102% in 2004. The increases in 2005 related mainly to increases in well workovers and increased purchase of services related to enhanced recovery methods. The increases in 2004 related mainly to increases in geophysical and geological services.

Fines and penalties increased by KZT8.8 billion in 2005 and increased by KZT5.0 billion in 2004. The significant increase in 2005 resulted mainly from the accrual for an environmental fine of KZT11.4 billion for alleged soil contamination at the COTS Pit. The increase in 2004 resulted mainly from the accrual of tax fines and penalties related to transfer pricing.

Royalties increased by KZT4.5 billion in 2005, or 42%, and increased by KZT3.8 billion, or 55%, in 2004. The significant increase in both years resulted mainly from increases in the volume and price of crude oil sold.

Other operating expenses increased by KZT7.3 billion in 2005 and decreased by KZT4.2 billion in 2004. The increase in 2005 related mainly to losses on disposals of fixed assets following significant gains in the prior year and increased costs related to exploration, purchase of consulting services, inventory obsolescence and social costs. A main factor contributing to the decrease in 2004 was gains on disposals of fixed assets following a net loss in the prior year. Also in 2004 the Company recorded total impairment losses of about KZT3 billion relating to non-core assets which were offset by a number of other decreases as compared to 2003.

Finance Income (Expense)

The Company's financial income in each of the periods relates mainly to interest on deposits. The Company's financial expense in each of the periods mainly comprises interest on borrowings, the unwinding of a discount relating to asset retirement obligations and, in 2003, a change in estimate of the in-kind settlement of one of the Company's long-term debt obligations.

Income Tax Expense

Total income tax expense increased by KZT41.0 billion, or 70%, in 2005 and by KZT27.0 billion, or 85%, in 2004 primarily a result of increased revenues due to global crude oil prices. The effective tax rates were 69% for 2005, 82% for 2004 and 81% for 2003. The main reasons for the fluctuations relate to non-deductible costs which impact both CIT and EPT. Non-deductible costs included in all periods depreciation, accrual of risk provisions related to transfer pricing, social expenses, interest expense in excess of statutory limits and foreign exchange losses. Also, in 2005 the accrual of the environmental fine was a significant non-deductible item. Finally the Company began paying EPT in relation to Uzen, its largest subsurface use contract in 2004 and in 2005, began paying the maximum EPT rate.

Profit for the year from Continuing Operations

As a result of the factors described above, the Company's profit for the year from continuing operations increased by 232% to KZT43.8 billion in 2005 and by 77% to KZT13.2 billion in 2004.

Discontinued Operations

On 29 December 2005, the Company disposed of its 99.1% interest in the Atyrau Refinery to a subsidiary of NC KMG for KZT3.5 billion. Prior to its disposal, revenue from the Atyrau Refinery was derived from sales of refined products by the Atyrau Refinery and tolling fees charged by the Atyrau Refinery to third-party producers of crude oil for its processing services, including tolling services purchased by the Company from the Atyrau Refinery to meet its local market obligation. Tolling expenses amounted to approximately KZT5.0 billion in each of the years presented and have been eliminated in the Company's consolidated financial statements with all other inter-company transactions. The revenue from the sales of the relevant refined products by the Company prior to the disposal of the refinery has been included in revenue from continuing operations in the appropriate year. In late 2005, the Company began selling crude oil directly to the Atyrau Refinery on a cost plus basis, with sales amounting to approximately KZT6.5 billion.

Profits from discontinued operations increased by KZT1.2 billion in 2005 and by KZT0.2 billion in 2004 due to increased tolling volumes of refined products.

Liquidity and Capital Resources

Liquidity and Working Capital

The Company's liquidity requirements arise principally from the need to finance its existing operations (working capital) and the need to finance investment (capital expenditure). Management believes that the Company has adequate liquidity to meet its short-term obligations. In the periods under review, the Company has been able to meet most of its liquidity needs out of net cash provided by operating activities and, to a lesser extent, out of borrowings. To the extent that cash flows from operating activities would not be sufficient to fund the Company's capital investment programme, including acquisitions, management intends to use the net proceeds from the Global Offer as well as borrowings.

In the opinion of the Company, taking into account the expected proceeds of the Global Offer and existing cash resources, the working capital of the Group is sufficient for present requirements, that is, for at least the 12 months following the date of this document. As at 31 May 2006 the Company had positive net working capital. However, at 31 December 2005 and in prior periods financial statements show negative net working capital, primarily as a result of certain accruals and provisions which, in accordance with IFRS, are recorded as current liabilities because the Company does not have the unconditional right to defer payment for more than twelve months from the balance sheet date. As a practical matter, the Company does not expect to pay these amounts during the current fiscal year. These items, which the Company expects to pay out over a long period of time, or which are contingent in nature, have included tax provisions, accruals for the environmental fine relating to the COTS Pit and certain obligations related to subsoil use contracts. Main factors in the improvement in the Company's net working capital position in 2006 were higher oil prices, a reduction in related party payments and release of accruals for alleged environmental violations following the successful outcome of legal proceedings. See "—Critical Accounting Estimates and Judgments—Taxation" and Note 20 to the Company's consolidated financial statements. As at the date of this document and taking into account other current and non-current financial assets, the Company has a net cash position on its balance sheet.

Cash Flows

Net cash generated from operating activities was KZT75.1 billion in 2005 compared to KZT60.5 billion in 2004 and KZT45.2 billion in 2003. The increases were mainly a result of increases in crude oil prices.

Net cash used in investing activities was KZT99.5 billion in 2005 compared to KZT82.3 billion in 2004 and KZT33.5 billion in 2003. The increase was due primarily to the purchases of property, plant and equipment related to the refurbishment of the Atyrau refinery and to production optimisation efforts, increased holdings of held-to-maturity financial assets and an increase in loans to related parties, including NC KMG.

Net cash flow from financing activities was KZT30.1 billion in 2005 compared to KZT27.2 billion in 2004 and net cash flow used in financing activities of KZT5.1 billion in 2003. The changes in 2005 and 2004 reflected an advance payment received under the Esomet Arrangement and payment of dividends.

Borrowings

The following table below sets forth the Company's net debt (cash):

	As at 31 May	As at 31 December		
	2006	2005	2004	2003
	(unaudited)	(audited)		
		(KZT thousands)		
Current portion	19,129,206	21,121,175	18,100,418	10,160,262
Maturity between 1 and 2 years	17,141,624	19,082,221	12,074,755	1,415,417
Maturity between 2 and 5 years	24,144,484	34,451,834	31,600,352	4,258,865
Maturity over 5 years	703,483	494,685	7,083,328	2,471,306
Total borrowings	61,118,797	75,149,915	68,858,853	18,305,850
Cash and cash equivalents	30,326,888	20,187,588	14,127,579	9,310,184
Other current financial assets ⁽¹⁾	54,722,253	7,353,770	26,520,000	6,006,984
Non-current financial assets ⁽¹⁾	2,228,613	53,963,138	8,198,366	261,418
Net debt (cash)	(26,158,957)	(6,354,581)	20,012,908	2,727,264

(1) Portions of current and non-current financial assets, respectively, which comprise US dollar and Tenge-denominated deposits and bonds.

The growth in sales proceeds in 2006 allowed the Company to increase its net cash position with highly liquid assets exceeding total debt by KZT26.2 billion. The Company used this liquidity in July 2006 together with the proceeds of the Senior Notes to facilitate the purchase by NC KMG of a 50% interest in KazGerMunai by providing loans to NC KMG in exchange for a purchase option. See "Capitalisation" and "—Recent Developments".

The Company's borrowings are not seasonal.

The Company's principal credit facilities and borrowings are described below:

World Bank Loan. The Uzen Rehabilitation Project has been financed by a US\$109 million credit line from the World Bank granted in July 1996. The principal amount of this facility is repayable in equal instalments of US\$4.5 million on 15 May and 15 November of each year from November 2001 through May 2013. Interest for each semi-annual period is accrued on the outstanding principal amount at a rate equal to the cost of qualified borrowings plus 0.5%. In addition, the Company pays NC KMG a commitment charge of 0.25% per annum on the principal amount of the facility not utilised. Pursuant to a pledge agreement executed by the Ministry of Finance and the Company on 24 March 2005 the Company pledged property with the value of KZT13.6 billion to guarantee its obligations under the loan documents. The outstanding balance of this loan as at 31 May 2006 was US\$40 million.

Esomet Arrangement. On 16 August 2004, the Company entered into a crude oil sale agreement with Esomet and received a long term advance with interest at Libor plus 1.75% per annum. To assure Esomet that payments are made, the Company has agreed to ship certain amounts of crude oil to Esomet which are sold at market prices (usually by reference to the mean quotations for Urals blend quoted on Platt's crude oil market wire) with the proceeds being used to fund the capital payments due to Esomet. The

Company is obliged to deliver 150,000 tonnes of crude oil per month to Esomet until September 2009. Any surplus funds are transferred to the Company. In addition to these terms, the Company also agreed to maintain various financial ratios and significant covenants that require Esomet's prior written consent to dispose of assets, grant security or make loans that are not in the ordinary course of business in each case exceeding a specified threshold. On 12 October 2005, the Company entered into a swap transaction with Goldman Sachs International and fixed the floating interest term of the crude oil sale agreement at the rate of 4.6% per annum. As at 31 May 2006, the Company's long-term debt to Esomet amounted to US\$442.2 million, or KZT53.7 billion.

Private Placement of Notes. On 10 July 2006, the Company's finance subsidiary, Munaishy Finance B.V., issued Senior Notes due 2009 and loaned the proceeds of the issue to NC KMG for NC KMG's purchase of a 50% stake in KazGerMunai. See "—Recent Developments".

Capital Expenditures

The Company's total capital expenditures for the five-year period 2006 to 2010 are expected to be approximately KZT186 billion, reflecting the cost saving initiatives already implemented by the Company. Most of the Company's capital expenditure relates to production. As a result of the cost saving initiatives being implemented by the Company, the average production capital expenditure over 2006–2010 is expected to be approximately US\$50 million lower than the 2005 level. In 2005, 2004 and 2003, the Company's capital expenditure, calculated on a cash basis, was KZT61.9 billion, KZT50.5 billion and KZT28.9 billion, respectively. This represented 17.9%, 21.3% and 16.3% of sales, respectively.

The Company's capital expenditures on continuing operations over last three years were KZT48.5 billion in 2005, KZT42.9 billion in 2004 and KZT28.5 billion in 2003 reflecting primarily purchases of property, plant and equipment for production optimisation. In 2005, the Company built an apartment building in Astana for KZT3.6 billion to assist in the relocation of employees from Atyrau and Uzen to Astana as a result of the UMG and EMG merger.

While the Company made substantial investments in the Atyrau Refinery in 2005 to finance its reconstruction, it has since disposed of the Atyrau Refinery. See "—Discontinued Operations".

Commitments

Set forth below is information about the maturity of the Company's capital commitments outstanding as at 31 May 2006:

	<u>2006</u>	<u>2007-2009</u>	<u>2010 and beyond</u>	<u>Total</u>
Oilfield licences and contracts ('000 Tenge)	29,251,745	14,056,131	25,455,514	66,763,390
Crude oil supply agreements ('000 tonnes)	2,406	11,550	2,200	16,156
Purchases ('000 Tenge)	1,000,000	—	—	1,000,000

In addition, in June 2006 the Company agreed to supply an additional 240 thousand tonnes of crude oil to the local market during the current year.

Legal proceedings

During the periods under review, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. Save as disclosed in "The Company—Litigation", there are no current legal proceedings or claims outstanding which management believes could have a material effect on the Company's financial position, statement of income or cash flows and which have not been accrued for or disclosed in the Company's financial statements.

Current Trading Information and Prospects

Since 31 May 2006, the Company's scheduled drilling and well workover activity at existing, producing fields has progressed ahead of plan. Whilst this has led to budgeted capital expenditure being spent earlier in the year than management had anticipated, the result has been slightly higher than expected levels of production.

The current trading of the Company since 31 May 2006 has been in line with management's expectations; results for the forthcoming year may be strengthened by the slightly higher than expected production levels and the continued strong oil prices.

Disclosure about Market Risk

Commodity price risk

Commodity price risk related to crude oil prices is the Company's most significant market risk exposure. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. The Company does not hedge against this risk.

Foreign currency exchange rate risk

Most of the Company's cash inflows as well as its accounts receivable are denominated in US dollars, while most all of the Company's purchases are denominated in Tenge. There is therefore a significant exposure related to the Company's assets and liabilities in these currencies. There is no significant forward market for the Tenge and the Company does not use other foreign exchange or forward contracts to manage this exposure. In the first five months of 2006 as the Tenge appreciated against the US Dollar and the Company's US dollar denominated assets exceeded its US dollar denominated liabilities, the Company incurred a net foreign exchange loss of KZT3.3 billion.

Interest rate risk

The Company's interest rate risk principally relates to interest receivable and payable on its cash deposits and borrowings. In December 2005, the Company began to hedge its variable rate debt instruments. Under a swap agreement with Goldman Sachs, the Company swapped its floating rate obligation under the crude oil sale agreement with Esomet for a fixed rate obligation pursuant to the terms of the Esomet Arrangement.

Credit risk

Financial instruments, which potentially subject the Company to credit risk, principally comprise related party loans, accounts receivable and cash deposits. As of 31 December 2005, 2004 and 2003, the Company had 68%, 61% and 64%, respectively, of total trade accounts receivable from KMG TradeHouse AG, a related party. While the Company may be subject to losses up to the contract value of the instruments in the event of non-performance by its counterparties, it does not expect such losses to occur.

Off-Balance Sheet Arrangements

The Company does not currently utilise any off-balance sheet financing arrangements.

Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions concerning the future and judgments about facts, circumstances and the substance of transactions. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed in Note 6 to the Consolidated Financial Statements. Also described in Note 6 are certain judgments made by management in the process of applying the Company's accounting policies which, apart from those involving estimations, can significantly affect the amounts recognised in the financial statements. The Company's critical accounting estimates and judgments relate to oil and gas reserves, asset retirement obligations, valuation of property, plant and equipment, environmental remediation obligations, tax provisions, certain obligations related to sub-soil use agreements and discontinued operations. See—Consolidated Financial Statements—Note 6 “Critical Accounting Estimates and Judgments”.

Recent Developments

Bond Issue and Loan

On 10 July 2006, the Company's finance subsidiary, Munaishy Finance B.V., issued Senior Notes and loaned the proceeds of the issue to NC KMG. NC KMG has used these funds to acquire an interest in KazGerMunai. The Company also provided an interest-free loan to NC KMG in an amount of KZT24.4 billion to fund this acquisition and has entered into an option arrangement which gives it the right to acquire the interest in KazGerMunai from NC KMG. The loans are repayable on the earlier of the exercise of the option and 31 December 2007. See “—Borrowings” and “—Key Factors Affecting the Company's Results of Operations and Financial Condition—Financial Support and Fees Paid to NC KMG, the Atyrau Refinery and Other Affiliates.”

In connection with Global Offer, each of the holders of the Senior Notes have surrendered all of their holdings as consideration for the issue of approximately 13.2% of the shares in aggregate.

Esomet Arrangement

On 24 July 2006, Esomet and the Company amended the Esomet Arrangement to include an additional payment of US\$50.0 million, a reduction of the interest margin from 1.75% to 1.1% and release of the existing NC KMG guarantee. See “—Borrowings.”

Dividend

At a duly constituted meeting held on 28 August 2006, a majority of the shareholders of the Company approved the payment of a dividend to the holders of Shares and of preference shares of the Company in the aggregate amount of approximately KZT18.0 billion (KZT 382 per ordinary or preference share).

Pre-emptive Offer

Under Kazakhstan law, holders of ordinary shares have a pre-emptive right over shares offered to the public. In order to satisfy this requirement and to ensure that the Shares and the Parent GDRs can be offered free from this pre-emptive right, the Company, on 28 July 2006, offered then existing shareholders the right to purchase 27,169,803 Shares at KZT250 per Share in accordance with existing proportional interests.

On 28 August 2006, the Company had received elections from existing Shareholders to take up their proportional rights in respect of 4,083,012 Shares pursuant to such pre-emptive offer including an election from NC KMG in respect of 3,543,887 shares of which 3,463,019 will constitute the Parent GDRs which are the subject of the Global Offer.

**PRINCIPAL SHAREHOLDERS, RELATIONSHIP WITH NC KMG AND
RELATED PARTY TRANSACTIONS**

Principal Shareholders

Immediately prior to and following Admission, each of the following persons (not being a Director or a member of the Management Board of the Company) directly or indirectly, had or shall have an interest in 3% or more of the Company's issued and placed voting share capital as follows:

<u>Shareholder</u>	<u>Number of Shares before Admission</u>	<u>Percentage of issued share capital before Admission</u>	<u>Number of Shares following Admission</u>	<u>Percentage of issued share capital following Admission</u>
NC KMG ⁽¹⁾	45,676,448	96.9%	42,213,429	60.1%
Bank of New York as Depository for the GDRs	—	—	8,650,932	12.3%
Thames Energy B.V.	—	—	3,236,780	4.6%
Serene Universe Limited	—	—	3,236,780	4.6%

(1) Assuming the Underwriters over-allot the Parent GDRs in full and do not exercise the Underwriters' Put Option.

Save as disclosed above, the Company is not aware of any person who, as at 28 September 2006, the latest practicable date prior to the publication of this document, is or immediately following Admission will be interested, directly or indirectly, in 3% or more of the Company's issued share capital.

Immediately following Admission, NC KMG will be regarded as a controlling shareholder of the Company, as it will hold more than 30% of the issued share capital of the Company. The Company is not aware of any other person who, currently or immediately following Admission, will exercise, or could exercise, directly or indirectly, jointly or severally, control over the Company. For a description of the measures in place to ensure that the control exercised over the Company by NC KMG is not abused, please see the section below headed "—Agreements with NC KMG and its affiliates".

Subject to the restrictions imposed on NC KMG pursuant to the Relationship Agreement, there are no differences between the voting rights enjoyed by the shareholders described above and those enjoyed by any other holder of Shares in the Company.

Samruk

Samruk was created at the beginning of 2006 pursuant to presidential edict No 50 dated 28 January 2006 "On measures for further securing the interests of the state in the management of the state sector of the economy" and a decree of the Government, dated 23 February 2006, No 117 "On measures for the realisation of the Edict of the President of the Republic of Kazakhstan No 50 dated 28 January 2006". Samruk is a joint-stock company whose charter company is owned 100% by the Kazakhstan Ministry of the Economy and Budgetary Planning on behalf of the state. Samruk was formed in order to maximise the long-term value of companies in which the state has an interest. Samruk's principal business activity is ensuring the effective management of those joint-stock companies whose shares it owns (in addition to NC KMG, these companies are currently National Company Kazakhstan Temir Zholy, JSC Kazpochta, the Kazakhstan energy management company (KEGOC) and JSC Kaztelekom). Samruk's role will include approving medium-term business plans, investment programmes and annual budgets, determining the main performance indicators of these companies, nominating their heads, and making recommendations as to questions of corporate finance to the Government.

Agreements with NC KMG and its affiliates

The Group has entered into various agreements and transactions with members of the NC KMG Group from time to time. Set out below are a summary of the material agreements and transactions that have been entered into by the Group with members of the NC KMG Group other than in the ordinary course of business (i) in the two years immediately preceding the date of this document and which are, or may be, material or (ii) which contain any provision under which the Group has any obligation or entitlement which is material to the Group as at the date of this document.

Relationship Agreement

The Relationship Agreement was entered into between the Company and NC KMG on 8 September 2006 and will, conditional upon Admission, regulate (in part) the degree of control that NC KMG may exercise over the management of the Company. The principal purposes of the Relationship Agreement are to ensure that:

- (i) the Company is capable of carrying on its business as a self-dependent and free-standing business from NC KMG and of any of its affiliates and in the best interests of shareholders as a whole; and
- (ii) the Company's transactions and relationships with NC KMG and its affiliates are at arm's length and on normal commercial terms.

The Relationship Agreement will continue until the earlier of (i) the GDRs ceasing to be admitted to listing on the relevant competent listing authority and to trading on any relevant stock exchange to which securities have been admitted (other than the KASE) or (ii) NC KMG (and/or any of its affiliates) ceasing to be a controlling shareholder in the Company. For these purposes, a controlling shareholder is any person (or persons acting jointly by agreement whether formal or otherwise) who is entitled to exercise, or to control the exercise of, 30% or more of the rights to vote at the Company's general meetings or able to control the appointment of directors who are able to exercise a majority of votes at the Company's board meetings.

Under the Relationship Agreement:

- (a) NC KMG undertakes that:
 - (i) the Company shall be operated in the best interests of its shareholders as a whole and, subject to the provisions of the Charter, in accordance with the Corporate Governance Code;
 - (ii) it will allow the Company at all times to carry on its business as a self-dependent and free-standing business from NC KMG and the NC KMG Group; and
 - (iii) it shall use its reasonable endeavours to procure that no member of the NC KMG Group shall act in any way or omit to act in any way which shall prejudice the ability of the Company to carry on its business independently of the NC KMG Group (or render it unsuitable for continued listing by any relevant competent listing authority or on any relevant stock exchange by reason of any act or omission on the part of any member of the NC KMG Group).
- (b) Both NC KMG and the Company undertake that they shall (and shall procure that the relevant members of their respective groups shall), subject to applicable laws and the terms of existing agreements between NC KMG and the Company (or their respective affiliates), with effect from the date of the Relationship Agreement conduct any transactions and relationships (whether contractual or otherwise, including any subsequent amendment thereof or variation thereto, including the implementation or enforcement thereof) between any member of the NC KMG Group, on the one hand, and any member of the Company, on the other, on arm's length terms and on a normal commercial basis.
- (c) Subject to the Joint Stock Company Law and to the terms of the Services Agreement, NC KMG undertakes that any voting rights in the Company's share capital held by members of the NC KMG Group and any voting rights that it might control on the Board of Directors (whether as a shareholder or through its representation on the Board of Directors) shall:
 - (i) not be exercised in respect of any resolution which relates to a transaction between the Company and NC KMG or any member of the NC KMG Group; and
 - (ii) not be exercised at meetings of the Board of Directors on matters in which they have an interest as a result of being a director or officer in NC KMG or any member of the NC KMG Group.
- (d) NC KMG undertakes that it shall not separately propose, at a general meeting of Shareholders, any matter contemplated by the provisions of Article 12.5 of the Charter (relating to the requirement to obtain the approval of a majority of the Independent Non-Executive Directors at the relevant Board meeting before proceeding with such matter) where such matter has not been previously approved in accordance with the provisions of Article 12.5 of the Charter by a majority

of the Independent Non-Executive Directors acting in good faith, reasonably, and justly in compliance with applicable legislative requirements, moral principles and the rules of business ethics.

- (e) NC KMG undertakes that it shall not require the Company to increase the amount of financial contribution to assist in implementing social projects in the regions and cities in which members of the Company operate, save as:
 - (i) required by the terms of the existing social programmes undertaken by members of the Company as at the date of the Relationship Agreement;
 - (ii) required by the terms of the exploration and/or production licences and contracts held by members of the Company from time to time;
 - (iii) required by Kazakhstan Laws; or
 - (iv) otherwise approved by the Board of Directors in accordance with the Charter.
- (f) NC KMG undertakes that it shall not vote on any resolution of the Shareholders (or any resolution of the Board of Directors) to appoint or remove any Independent Non-Executive Director unless:
 - (i) the term of appointment of such Independent Non-Executive Director has expired and such Independent Non-Executive Director is seeking re-election at a general meeting of Shareholders; or
 - (ii) such removal has been recommended by the nominations committee of the Board of Directors; or
 - (iii) the Board of Directors has determined that the Independent Non-Executive Director is no longer independent (as reasonably determined by the Board of Directors and taking into consideration the factors referred to in the Corporate Governance Code), provided that any such determination by the Board of Directors shall require the affirmative vote of the Director General of the Company and at least one other Independent Non-Executive Director.

In addition, the Company undertook to participate in the annual state crude oil procurement tenders held by KMG Trade House for a period of 10 years from 1 January 2006. See “—Atyrau Refinery Supply Arrangements.”

The Directors believe that the terms of the Relationship Agreement, together with certain other protections contained in the Charter, will enable the Company to carry on its business independently from NC KMG and its affiliates, and ensure that (subject to other existing contractual arrangements with members of the NC KMG Group as at the date of Admission) all transactions and relationships between the Company and NC KMG and its affiliates are, and will be, at arm’s length and on a normal commercial basis, such that NC KMG is not able to abuse its position as the Company’s controlling shareholder. For further information about the range of protections in the Charter, see “Description of Share Capital and Certain Requirements of Kazakhstan Legislation” and “Risk Factors—Risk Factors Relating to the Company’s Relationship with NC KMG—Changes in the Government’s holding of NC KMG and/or changes in policy by the Government could have an adverse effect on the Company’s rights under the Relationship Agreement and the Services Agreement”.

Services Agreement

The Services Agreement was entered into between the Company and NC KMG on 8 September 2006 and provides that NC KMG grants certain rights and renders certain services to the Company and refrains from undertaking certain business activities in the Republic of Kazakhstan.

The Services Agreement is subject to the requirements of the State Procurement Law, which means that the Company will have to conduct, on an annual basis, a tender process for the services to be provided under the Services Agreement. Accordingly, the Services Agreement will terminate on 31 December 2006 and the agreement will therefore need to be renewed on an annual basis if the Company is able to benefit from its provisions. The Company has received a written assurance from NC KMG that it will continue to participate in any such annual tender in respect of the services to be provided under the Services

Agreement upon the same terms until 2016, although it should be noted that such assurance is not legally binding on NC KMG.

Under the Services Agreement:

- (a) NC KMG undertakes that it will not (and will procure that each member of the NC KMG Group will not) carry on, be engaged in or otherwise interested economically in onshore exploration, development or production of oil at predominantly oil hydrocarbon deposits in the Republic of Kazakhstan, save:
 - (i) where such operations are carried on by a member of the NC KMG Group or by an entity in which a member of the NC KMG Group has an ownership or participatory interest at the date of the Services Agreement and/or pursuant to resolutions of the Government and/or international obligations of the Republic of Kazakhstan;
 - (ii) in connection with the acquisition or holding of any existing onshore oil asset or new onshore oil interest (each as defined below) as required in order to perform its obligations under the Services Agreement;
 - (iii) where NC KMG has acquired any existing onshore oil asset or new onshore oil interest and the Company has notified NC KMG that it does not want to acquire such existing onshore oil asset or new onshore oil interest; or
 - (iv) as otherwise agreed in writing by the Company provided that the Company undertakes that it shall only be entitled to grant such consent if validly approved at a meeting of the Board of Directors of the Company at which the majority of Independent Non-Executive Directors present at such meeting approve the granting of such consent.
- (b) If the State elects to sell or transfer a controlling interest in any subsoil use right, licence or asset in respect of predominantly oil onshore hydrocarbon deposits in Kazakhstan, or any unlicensed exploration areas, fields or blocks in connection with the exploration, appraisal, development and/or production of onshore hydrocarbon deposits in Kazakhstan owned or controlled by the Republic of Kazakhstan, MEMR and/or NC KMG (a “new onshore oil interest”), NC KMG will, if requested by the Company, make a proposal to MEMR that NC KMG wishes to acquire such new onshore oil interest without undertaking a tender in respect of such new onshore oil interest.

If NC KMG has acquired a new onshore oil interest without undertaking a tender in respect of such interest or NC KMG decides to sell or transfer a controlling interest in any new onshore oil interest already held by NC KMG, NC KMG will first grant the Company a right of first refusal to acquire such new onshore oil interest (or not less than 50% of such new onshore oil interest) at fair market value. If NC KMG and the Company are unable to agree the terms of such acquisition, NC KMG must offer such new onshore oil interest (but not less than any part thereof that was offered to the Company) for sale by way of auction to interested parties, in which event the Company will be entitled to match the winning bid for such interest and acquire 50% of such offered new onshore oil interest.

- (c) If the State elects to exercise its pre-emptive right (pursuant to Article 71 of the Subsoil Law, see “The Company—Regulatory Matters in Kazakhstan—Article 71 of Subsoil Law”) to acquire an interest in any subsoil use right, licence or asset in respect of predominantly oil onshore hydrocarbon deposits in Kazakhstan (or any part thereof), or an ownership or other participatory interest in any entity (whether incorporated in the Republic of Kazakhstan or elsewhere) owning (wholly or primarily) such a subsoil use right, licence or asset (other than a new onshore oil interest) (an “existing onshore oil asset”) in which the Company has declared an interest to acquire, NC KMG must use its reasonable endeavours to procure that the State exercise such pre-emptive right on behalf of the Company and the Company will acquire such existing onshore oil asset at fair market value.

If NC KMG elects to dispose of a controlling interest in any other existing onshore oil asset held by NC KMG and in which the Company has declared an interest to acquire, NC KMG must first grant the Company a right of first refusal to acquire such existing onshore oil asset (or not less than 50% of such existing onshore oil asset) at fair market value. If NC KMG and the Company are unable to agree the terms of such acquisition, NC KMG must offer such existing onshore oil asset (but not less than any part thereof that was offered to the Company) by way of auction to interested parties, in which event the Company will be entitled to match the winning bid for such interest and acquire 50% of such offered existing onshore oil asset.

If NC KMG has failed to sell a controlling interest in any existing onshore oil asset (whether pursuant to the exercise of the Company's right of first refusal or by way of auction or otherwise) and subsequently the Company requests that NC KMG sells such existing onshore oil asset, NC KMG must consider such request in good faith (but will not be obliged to sell such existing onshore oil asset to the Company).

- (d) NC KMG must use all reasonable endeavours to ensure that members of the Company continue to benefit on materially the same terms as at Admission from the export infrastructure used by members of the Group in the six months prior to Admission for so long as the Services Agreement continues. In particular, NC KMG must procure, in respect of itself, and must use all reasonable endeavours to procure, in respect of any act required of any third party, the following:
- (i) KTO will continue to provide the Group with transportation facilities as provided in the KTO Transportation Agreement and the Company shall provide the volume of crude oil for transportation and make payments as provided in the KTO Transportation Agreement;
 - (ii) after the expiration of the KTO Transportation Agreement, KTO shall allocate to the Group at the relevant time oil transportation capacity on terms no less adverse than those offered to other users provided that KTO may give a preferential right of first refusal to users which are in compliance with their contractual obligations to KTO; and
 - (iii) the transportation of resources of the Company through the UAS pipeline is envisaged in the volumes agreed between the Company and KTO in accordance with the KTO Transportation Agreement with the presentation by the Company of guarantees for the volumes applied for; and
 - (iv) NC KMG will use all reasonable endeavours within the rights of the shareholder from the Republic of Kazakhstan under the CPC Shareholder Agreement and/or as a joint venture party in KPV to ensure that (A) the Company (or any specified member of the Company) is nominated "affiliated shipper" of NC KMG (including all rights and obligations pursuant to which NC KMG has access to the CPC pipeline, whether directly or through KPV) for the purposes of access to the CPC pipeline in respect of any volume of crude oil proposed in writing by the Company to be delivered through the CPC pipeline, (B) the Company is entitled to deliver into the CPC pipeline any volume of crude oil proposed in writing by the Company to be delivered through the CPC pipeline in accordance with the quota allocated to the shareholder from the Republic of Kazakhstan and/or to KPV and (C) the CPC consortium allocates any increased capacity (as notified in writing from time to time by the Company to NC KMG) in the CPC pipeline to the Company as the "affiliated shipper" of NC KMG (where commercially practicable).

In consideration for the grant of such rights and the provision of such services and for NC KMG agreeing to restrict its business, the Company has agreed to pay to NC KMG the sum of KZT7.0 billion per annum. To the extent that NC KMG successfully participates in the annual tender for the provision of services set out in the Services Agreement, the annual fee for such services shall as specified in the tender but the Company anticipates that it will increase in line with the consumer prices index of the Republic of Kazakhstan as provided in the Relationship Agreement.

Atyrau Refinery Supply Arrangements

KMG TradeHouse, as the owner of the Atyrau Refinery, is required by the provisions of the State Procurement Law to make an annual tender for the supply of crude oil to the Atyrau Refinery to be processed by the refinery. Pursuant to the Refinery Supply Undertaking dated 28 February 2006, the Company undertakes to participate in the annual state crude oil procurement tenders held by KMG TradeHouse for a period of 10 years.

Further, pursuant to the Relationship Agreement and subject to Kazakhstan law, the Company undertook that any such participation by the Company shall be on the following terms:

- (a) the Company shall supply not more than 1.9 million tonnes of crude oil per annum in respect of any tender declared by KMG TradeHouse between 1 January 2006 and 31 December 2010;
- (b) the Company shall supply not less than the volume of crude oil to be supplied to the domestic market in respect of any tender declared by KMG TradeHouse for the years 2011 to 2015 in volumes in accordance with the production programme forming part of the business plan of the Company approved by the Board of Directors for such years (which the Company currently estimates will be no more than 1.9 million tonnes of crude oil per annum); and

- (c) the price of any crude oil supplied by the Company shall be equal to its cost plus a margin of 3%, where its cost is calculated as the production cost of one tonne of crude oil for the Company plus the transportation cost of one tonne of crude oil incurred by the Company, where:
- (i) the production cost of one tonne of crude oil is the ratio of (A) the total crude oil production costs and all administrative and non-production costs (including general administration costs) under the state procurement tender plan for the relevant calendar year to (B) the total volume of crude oil production at all production branches of the Company under the state procurement tender plan for the relevant calendar year; and
 - (ii) the transportation cost of one tonne of crude oil is the ratio of (A) the total costs of crude oil transportation from all the branches of the Company to the Atyrau Refinery under the state procurement tender plan for the relevant calendar year to (B) the total volume of crude oil supplies to the Atyrau Refinery from all production branches of the Company under the state procurement tender plan for the relevant calendar year.

KMG TradeHouse Agency Agreement

The agency agreement was entered into between the Company and KMG TradeHouse on 26 December 2005 (the “KMG TradeHouse Agency Agreement”). It is subject to renewal annually under the state procurement legislation and expires on 31 December 2006.

Under the agreement the Company is obliged, within one month of a request from KMG TradeHouse, to provide KMG TradeHouse with planned annual volumes for the sale of crude oil for export through KMG TradeHouse. The Company must also submit to KMG TradeHouse quarterly and monthly schedules, approved by the MEMR, of oil supplies for export, showing transportation and loading requirements, 45 days before the beginning of the relevant calendar quarter (for quarterly schedules) and 10 days before the beginning of the relevant month (for monthly schedules).

KMG TradeHouse is obliged to offer the crude oil sold to it by the Company to the market such as to secure the Company the best possible price, and must solicit as many offers as possible for the Company’s crude oil to achieve this. Details of each offer must be sent to the Company in prescribed form within 10 working days of receipt by KMG TradeHouse. Each purchase-sale agreement signed by KMG TradeHouse on behalf of the Company must contain certain specified provisions (including, as to payment, either provision of a letter of credit, 100% pre-payment or payment within 30 days of delivery) and the signed original copy must be submitted to the Company within 10 working days of its execution.

Ownership of the crude oil is transferred from the Company to the relevant buyer according to the terms of the relevant purchase-sale agreement (although the agency agreement requires each purchase-sale agreement to provide that title transfers no earlier than upon full payment of the purchase price).

In consideration for the agency services provided by KMG TradeHouse, the Company is obliged to pay KMG TradeHouse commission in the amount of KZT63.50 (plus VAT) per tonne of crude oil sold by KMG TradeHouse for export. This amount is payable on a monthly basis upon receipt by the Company of KMG TradeHouse’s invoice and is subject to review every 6 months. The Company is also liable for KMG TradeHouse’s expenses incurred in carrying out its agency function.

Disposal of Atyrau Refinery

In December 2005, the Company sold its entire holding of participatory interests in LLP Atyrau Refinery (which owns the Atyrau Refinery), representing approximately 99.1% of the entire issued participatory interests of LLP Atyrau Refinery, to KMG TradeHouse for a consideration of KZT3.5 billion.

In addition, KMG TradeHouse agreed to indemnify the Company in respect of any and all existing and possible future losses, expenses, claims, actions or any other costs or requirements incurred or suffered by the Company based on, arising out of, or otherwise in respect of the sale and purchase and/or the Company’s participation in LLP Atyrau Refinery on or prior to the date of its disposal, including:

- (i) any claim by any third party (including any governmental or regulatory authority in the Republic of Kazakhstan, any taxation authority and any member of the Partnership) in respect of the conduct of the business of LLP Atyrau Refinery or as a result of the Company’s participation in, administration of, or act or omission in respect of, LLP Atyrau Refinery;

- (ii) any claim in respect of any breaches of or non-compliance with applicable environmental laws, regulations, rules or agreements with any relevant governmental or regulatory authority in the Republic of Kazakhstan (whether written or oral) incurred in connection with the business of LLP Atyrau Refinery;
- (iii) any breach under the laws of the Republic of Kazakhstan, LLP Atyrau Refinery's charter or otherwise in connection with any changes to or increases in the authorised or issued charter capital of LLP Atyrau Refinery (including for any failure to obtain a waiver of applicable rights of pre-emption or due registration of such changes or increases); and
- (iv) any taxes, duties, excise costs and any other related costs arising as a result of or in connection with any transfer of the participations (in whole or in part) of LLP Atyrau Refinery by the Company or KMG TradeHouse.

Disposal of part interest in JSC Kazakhstan Petrochemical Industries

In December 2005, the Company sold a 35% interest in JSC Kazakhstan Petrochemical Industries, a petrochemical operation, to LLP SAT & Company. As at 31 December 2005, a receivable was recorded with current assets of KZT3.4 billion in respect of the sale of the 35% interest in JSC Kazakhstan Petrochemical Industries. The Company is currently considering selling its remaining 15% stake in JSC Kazakhstan Petrochemical Industries.

Option Agreement for KazGerMunai

On 30 June 2006, the Company entered into an option agreement with NC KMG to acquire NC KMG's interests in KazGerMunai, representing 50% of the participatory interests in KazGerMunai (the "KazGerMunai Interest"). Under the terms of the option agreement, in consideration of the Company providing financial support to NC KMG to finance NC KMG's acquisition of the KazGerMunai Interest, following exercise of the option by the Company NC KMG shall be obliged to sell the KazGerMunai Interest to the Company at a price to be negotiated and determined between the Company and NC KMG in good faith.

Under this option agreement, NC KMG is bound for a period of 18 months—which may be extended for a further six months—following the closing of the acquisition of the KGM Interest (i) not to negotiate the sale of the KazGerMunai Interest to a third party; (ii) to permit the Company to carry out its due diligence of KazGerMunai; (iii) and to use all reasonable endeavours to procure that the other shareholders in KazGerMunai provide access to facilities, personnel and information, such as financial statements and information in relation to oil reserves, when the Company exercises its option.

In accordance with the terms of the Charter, exercise of the option is subject to the approval of a majority of the Independent Non-Executive Directors, and there are no arrangements in place that require the Company to either exercise the option or to complete the acquisition. Under the terms of the Company's Charter, acquisition of the KazGerMunai Interest requires the approval of the independent shareholders of the Company (including holders of GDRs). The Company has undertaken to provide a circular to Shareholders and holders of GDRs at the relevant time so as to enable them to consider the terms of such acquisition.

In connection with this option agreement, the Company's finance subsidiary, Munaishy Finance B.V., lent to NC KMG the proceeds of the Senior Notes and the Company lent an additional amount equal to KZT24.4 billion in order to finance the acquisition by NC KMG of its interest in KazGerMunai. See "Operating and Financial Review—Recent Developments".

Sub-Loan Agreement

On 26 January 2004, NC KMG and UMG concluded a sub-loan agreement for an amount of US\$109.0 million to finance the Uzen Rehabilitation Project, and the Company assumed UMG's rights and obligations thereunder pursuant to an additional agreement of 5 May 2005. Pursuant to this agreement, the Company pays NC KMG equal instalments of principal in the amount of US\$4.5 million, and interest and commission fee payments, on 5 February and 5 August of each year from November 2001 maturing in February 2013.

Interest Free Loans

The Company and NC KMG entered into an agreement on 26 April 2005 for the provision of a KZT26.0 billion non-interest bearing loan by the Company to NC KMG.

As described above, on 30 June 2006 NC KMG and the Company entered into an agreement for the provision of an interest free loan in an amount of KZT24.4 billion for the partial financing of the acquisition of an interest in KazGerMunai.

On 27 May 2005, a loan of KZT665 million was granted to JSC Kazakhstan Petrochemical Industries (formerly known as JSC Atoll) which was due to be repaid in full by the end of 2008. However on 13 December 2005, the loan was amended to bring the repayment date forward to 31 December 2006. This total amount currently outstanding on this loan will be paid prior to 31 December 2006.

See “Operating and Financial Review—Results of Operations—Fees and Financial Support Paid to NC KMG and other Affiliates”.

Intra-Group Transactions

A highly significant proportion of the Company’s revenue, expenses and financing have been obtained from NC KMG and its subsidiaries, constituting related party transactions under Kazakhstan law.

The value of the Company’s related party transactions with NC KMG and its subsidiaries in the financial years ended 31 December 2003, 2004 and 2005 and for the five months ended 31 May 2005 and 2006, respectively, are set out in the notes to the financial statements included elsewhere in this document.

DIRECTORS AND MEMBERS OF THE MANAGEMENT BOARD

Directors and Members of the Management Board

Directors

Name of Director	Position with the Company	Age
Zhakyp Nasibkalievich Marabayev	Chairman and Non-Executive Director	43
Askar Kumarovich Balzhanov	General Director, CEO	48
Yerzhan Arystanbekovich Zhangaurov	Non-Executive Director	38
Evgeni Kiponiyevich Ogai	Non-Executive Director	60
Assia Navimanovna Syrgabekova	Non-Executive Director	46
Christopher Mackenzie	Independent Non-Executive Director	51
Paul Manduca	Independent Non-Executive Director	54
Eddie Walshe	Independent Non-Executive Director	65

Zhakyp Marabayev is a Managing Director of NC KMG. He was appointed as a director of the Company on 30 March 2004 and Chairman of the Board of Directors on 26 June 2006. Mr Marabayev is the Chairman of the nominations committee of the Board of Directors. After graduating from the Moscow Institute of Petrochemical and Gas he has gained broad experience in the oil and gas industry by working in various positions in the Komsomolskneft NSEH, JSC KazakhstanCaspianShelf, KazakhOil NOC CJSC, KTO, the Ministry of Foreign Economical Affairs of Kazakhstan, the Ministry of Energy and Fuel Resources, and the Halyk Savings Bank of Kazakhstan.

Askar K. Balzhanov was appointed as General Director, CEO of the Company on 7 June 2006. Prior to this appointment he was a General Director of the JSC “KazMunaiTeniz”, a subsidiary of NC KMG specialising in off-shore oil and gas operations. After graduating from the Moscow Institute of Petrochemical and Gas he has gained broad experience in the oil and gas field working in various positions in such hydrocarbon enterprises as Embaneft PA, KazakhstanNefteGas SE, KazakhstanMunayGas SE, KazRosGas CJSC, and NC KMG.

Yerzhan A. Zhangaurov was appointed as a director of the Company on 12 June 2006. He was appointed as a Managing Director of NC KMG on 4 May 2006 and prior to this appointment he was Executive Director of Legal Support at NC KMG. Also he headed the legal service and HR department in the Administration of the President of Kazakhstan and also was the adviser to the Vice-President in NC KMG. He obtained a law degree in Karaganda State Institute in 1992.

Evgeni K. Ogai was appointed as a director of the Company on 12 June 2006. He was appointed as a Managing Director of NC KMG on 24 November 2004. Prior to which, he worked as director of the department for share management in joint ventures in NC KMG. He has worked as an oil projects manager in Needham Group Inc. since 1992. He has graduated from Moscow Oil and Gas Institute in 1969. Dr. Ogai is the author of 2 books, more than 50 publications and holds 7 patents.

Assia Syrgabekova was appointed as a director of the Company on 4 July 2006. She was appointed as a Managing Director of NC KMG in June 2006. Prior to this appointment she was First Deputy Chairman at Halyk Bank from October 2003. From 1998 to 2003 Ms. Syrgabekova has worked in the national oil and gas companies holding various top management positions: KazakhOil, KazTransGas. She graduated from Kazakh state University’s Department of Economics in 1982.

Christopher Mackenzie was appointed as a director of the Company on 28 August 2006. Mr Mackenzie is the Chairman of the remuneration committee and a member of the audit and nominations committees of the Board of Directors. He has over 20 years of international experience in mergers and acquisitions and investment banking having worked for companies such as JP Morgan, GE Capital and Brunswick Capital in UK, US, Japan and Russia. He holds a Master’s degree from Oxford University (Law and Modern Languages) and an MBA from INSEAD.

Paul Manduca was appointed as a director of the Company on 28 August 2006 and is the Chairman of the audit committee and a member of the remuneration committee of the Board of Directors. He has extensive asset and investment management experience having worked as CEO for companies such as Threadneedle Asset Management, Rothschild Asset Management, Deutsche Asset Management in UK and Europe starting from 1973. Mr Manduca has served on a number of boards as an independent director in the last 10 years. He is currently chairman of two other audit committees. He holds a Master’s degree from Oxford University (Modern Languages).

Eddie Walshe was appointed as a director of the Company on 28 August 2006. Mr Walshe is a member of the audit, nominations and remuneration committees of the Board of Directors. He has over 35 years experience in the oil and gas sector. Mr Walshe has worked in various roles at British Petroleum and British Gas and oversaw the overseas exploration and productions operations of these companies in Nigeria, Abu-Dhabi, Central Asia and South-East Asia. Mr Walshe has a PhD in Chemistry from the University of Dublin.

The business address of each of the Directors and the Senior Management is the Company's registered office, at 20/1 Kabanbay Batyr Avenue, Astana 010000, Republic of Kazakhstan.

Management Board

<u>Name of Management Board member</u>	<u>Position with the Company</u>	<u>Age</u>
Askar Kumarovich Balzhanov	General Director, CEO	48
Vladimir Yakovlevich Miroshnikov	First Deputy of General Director	56
Zhanneta Duishtayevna Bekezhanova	Deputy General Director, CFO	36
Kairolla Zhetkizgenovich Erezhepov	Head of Staff	58
Maksim Shafikovitch Izbasov	Director of EMG	51
Murat Izbergenovich Kurbanbayev	Director of UMG	55
Askar Aubakirov	Deputy General Director of Corporate Development	36

Askar K. Balzhanov was appointed General Director of the Company on 7 June 2006.

Vladimir Miroshnikov has been the First Deputy of General Director, Deputy CEO of the Company since April 2004. He had been working in oil and gas industry since 1973 with Uzenneft NSEH as an operator and chief engineer and in management of Mangistaumunaigas OJSC, JV Karakudukmunai, and since 2002—in NC KMG.

Zhanneta Bekezhanova has been a Deputy of General Director, CFO of the Company since 2004. She has been in the oil and gas industry for over seven years, previously holding positions with the Kazakh Trade House in Hong Kong and the Republican Kazakhintorg Foreign Trade Association where she was a senior economist and with KTO as Financial Director and Deputy Director General on economics and finance. She has a degree from the Kazakh State Management Academy.

Kairolla Erezhepov has been working in the oil and gas industry since 1970 and has been the Head of the Company's Staff since 2004. He spent nine years as the Deputy of Kazakhstan's Parliament and has been awarded the Parasat order and Astana medal. He holds a degree from the Kazakh Polytechnical University.

Maksim Izbasov has been the Director of EMG since 2004. After graduating in 1976 from the Kazakh Polytechnical Institution in Almaty he took a position as an oil and gas extraction operator, head of department, chief engineer with the Kulsaryneft division of EMG, as chief engineer, first Vice President with PC Tengineftegaz and starting from 1999 as head of Kulsaryneft. He holds a Kurmet Order Award.

Murat Kurbanbayev has been the Director of UMG since April 2004. He has over 30 years professional experience in the oil and gas sector after graduating from the Kazakh Polytechnical Institution in 1972. He holds a Kurmet (Honour) order.

Askar Aubakirov has been Deputy General Director of Corporate Development of the Company since August 2006. He graduated from the Moscow Hydrotechnical Institute in 1999 and has worked in the oil and gas industry since then. He was formerly first deputy director of EMG on economics and finance.

Interests of the Directors and members of the Management Board

Prior to the Global Offer, none of the Directors or members of the Management Board had any interest in the Shares. All the Independent Non-Executive Directors have applied for Offer Shares in the Global Offer in the following amounts:

	<u>Number of Shares</u>
Christopher Mackenzie	1,166
Paul Manduca	1,138
Edward Walshe	1,138

Other Directors and members of the Management Board and the Trustee of the Company's Employee Trust have also applied for Shares or GDRs in the Global Offer in the following amounts.

	<u>Number of Shares</u>
Assia Navimanovna Syrgabekova	796
Vladimir Yakovlevich Miroshnikov	401
Zhanneta Duisetayevna Bekezhanova	474
Murat Izbergenovich Kurbanbayev	401
Askar Aubakirov	565

The Shares so allocated will be subject to lock-up arrangements as described in "Details of the Global Offer—Lock-up Arrangements". Immediately following Admission, the Company anticipates that the Directors and members of the Management Board will hold 6,079 shares in aggregate.

As at 28 September 2006 (the latest practicable date prior to the date of this document) no Director or any member of their respective families had any interest in the Company's Share Capital other than Mr Izbasov who owns 510 preference shares.

It is anticipated that, as a result of the proposed grant of options under the Company's Share Option Plan at a time to be determined as described in "The Company—Employees, Health and Safety—JSC KazMunaiGas EP Option Plan", the Directors and members of the Management Board will be entitled to hold contingent rights to acquire Shares with a value (at the date of grant) equal to up to 500% of their annual base salary in respect of Options and up to 200% of their annual base salary in respect of IPO Awards.

There are no family relationships between any of the Directors or any member of the Company's Management Board.

Mr Marabayev, Mr Zhangaulov, Mr Ogai and Ms Syrgabekova have been appointed to the Board of Directors by NC KMG and work for NC KMG. Therefore while such Directors owe certain duties to NC KMG, their duties as directors of the Company are regulated in accordance with the terms of the Company's Charter, Kazakhstan law and the Relationship Agreement, which require them to act in the best interests of the Company in their capacity as Directors. In addition, Mr Mackenzie, Mr Manduca and Mr Walshe hold a number of external directorships and other positions. The Directors have no conflict or potential conflicts of interest between their duties to the Company and their private interests or duties to third parties.

Additional information on the Directors and members of the Management Board

Directors' Service Contracts

Zhakyp Marabayev is engaged by the Company as a non-executive Director and Chairman. A formal letter of appointment is in the process of preparation. He was appointed Director at a general shareholders meeting held on 30 March 2004. On 7 June 2006 he was appointed a Managing Director of NC KMG but remained a Director of the Company. On 26 June 2006 the Board of Directors of the Company elected Mr Marabayev as Chairman. Mr Marabayev will not receive any fee in respect of his role as a Director of the Company but will be entitled to reimbursement for costs and expenses associated with such appointment.

Yerzhan Zhangaulov is engaged by the Company as a non-executive Director. A formal letter of appointment is in the process of preparation. He was appointed Director at a general shareholders meeting held on 12 June 2006. Mr Zhangaulov will not receive any fee in respect of his role as a Director of the Company but will be entitled to reimbursement for costs and expenses associated with such appointment.

Evgeni Ogai is engaged by the Company as a non-executive Director. A formal letter of appointment is in the process of preparation. He was appointed Director at a general shareholders meeting held on 12 June 2006. Dr Ogai will not receive any fee in respect of his role as a Director of the Company but will be entitled to reimbursement for costs and expenses associated with such appointment.

Assia Syrgabekova is engaged by the Company as a non-executive Director. A formal letter of appointment is in the process of preparation. She was appointed Director at a general shareholders

meeting held on 4 July 2006. Ms Syrgabekova will not receive any fee in respect of her role as a Director of the Company but will be entitled to reimbursement for costs and expenses associated with such appointment.

Askar Balzhanov is engaged by the Company as an executive Director and CEO of the Company. He was appointed CEO on 7 June 2006 and appointed a Director at a general shareholders meeting held on 12 June 2006. Mr Balzhanov will not receive any fee in respect of his role as a Director of the Company but will be entitled to reimbursement for costs and expenses associated with such appointment.

Christopher Mackenzie is engaged by the Company as a non-executive Director on the terms of a letter of appointment and decision of a general shareholders meeting dated 28 August 2006. Under the letter of appointment, Mr Mackenzie is entitled to an annual fee of US\$100,000, a fee of US\$10,000 for each meeting of the Board of Directors that he physically attends (US\$5,000 if attended by telephone or video conference), a fee of US\$2,500 for each separate meeting of the Independent Non-Executive Directors that he attends and an annual fee of US\$15,000 in respect of his duties as chairman of the remuneration committee of the Board of Directors. The letter of appointment may be terminated by either the Company or Mr Mackenzie on three months' notice, although it is anticipated that the appointment will initially be for 24 months from the date of appointment.

Paul Manduca is engaged by the Company as a non-executive Director on the terms of a letter of appointment and decision of a general shareholders meeting dated 28 August 2006. Under the letter of appointment, Mr Manduca is entitled to an annual fee of US\$100,000, a fee of US\$10,000 for each meeting of the Board of Directors that he physically attends (US\$5,000 if attended by telephone or video conference), a fee of US\$2,500 for each separate meeting of the Independent Non-Executive Directors that he attends and an annual fee of US\$25,000 in respect of his duties as chairman of the audit committee of the Board of Directors. The letter of appointment may be terminated by either the Company or Mr Manduca on three months' notice, although it is anticipated that the appointment will initially be for 24 months from the date of appointment.

Eddie Walshe is engaged by the Company as a non-executive Director on the terms of a letter of appointment and decision of a general shareholders meeting dated 28 August 2006. Under the letter of appointment, Mr Walshe is entitled to an annual fee of US\$100,000, a fee of US\$10,000 for each meeting of the Board of Directors that he physically attends (US\$5,000 if attended by telephone or video conference) and a fee of US\$2,500 for each separate meeting of the Independent Non-Executive Directors that he attends. The letter of appointment may be terminated by either the Company or Mr Walshe on three months' notice, although it is anticipated that the appointment will initially be for 24 months from the date of appointment.

Service Contracts with members of the Management Board

All members of the Management Board have entered into service contracts with the Company which generally provide for business travel insurance, for reimbursement for expenses incurred while travelling on Company business in accordance with the internal rules of the Company, and for a car and driver.

Save as set out above, there are no existing or proposed service contracts between the Directors or members of the Management Board and any member of the Group.

Other

The aggregate remuneration paid to the members of the Management Board for the year ended 31 December 2005 (including any contingent or deferred compensation) and benefits in kind granted to the members of the Management Board by the Company was KZT133.5 million. The members of the Board of Directors did not receive any remuneration (including any contingent or deferred consideration) or benefits in kind for the year ended 31 December 2005. Other than the Independent Non-Executive Directors, who each receive certain fees as noted above, the members of the Board of Directors are not entitled to any remuneration for the year ending 31 December 2006, but in future years will be entitled to remuneration at the discretion of shareholders.

At 31 December 2005 there were no contingent or deferred compensation benefits. Also, there were no benefits set aside or accrued by the Company to provide pension, retirement or similar benefits to the Directors or members of the Management Board.

Details of the past directorships, other than those with Group companies, within the last five years, held by the Directors and members of the Management Board, are as follows:

	<u>Company</u>	<u>Position still held</u>
Askar Balzhanov	TOO Katrako	No
	JSC KazRosGaz	No
	ZAO KazMunaiTeniz	No
Vladimir Miroshnikov	JSC Karakudukmunai	No
Zhanetta Bekezhanova	JSC KazTransOil	No
Askar Aubakirov	EuroAsiaGroup	No
	TME Kaspiyneft	No
	JSC EMG	No
	EMG	No
	Equilibrium Ltd.	Yes
	WPP plc	Yes
	Minerva plc	Yes
Champagne Jacquesson et fils	Yes	
Christopher Mackenzie	Brunswick Capital Limited	No
	TrizecHahn Corporation	No
	(and various of their respective subsidiaries)	
Paul Manduca	MEPC plc	No
	Henderson Small Companies Investment Trust plc	No
	Deutsche Asset Management Group Limited	No
	(and their subsidiaries)	
	Rothschild Asset Management	No
	(and their subsidiaries)	
	Wolverhampton Wanderers FC Limited	No
	Development Securities plc	Yes
	Said Holdings	No
	Wm Morrison plc	Yes
	Uniq pension fund	Yes
	Al-Futtaim trust	Yes
	Aon Corp. UK	Yes
	Bridgewell plc	Yes
JP Morgan Fleming Investment Trust plc	Yes	
Intrinsic Limited	Yes	
St. Justines Properties Limited	Yes	
Eddie Walshe	Foresight Oil Ltd.	No
	Caremeasure Ltd.	No
	Assam Oil Ltd.	No
	Eddie Walshe Consulting Ltd.	Yes
	Foresight Ltd.	Yes
	Bergesen LNG Ltd.	Yes

Zhakyp Marabayev, Yerzhan Zhanganlov, Evgeni Ogai and Assia Syrgabekova are Managing Directors of NC KMG. Although they are not directors of the board of NC KMG, they may be directors of one or more of NC KMG's subsidiaries.

None of the Directors or members of the Management Board has at any time in the last five years:

- (a) been a partner in any partnership which, at the time at of or within the 12 months preceding, has been subject to a compulsory liquidation administration or partnership voluntary arrangement;
- (b) had any convictions (whether spent or unspent) relating to offences involving fraud or dishonesty;
- (c) been declared bankrupt or been subject to any individual voluntary arrangement;

- (d) been a director or other officer of any company which at the time of or within 12 months following his directorship, has been subject to a receivership, compulsory liquidation, creditor's voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors of such company;
- (e) been a partner of any partnership at the time of or within 12 months preceding a receivership of any assets of such partnership;
- (f) had any of their assets subject to any receivership; and
- (g) been the subject of any official public incriminations and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or been disqualified by a court from acting as a director or other officer of a company or from acting in the management or conduct of the affairs of a company.

Corporate Governance

As an overseas company with GDRs admitted to the Official List, the Company will not be required to comply with the provisions of the UK Combined Code on Corporate Governance ("Combined Code"). In addition, it is not required to disclose in its annual report whether or not it complies with the corporate governance regime of the Republic of Kazakhstan and the significant ways in which its actual governance practices differ from those set out in the Combined Code. However, the Directors consider corporate governance to be very important and support high standards of corporate governance.

Corporate governance best practice in Kazakhstan is set out in the Kazakhstan Corporate Management Code. The Kazakhstan Corporate Management Code is based on existing international best practice in the area of corporate governance and sets out recommendations for applying the principles of corporate governance by Kazakhstan joint-stock companies. It was approved by the Expert Council for Securities Market Matters under the National Bank of the Republic of Kazakhstan in September 2002. The Company currently complies with the provisions of the Kazakhstan Corporate Management Code. The Company currently complies with the provisions of the Kazakhstan Corporate Management Code in all material respects.

The Company has adopted the Kazakhstan Corporate Management Code, modified to include certain provisions from the Combined Code, as its Corporate Governance Code with effect from Admission. The modifications adopted by the Company impose additional corporate governance obligations on the Company and include certain requirements that are set out in the Combined Code. The Company believes that these additional modifications significantly strengthen the corporate governance regime to be adopted by the Company. The Company will also take into consideration the terms of the Combined Code and will seek to improve its standards of corporate governance in the future. See "Risk Factors—The recently introduced Kazakhstan corporate governance code."

The Combined Code provides that the board of directors of a UK listed company should include a balance of executive and non-executive directors, with non-executive directors comprising at least one-half of the board of directors (excluding the Chairman). The Combined Code states that the board of directors should determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment.

The Company currently operates with two boards, the Board of Directors (the supervisory body) and a separate Management Board (the executive body). The General Director, who heads the Management Board, is also a director of the Company. The Board of Directors therefore only contains one executive member of the Company's management. In order to improve the balance of the Board of Directors, the Company has appointed three Independent Non-Executive Directors, being Christopher Mackenzie, Paul Manduca and Edward Walshe, with effect from Admission. The Independent Non-Executive Directors will work closely with the other directors and the Management Board to ensure that the Company complies with its corporate governance obligations. Under the terms of the Company's Corporate Governance Code, the Company will use the same standards set out in the Combined Code to determine the independence of its directors.

The Company's Management Board comprises senior executives of the Company, including its General Director (CEO) and General Director (CFO).

The Directors have adopted terms of reference for and have formed an audit committee, a nominations committee and they are in the process of establishing terms of reference for the remuneration

committee. All the members of the audit committee and remuneration committee and a majority of the members of the nominations committee will be Independent Non-Executive Directors.

Audit Committee

The audit committee which is still in the process of being established will normally meet not less than twice a year. This committee will be staffed exclusively by the Independent Non-Executive Directors being Mr Manduca, Mr Mackenzie and Mr Walshe, and it will be chaired by Mr Manduca. The audit committee will have responsibility, for amongst other things, the planning and review of the Company's annual report and accounts and half-yearly reports and the involvement of the Company's auditors in that process. It will also have the benefit of the services of the Company's Internal Audit Service, which reviews the Company's internal controls. The committee will focus in particular on compliance with legal requirements, accounting standards, the applicable rules of the UK Listing Authority and the KASE and on ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual and interim report and accounts will remain with the Board of Directors.

The terms of reference of the audit committee will cover such issues as membership and the frequency of meetings, as mentioned above, together with the role of the secretary and the requirements of notice of and quorum for and the right to attend meetings. The duties of the audit committee to be covered in the terms of reference are: financial reporting, internal controls and risk management systems, whistleblowing, internal audit, external audit, and reporting responsibilities. The terms of reference will also set out the authority of the committee to exercise its duties.

Nominations Committee

The nominations committee will meet when appropriate. The majority of members of the nominations committee will be Independent Non-Executive Directors, with the remaining member being the Chairman of the Board of Directors. It will be Chaired by Mr Marabayev and its other members will be Mr Mackenzie and Mr Walshe. The nominations committee considers the composition of the Board of Directors, retirements and appointments of additional and replacement directors and makes appropriate recommendations to the Board of Directors.

Remuneration Committee

The remuneration committee will normally meet not less than twice a year. This committee will be staffed exclusively by the Independent Non-Executive Directors. It will be chaired by Mr Mackenzie and its other members will be Mr Manduca and Mr Walshe. The remuneration committee has responsibility for making recommendations to the Board of Directors on the Company's policy on the remuneration of certain senior executives (including the Management Board), the implementation and operation of share incentive schemes and for the determination, within agreed terms of reference, of specific remuneration packages for each of the members of the Management Board, including pension rights, contracts of employment and any compensation payments. In addition to making recommendations on remuneration and share packages, the remuneration committee maintains reports for corporate governance purposes.

The terms of reference of the remuneration committee cover such issues as membership and frequency of meetings, as mentioned above, together with the role of secretary and the requirements of notice of and quorum for and the right to attend meetings. The duties of the remuneration committee covered in the terms of reference relate to the following: determining and monitoring policy on and setting arrangements, authorising claims for expenses from the General Director and Chairman, reporting and disclosure, and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the committee to exercise its duties. Because the Remuneration Committee will only be established after the Global Offer is completed, it has not yet had the opportunity to consider or approve current remuneration arrangements or the Company's Plan.

Other Corporate Governance provisions

In addition to the Corporate Governance Code, the Company has also entered into the Relationship Agreement with NC KMG which seeks to limit the degree of control that NC KMG may exercise over the management of the Company. See "Principal Shareholders, Relationships with NC KMG and Related Party Transactions" for further details regarding the Relationship Agreement.

The Company has also incorporated certain provisions into the Charter which requires the approval of a majority of the Independent Non-Executive Directors at the relevant board meeting before the Company may implement certain transactions or undertake certain acts that include the following:

- changes to the Charter;
- changes to the Services Agreement or the Relationship Agreement;
- the implementation of transactions with NC KMG or any of its affiliates; and
- the acquisition of new licences or assets which represent more than 10% of the Company's assets.

See "Description of Share Capital and Certain Requirements of Kazakhstan Law—Summary of the Charter—Independent Non-Executive Directors".

Risk Management Committee

NC KMG has engaged AON to develop and gradually implement a corporate risk management system (Enterprise Risk Management) which would encompass most of the largest subsidiaries of NC KMG, including the Company.

In this regard, the Company is developing its internal risk management policies and creating a risk management committee which is proposed to include the General Director, CEO, the First Deputy General Director and also the Deputy General Director, CFO. The committee will examine the risks of current production activity and of new investment projects. In respect of major risks, the Company's board of directors will approve the committee's decisions. The proposed principal function of the committee is the identification, evaluation and control of such risks.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF KAZAKHSTAN LEGISLATION

Share capital

The Company was incorporated with an issued share capital of KZT10,340,268,750, divided into 37,224,968 shares with a par value of KZT250 each and 4,136,107 preference shares with a par value of KZT250 each and a dividend of a minimum of KZT25 per preference share.

On 17 November 2004, the shareholders of the Company resolved at general meeting to increase the number of issued Shares to 43,051,132.

Of the additional 5,826,164 shares, 124,312 were placed between 31 December 2004 and 16 February 2005 for cash in the amount of KZT31,078,000 and the remaining 5,701,852 shares were acquired by NC KMG for the transfer of a 86.7% participatory interest in the share capital of the Atyrau Refinery valued at KZT1,425,463,000.

As at 31 December 2005 and 31 May 2006, the number of placed shares was 43,051,132 Shares and 4,117,699 preference shares.

On 31 May 2006, the Company had an issued and placed share capital of KZT11,792,208,000.

On 11 July 2005 at the EGM it was resolved to issue 27,169,803 new shares the issuance of which was registered on 15 August 2005.

On 25 July 2006, the Board of Directors approved placement of these new shares to existing shareholders at KZT250 per Share, and notified existing shareholders thereof, in order to allow them to exercise their pre-emptive right. As of 10 September 2006, 4,083,012 shares had been acquired by existing shareholders under their pre-emptive right, and no further shares can be acquired under this pre-emptive right.

On 25 August 2006, the remaining issued but unplaced preference shares, in an amount of 18,408 preference shares, were placed at par value.

The Company has no convertible securities, exchangeable securities or securities with warrants in issue.

Save as disclosed above:

- (a) there has been no changes in the issued capital of the Company or the number or classes of shares of which such capital is composed in the three year period ending on 31 December 2005; and
- (b) no capital of the Company is under option or is, or will, immediately following Admission, be agreed, conditionally or unconditionally, to be put under option.

All shares are in registered form in the shareholders register of the Company, maintained by an independent third-party registrar. The registrar is JSC Fondovy Center of Kazakhstan 050091, Almaty, Zheltoksan St, 79A. Ownership of the Company's shares is evidenced by an extract from the share register of the Company.

Summary of the Charter

The current charter of the Company was adopted by a resolution of the Company passed by a majority of not less than three-quarters of the total number of shares in issue (a "special resolution") at an extraordinary general meeting of shareholders held on 4 July 2006 and became effective upon its registration at the Kazakhstan Ministry of Justice on 17 August 2006.

The Charter provides that the Company's principal objective is to effectively and profitably develop hydrocarbon resources and, in doing so, to explore for, appraise, develop, produce, process, export and sell for profit, economically commercial hydrocarbons, hydrocarbon products and petroleum products. The Company's objects are set out in full in clause 3 of the Charter.

The Charter includes provisions to the following effect:

Share rights

Subject to the provisions of the JSC Law and without prejudice to any rights attached to any existing shares or class of shares, the Company may issue shares and preference shares.

Subject to the Charter and to provisions of the Joint Stock Company Law, the issuance of shares of the Company are at the disposal of the general meeting of Shareholders.

Voting rights

Voting may be open or closed with every shareholder present in person or by proxy (except holders of preference shares) shall have one vote for each fully paid share of which he is the holder and the holders of the preference shares shall not be entitled to vote.

No resolution of shareholders in writing shall be effective without a quorum (which is 50% or more of the voting shares or 40% in the event of a reconvened meeting).

Dividends and other distributions

The Joint Stock Company Law and the Charter set out the procedure for determining the dividends that the Company distributes to its shareholders. Subject to the provisions of the Joint Stock Company Law, the Company may by a resolution of shareholders passed by a simple majority of shares present and voting at the general meeting (an “ordinary resolution”) declare dividends in accordance with the respective rights of shareholders.

Subject to the provisions of the JSC Law, the Company may pay interim dividends if it appears to the Board of Directors that they are justified by the profits of the Company available for distribution.

The Joint Stock Company Law prohibits payment of dividends if the Company’s shareholders’ equity is negative or would become negative as a result of such payment or if the Company demonstrates characteristics of insolvency or if payment of dividends will cause such a situation. Under Kazakh legislation and its Charter, the Company may distribute dividends on its shares based on its three-month and/or six-month results (as determined by the Board of Directors), as appears to the Board to be justified by the financial position of the Company. A majority of the Board of Directors recommends annual dividends to the general shareholders meeting, which then approves the annual dividends by majority vote. A decision on interim dividends must be taken within three months of the end of the relevant period; a decision on annual dividends must be taken at the annual general shareholders meeting. The shareholders’ right to receive dividends, once declared, does not lapse.

The list of shareholders entitled to receive dividends is drawn up on the date preceding the date on which payment of the dividends in question begins.

If a dividend payable in respect of a share is delayed by the Company, then additional interest is payable by the Company to the shareholder. No dividend may be paid on any share unless all outstanding dividends declared on the preference shares have been paid in full.

Under the terms of the Esomet Arrangement (see “Operating and Financial Review—Borrowings—Esomet Arrangement”) the Company may not pay dividends on the preference shares exceeding KZT500.0 million per financial year, and as dividends on preference shares may not be less than dividends payable on common shares this restricts the total dividends payable by the Company. Under the terms of the Senior Notes and the Esomet Arrangement (See “Operating and Financial Review—Recent Developments—Bond Issue and Loan”) the Company may not pay dividends in aggregate amounts exceeding the net income for the period in respect of which the dividend is being paid.

Except as otherwise provided by the rights and restrictions attached to any class of shares, all dividends will be declared and paid according to the amounts paid-up on the shares on which the dividend is paid.

If the Company has received the written consent of the shareholder concerned, then it may pay dividends with respect to the shares in the form of issued shares or bonds issued by the Company (but not in the form of any other type of securities).

Except as provided by the rights and restrictions attached to any class of shares, the holders of the Company's shares will under the Joint Stock Company Law be entitled to participate in any surplus assets in a winding up in proportion to their shareholdings. A liquidator may divide among the Shareholders *in specie* the whole or any part of the assets of the Company.

Variation of rights

Pursuant to the Joint Stock Company Law, there are two types of shares: ordinary and preference. Each type has attached to it the rights set out in the Law. These rights may be extended by a company's charter (although the Charter does not purport to extend such rights), but they cannot be restricted.

Rights of holders of preference shares

A preference share gives to its holder the right to a preferential right, as compared to holders of Shares, to:

- (a) a dividend representing not less than 25KZT per preference share, provided always that it shall not be less than the dividend paid on Shares in the same period; and
- (b) participate in the Company's assets on a winding up of the Company in priority to holders of Shares up to the nominal value of the preference share.

A preference share does not give its holder the right to vote at a general meeting of the Company's shareholders, except:

- (a) at a general meeting of shareholders that considers any issue, where the decision may lead to the limitation of the rights of holders of preference shares. Decisions on such issues may be taken only if approved by holders of not less than two-thirds of the issued preference shares;
- (b) at a general meeting of shareholders that reviews a question about the reorganisation of the Company or its winding up;
- (c) if dividends on preference shares are not paid in full amount within 3 (three) months from the expiry date stipulated for its payment.

Each holder of preference shares that has the right to vote at general meeting of shareholders and is present thereat in person or through his representative shall have one vote for each preference share held.

Unpaid and bought-back shares

The Joint Stock Company Law states that, until a share is paid in full, a company must not instruct the share to be credited to the personal account of the would-be acquirer. Instead, the share will be credited to the personal account of the company itself with the registrar. Therefore, a share cannot be placed unless it is fully paid-up.

Shares which have been bought back by a company are credited to the same personal account of the company with the registrar.

No dividends accrue or are payable on unplaced shares or shares bought back by a company, such shares are not counted for the purposes of determining a quorum, and such shares do not carry the right to vote.

Transfer of Shares

To transfer a share, the holder (or its representative) must sign a written order and submit it to the registrar or nominee for execution, or give suitable electronic instructions as permitted by legislation. The registrar or nominee will execute a buy order by pairing it with a sell order, and vice versa.

All dealings in shares must be registered by way of making entries on the personal accounts in the registry system or the nominee's books. Legal title to a share arises from the moment when the transaction is so registered (unless each party to the transaction has a different nominee, in which case legal title arises from the moment when the transaction is registered in the personal accounts of each nominee in the Kazakh central depository).

An extract from the personal account of a shareholder in the registry system or a nominee's books is evidence of that holder's legal right to a share.

A registrar or nominee can refuse to register a transaction if the documents submitted do not conform to legislative requirements.

In addition, the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organizations (the “FMSA”) has the right (by notifying the relevant issuer, the registrar and the central depository) to suspend trading in shares by blocking all or certain personal accounts in the registry or nominee systems if legal requirements establishing (i) the rights and interests of investors when acquiring shares, or (ii) the terms and procedures for trading shares, have been violated.

A fee will ordinarily be payable to the registrar or nominee for registering the transfer, under contractual terms.

Alteration of share capital

The Company may from time to time by a three-quarters majority of voting shares at a general shareholders meeting (but by no other method) increase its authorised share capital.

Authority to place shares

Under the Joint Stock Company Law, the Directors may place shares by board resolution unless authorised to do so by an ordinary resolution in a general meeting. Any decision must state the maximum amount of shares that may be placed under it.

Pre-emption rights

Under the Joint Stock Company Law, a shareholder of the Company has a pre-emptive right to acquire newly-placed shares of the Company.

Within 10 days from the date upon which the Company takes a decision to place a specified number of shares, it must make an offer to each existing shareholder (either by written notification or by way of publication in the mass media) to acquire the shares *pro rata* to its shareholding at the placement price established by the Company in the decision. Each shareholder then has 30 days from the date of such notification or publication to submit an application to acquire shares (i.e. to exercise its pre-emptive right). Upon the expiry of this 30-day period, the right to submit an application will lapse.

Purchase of own shares

Subject to the Joint Stock Company Law and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class in any way and at any price (whether at par or above or below par). Such shares will be credited to the Company’s personal account with the registrar.

The Company cannot purchase any of its shares which are being placed in a primary offering, and cannot purchase its own shares before the confirmation by the FMSA of the results of the placement of shares.

Any such purchase must be effected with the consent of the relevant shareholder using a valuation methodology which has been approved in advance by a general shareholders meeting of the Company.

Subject to certain conditions set forth in the Joint Stock Company Law, a shareholder may request the Company to buy back shares belonging to the shareholder, which the Company must do within 30 days of receipt by it from the shareholder of a duly formalised request.

Shares being bought back by the Company cannot exceed 25% of the total number of placed shares of the Company, and the purchase price cannot exceed 10% of the size of the Company’s own capital.

General meetings

The Board of Directors must convene and the Company must hold general meetings as annual general meetings in accordance with the requirements of the JSC Law. The Board of Directors may call general meetings at such times as it determines. In addition, a general meeting may be convened on the written request of any holder or holders of shares representing not less than 10% of the placed shares.

All general meetings must be held in Astana, the Republic of Kazakhstan. Shareholders are entitled to receive not less than 30 days’ notice of the holding of any general meeting.

The general meeting of shareholders shall have exclusive competence to determine certain matters, including the following:

- (a) the introduction of amendments and supplements to, or the approval of new versions of, the Charter;
- (b) the voluntary reorganisation or winding-up of the Company, including any change of the Company's status as a Kazakhstan joint-stock company;
- (c) any increase in the charter capital of the Company or any change in the type of any authorised shares of the Company which have not been placed;
- (d) any proposal to de-list from the KASE or to de-list from the Official List of the UK Financial Services Authority and from trading on the London Stock Exchange;
- (e) the approval of the Corporate Governance Code and introduction of amendments and supplements thereto;
- (f) the determination of the quantity and the expiry dates of the powers of the Board of Directors, the selection of members of the Board of Directors and early termination of their powers, as well as determination of the amount and payment terms of remuneration to members of the Board of Directors;
- (g) the appointment of an auditing company to undertake the audit of the Company;
- (h) if such decision may not be taken by the Board of Directors, decisions for the Company to conclude any transaction by the Company with any affiliate of the Company; and
- (i) subject to Legislation, approval of the adoption of any share option schemes or long term incentive plans for the officers, management and employees of the Company.

Matters referred to in paragraphs (a) to (e) above shall require the approval by a qualified majority of shareholders.

The general meeting of shareholders has a right to cancel any decision made by any other management body of the Company on issues related to the internal organisation of the Company.

Under Kazakhstan law unless the Company's charter provides otherwise (which the Company's Charter does not), a general meeting is quorate only if shareholders holding 50% or more in aggregate of the shares have registered for attendance and attend. If the meeting cannot be held because of lack of a quorum, a further meeting can be called which will be quorate only if shareholders holding 40% or more in aggregate of the shares have registered for attendance and attend. Therefore, for so long as NC KMG holds more than 60% of the shares of the Company, no general shareholders meeting will be quorate unless NC KMG registers for and attends such meeting. If NC KMG fails to do so, then the meeting cannot be held.

Directors

The Charter provides that the number of Directors shall be not less than eight. Directors shall be appointed by shareholders by way of cumulative voting (whereby each shareholder has the number of votes equal to the number of shares owned multiplied by the number of directors being elected and has a right to give the votes owned by such shareholder completely to one candidate or to be distributed among several candidates to the Board of Directors. Candidates collecting the majority of votes are considered to be selected members of the Board of Directors. If two or more candidates gain an equal number of votes then an additional election is carried out with regard to such candidates).

The quorum required for a duly convened meeting of the Board of Directors shall comprise two-thirds of the members of the Board of Directors, including not less than two-thirds of Independent Non-Executive Directors, save that where any matter for determination by the Board of Directors relates to a transaction with an affiliate of the Company, the quorum required for a duly convened meeting of the Board of Directors shall comprise not less than 2 members of the Board of Directors who have no interest (or are deemed to have no interest) in the relevant transaction. Each member of the Board of Directors has one vote. Decisions of the Board of Directors are made by simple majority of votes of members of the Board of Directors present at the meeting unless otherwise stipulated by the Joint Stock Company Law or the Charter (see below regarding necessary approvals by Independent Non-Executive Directors). There will be six board meetings per annum.

A director shall not be required to hold any shares in the capital of the Company by way of qualification.

A general meeting of shareholders has a right to terminate early the powers of all or any members of the Board of Directors and to remove any member of the Board of Directors from their office.

The Board of Directors shall, subject as set out below in the paragraph headed “Independent Non-Executive Directors”, have exclusive competence to determine certain matters, including the following:

- (a) decisions regarding the allotment of shares, including the price and number of the Company’s shares to be placed;
- (b) the determination of quantity and expiry dates of powers of the Management Board, the selection of the General Director (chairman of Management Board) and members of the Management Board, and early termination of their powers;
- (c) recommendations of the amount of official salary and payment terms of remuneration and bonuses to the members of the Board of Directors (including the General Director (chairman of the Management Board)) and the determination of the amount of official salary and payment terms of remuneration and bonuses to members of the Management Board;
- (d) the making of decisions on the conclusion of major transactions (being a transaction or combination of inter-related transactions which result or may result in the purchase or disposal by the Company of assets representing 25% or more of the total value of the Company’s assets) and related party transactions;
- (e) the acquisition, transfer or variation of subsoil use rights in the Republic of Kazakhstan or elsewhere by the Company;
- (f) the approval of the strategic plan of joint development of the Company and the Company’s annual operation plan, annual budget and business plan and the investment plans of the Company;
- (g) recommendations on the amount of dividends to be paid by the Company on its common shares based on year results; and
- (h) the making of decisions on the grant of options or awards under the Company’s share option plans and long term incentive plans.

Independent Non-Executive Directors

Independent Non-Executive Directors, being members of the Board of Directors who are determined by the Board of Directors to be independent in accordance with the provisions of the Corporate Governance Code, shall represent not less than one third of the total members of the Board of Directors. Independent Non-Executive Directors shall meet without the other members of the Board of Directors being present at least four times each year (or more as otherwise required) to consider issues of general management of the Company.

The Board of Directors shall only make decisions on any of the following matters, or shall only propose any of the following matters be resolved at a general meeting of the shareholders, where a majority of the members of the Board of Directors, including a majority of the Independent Non-Executive Directors, approve such decision at the relevant meeting of the Board of Directors:

- (a) any transaction (including the entry into any agreement or arrangement relating to such transaction or relationship) between any shareholder of the Company holding more than 50% of the Company’s issued common shares (or any of its Affiliates) and the Group, including any material amendment to, variation or termination of any existing agreement, arrangement or understanding between any such persons;
- (b) the acquisition or transfer of subsoil use licences and production rights for the exploration or development of crude oil in the Republic of Kazakhstan or elsewhere by the Company, where such licences or production rights represent 10% or more of the Company’s assets;
- (c) the approval of any changes and additions to the By-Laws or amendments or changes to the Corporate Governance Code;

- (d) the making of decisions on the conclusion of major transactions (being a transaction or combination of inter-related transactions which result or may result in the purchase or disposal by the Company of assets representing 25% or more of the total assets of the Company);
- (e) the making of decisions on the increase in the Company's liabilities for amounts equal to 25% or more of the total shareholder equity;
- (f) the making or decisions on the conclusion of a transaction or combination of inter-related transactions resulting in the potential purchase by the Company of its outstanding securities or the sale of the Company's securities that were purchased by the Company representing 25% or more of the total number of outstanding securities of the relevant class of securities to the purchased or sold;
- (g) any proposal on voluntary dissolution or reorganisation of the Company, including the change of the Company's status as a Kazakhstan legal entity;
- (h) any proposal to de-list from the KASE or the Official List of the UK Financial Services Authority and from trading on the LSE;
- (i) the appointment or removal of the Company's auditors; and
- (j) the approval of social expenditures of the Company (other than as required by law or existing contractual requirements).

Remuneration of Directors

The remuneration of Directors shall be determined by the Company following the recommendation of the Remuneration Committee of the Board of Directors.

Permitted interests of Directors

Subject to the provisions of the Joint Stock Company Law, and provided that he has disclosed to the Board of Directors the nature and extent of any material interest of his, a Director notwithstanding his office:

- (a) may be a party to, or otherwise interested in, any transaction or arrangement with the Company in which the Company is otherwise interested;
- (b) may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested or as regards which the Company has any powers of appointment; and
- (c) shall not, by reason of his office, be accountable to the Company for any remuneration or benefit which he derives from any such office or employment, or from any such transaction or arrangement, or from any interest in any such body corporate, and no such office, employment, transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit.

Restrictions on voting

Save as otherwise provided by the Charter, a member of the Board of Directors shall not vote on, any resolution of the Board of Directors or of a committee of the Board of Directors concerning any matter in which he has to his knowledge, directly or indirectly, an interest (other than his interest in shares or debentures or other securities of, or otherwise in or through, the Company) or duty which (together with any interest of a person connected with him) is material, unless his interest arises only because the resolution concerns any of the following matters:

- (a) his subscribing or agreeing to subscribe for, or purchasing or agreeing to purchase, any shares, debentures or other securities of the Company or any of its subsidiary undertakings as a holder of securities, or his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any such shares, debentures, or other securities by the Company or any of its subsidiary undertakings for subscription, purchase or exchange;
- (b) any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings under which he benefits in a similar manner as the employees and which does not

accord to any member of the Board of Directors or member of the Management Board as such any privilege or advantage not accorded to the employees to whom the arrangement relates; and

- (c) any contract concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any member of the Board of Directors or members of the Management Board.

Borrowing powers

The Board of Directors may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. There is no requirement on the Directors to restrict the borrowings of the Company or its subsidiaries.

Indemnity of officers

Subject to the provisions of the Joint Stock Company Law but without prejudice to any indemnity to which a Director may otherwise be entitled, every Director or other officer of the Company shall be indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour (or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his part) or in which he is acquitted or in connection with any application in which relief is granted to him by the court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

Under the Joint Stock Company Law, the director and members of the Management Board are liable to the Company for harm caused to the Company by their actions (or omissions), in accordance with Kazakhstan legislation.

Compulsory Acquisition Procedures

Neither the Charter nor the Joint Stock Company Law provides for any mechanism whereby a person acquiring a minimum percentage of the total issued share capital of the Company is able to compulsorily require the remaining minority shareholders to transfer their shares to such person, whether pursuant to a takeover offer or otherwise. The provisions of the City Code on Takeovers and Mergers will not apply to the Company.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (except for paragraphs in italics) will be endorsed on each certificate representing GDRs.

The Global Depositary Receipts (“GDRs”) represented by this certificate are denominated in US dollars and are each issued in respect of one-sixth of a common share (the “Shares”) in JSC KazMunaiGas Exploration Production (the “Company”) pursuant to and subject to an agreement expected to be dated 4 October 2006, and made between the Company and The Bank of New York in its capacity as depositary (the “Depositary”) (such agreement, as amended from time to time, being hereinafter referred to as the “Deposit Agreement”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed JSC Kazkommertsbank as Custodian (the “Custodian”) to receive and hold on its behalf any relevant documentation respecting certain Shares (the “Deposited Shares”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “Deposited Property”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the “Conditions”), references to the “Depositary” are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to JSC Kazkommertsbank or any other custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the relevant Custodian, its head office in the city of Almaty or such other location of the head office of the Custodian in Kazakhstan as may be designated by the Custodian with the approval of the Depositary (if outside the city of Almaty) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

References in these Conditions to the “Holder” of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the “Register”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.

1. **Withdrawal of Deposited Property and Further Issues of GDRs**

- 1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:
- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Kazakhstan of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;
 - (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;
 - (iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

- (iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (a) in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Restricted Period (such term being defined as the 40 day period beginning on the latest of the commencement of the offering of GDRs, the original issue date of the GDRs, and the latest issue date with respect to the additional GDRs, if any, issued pursuant to the over-allotment option granted to the Managers pursuant to the Subscription Agreement) in respect of surrendered Regulation S GDRs, or (b) in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book- entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Kazakhstan of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement (*which is described in the following paragraph*) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and will comply with the restrictions on transfer set forth under “Transfer Restrictions”.

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act (“QIB”)) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under “Transfer Restrictions”.

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).
- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a “Pre-Release” as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a “Pre-Release”). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the “Pre-Releasee”) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection herewith, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed

and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form, each corresponding to one sixth of one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Prior to expiration of the Restricted Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act, or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (each a "QIB") in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary

shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how

the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in Tenge or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- (iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the “Primary GDR Rights Offering”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“Additional GDR Rights”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the “Instruction Date”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“Additional GDR Rights Requests”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “Maximum Additional Subscription”) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“Unsubscribed Rights”), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in Tenge or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).
- (b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder’s Additional GDR Rights Request.
- (c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Kazakhstan counsel and

US counsel to the Company as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel to the Company reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto

and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

- 9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.
- 9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

- 11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Kazakhstan and other withholding taxes, if any, at the applicable rates.
- 11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Kazakhstan in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has

not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

12. **Voting of Shares**

- 12.1 Holders will have voting rights with respect to the Deposited Shares, subject to and in accordance with any applicable Kazakhstan law. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary notices of meetings of the shareholders of the Company and the agenda therefor and request the Depositary in writing to prepare, in consultation with the Company, written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

- 12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.
- 12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 that it is not permitted by Kazakhstan law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Kazakhstan law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.
- 12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received. If no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, the Depositary shall not exercise voting rights in relation to such Deposited Shares and such voting rights shall lapse.
- 12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 that it is not permissible under Kazakhstan law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3 or 12.4, the Depositary shall not vote or cause to be voted such Deposited Shares.
- 12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3 or 12.4 the Depositary shall notify the Chairman of the Company and designate a representative to attend such meeting or otherwise cause to be voted the Deposited Shares in the manner required by this Condition 12. The Depositary shall not be required to take any action required by this Condition 12 unless it shall have received an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the

Company to the effect that such voting arrangement is valid and binding on Holders under Kazakhstan law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.

- 12.8 The Depositary is entitled to amend this Condition 12 and Clause 5 of the Deposit Agreement from time to time by written notice to the Company and the GDR Holders (and subject to the approval of (i) the Company, such approval not be unreasonably withheld or delayed, and (ii) the relevant authority in Kazakhstan, if required) where the Depositary considers it necessary to do so in order to comply with applicable Kazakhstan law. By continuing to hold the GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12 and Clause 5 of the Deposit Agreement as such terms may be amended from time to time in order to comply with applicable Kazakhstan law.
- 12.9 The Depositary shall not, and the Depositary shall ensure the Custodian and its nominee do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares other than in accordance with instructions given, or deemed given, in accordance with this Condition 12.

This summary must be read subject to the detailed terms of Condition 12 and while this summary reflects the voting process expected to be followed in the context of current requirements of Kazakhstan law, it should be noted that this is a developing area subject to change. In order to allow Holders to exercise voting rights with respect to the Deposited Shares, the Company will send a notice to the registrar no later than 40 days prior to any meeting of holders of Deposited Shares. Within five days of receipt, the registrar will forward such notice to the Central Depositary, who then has two days to forward the notice to the Custodian. The Custodian will then have two days to forward the notice to the Depositary. The Depositary shall in accordance with the Conditions send notice of the meeting to all Holders along with a voting instructions form which will require each Holder to confirm their beneficial ownership and eligibility to vote, as well as to indicate their voting preferences with respect to each resolution to be considered at the meeting. The confirmations and tabulation of the voting preferences received on or prior to the cut-off time specified by the Depositary (which is likely to be the date which is the 21st day after receipt of the notice by the Depositary from the Custodian) will be provided by the Depositary to the Custodian, along with a power of attorney enabling the Custodian to exercise the voting rights in respect of the relevant Deposited Shares. The Custodian will provide a list of beneficial owners to the Central Depositary on a date expected to be a date no later than 23 days from the date on which the notice from the Central Depositary was received by the Custodian. It is expected that within three days of receipt, the Central Depositary will provide the list of beneficial owners to the Registrar who will have three days to provide such list to the Company. At the relevant meeting, the Custodian will then participate and vote in accordance with the instructions received from the Depositary.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the “Charges”) shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

- 14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- 14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present

or future law or regulation of Kazakhstan or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

- 14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.
- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Condition 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the

Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

- 14.11 Any such advice, opinion, certificate or information (as is referred to in Condition 14.10) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14 Subject as provided in the Deposit Agreement, the Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not, and not being a person to whom the Company reasonably objects in writing, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit. Subject as aforesaid, any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation and the Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise, or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of, any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.
- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the

extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.
- 14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Kazakhstan law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of such law.
- 14.20 No disclaimer of liability under the U.S. Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

- 16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: US\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
 - (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
 - (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
 - (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of US\$0.02 or less per GDR for each such dividend or distribution;
 - (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;
 - (vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of US\$0.05 or less per GDR;
 - (vii) a fee of US\$0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below; and

- (viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

- 16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. **Agents**

- 17.1 The Depositary shall be entitled to appoint one or more agents (the "Agents") for the purpose, *inter alia*, of making distributions to the Holders.
- 17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. **Listing**

The Company has undertaken in the Deposit Agreement to use its best endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Services Authority (the "Official List") and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use its best endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. **The Custodian**

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Kazakhstan, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Kazakhstan, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance

with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and, if the GDRs are at that time admitted to the official list of the Financial Services Authority and admitted to trading on the London Stock Exchange, to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. Save as aforesaid, the Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and, if the GDRs are at that time admitted to the official list of the Financial Services Authority and admitted to trading on the London Stock Exchange, to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. **Amendment of Deposit Agreement and Conditions**

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. **Notices**

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

23.3 So long as GDRs are listed on the Official List and admitted to trading on the London Stock Exchange and the rules of the Financial Services Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK (which is expected to be the Financial Times).

24. Reports and Information on the Company

- 24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:
- (i) in respect of the financial year ending on 31 December 2005 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Company, prepared in conformity with International Financial Reporting Standards and reported upon by independent public accountants selected by the Company, as soon as practicable after the end of such year;
 - (ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published; and
 - (iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published.
- 24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- 24.3 For so long as any of the GDRs remains outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the U.S. Securities Act, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the U.S. Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the U.S. Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company’s expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

- 28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Kazakhstan law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.
- 28.2 The Company has irrevocably appointed Bracewell & Giuliani LLP, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and has agreed to receive service of process in any Proceedings in New York by registered post at its registered address at 20/1 Kabanbay Batyr Avenue, Astana 010000, Kazakhstan. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.3 The courts of England are to have jurisdiction to settle any disputes (each a “Dispute”) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“Proceedings”) may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.
- 28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRs WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Rule 144A GDR will be deposited with The Bank of New York in New York as custodian for DTC and registered in the name of Cede & Co as nominee for DTC on the date the GDRs are issued. The Master Regulation S GDR will be deposited with a common depository for Euroclear and Clearstream (and registered in the name of the common depository's nominee) on the date the GDRs are issued.

The Master Regulation S GDR and the Master Rule 144A GDR (collectively the "Master GDRs") contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set out in this document. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below in whole but not in part. The Depository will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 days in the event that:

- (i) DTC, in the case of the Master Rule 144A GDR, or Euroclear or Clearstream, in the case of the Master Regulation S GDR, notifies the Company that it is unwilling or unable to continue as depository and a successor depository is not appointed within 90 calendar days; or
- (ii) Either DTC in the case of Master Rule 144A GDR, or Euroclear or Clearstream in the case of the Master Regulation S GDR, is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depository is available within 45 days; or
- (iii) in respect of the Master Rule 144A GDR, DTC or any successor ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended; or
- (iv) the Depository has determined that, on the occasion of the next payment in respect of the GDRs, the Depository or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depository shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC. Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Condition 3 (*Transfer and Ownership*), or any distribution of GDRs pursuant to Conditions 5 (*Distributions of Shares*), 7 (*Rights Issues*) or 10 (*Capital Reorganisation*) or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depository on the register maintained by the Depository whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register provided always that if the number of GDRs represented by a Master GDR is reduced to zero such Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depository pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR be made by the Depository through Euroclear and Clearstream and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depository through DTC, on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depository on behalf of the Holders will result in the record maintained by the Depository being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Terms and Conditions of the GDRs.

Surrender of GDRs

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a GDR to the Depositary shall be satisfied by the production by (in the case of GDRs represented by the Master Regulation S GDR) the common depositary for Euroclear and Clearstream, or (in the case of GDRs represented by the Master Rule 144A GDR) DTC, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of the common nominee for Euroclear and Clearstream, and the Master Rule 144A GDR is registered in the name of Cede & Co on behalf of DTC, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23.

The Master GDRs shall be governed by and construed in accordance with English law.

TAXATION

The Republic of Kazakhstan

The following summary of certain Kazakhstan taxation matters is based on the laws and practice in force as of the date of this document and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Shares or GDRs, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules. Save as otherwise indicated, this summary only addresses the position of investors who do not have any connection with Kazakhstan other than the holding of the Shares or GDRs. Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of the Shares or GDRs, including their eligibility for the benefits of double tax treaties, under the laws of their country of citizenship, residence, domicile or incorporation, and seek specialist Kazakh tax advice as necessary.

This summary discusses the Kazakhstan tax consequences of acquisition, ownership and disposal of Shares and GDRs. In general, Kazakhstan tax legislation with respect to the taxation of securities and financial instruments is not well developed, and in many cases the exact scope of Kazakh tax, compliance rules and enforcement mechanism is unclear or open to different interpretations.

The only tax that may under certain circumstances apply in Kazakhstan to the above transactions is income tax. No other taxes or duties should be levied in Kazakhstan with respect to the above transactions. For all relevant purposes of this summary, except as noted below (e.g., dividend treaty relief), legal entities and individuals are subject to similar income tax treatment.

Tax Residence

Non-resident persons will not become resident in Kazakhstan for Kazakhstan tax purposes by reason only of the acquisition, ownership or disposal of Shares or GDRs. Therefore, under Kazakhstan tax law, legal owners of Shares (“Shareholders”) and holders of GDRs (“GDR Holders”) should only be taxed on their income earned from sources in Kazakhstan, rather than their worldwide income.

This summary assumes that all Shareholders, GDR Holders and the issuer of GDRs are not resident in Kazakhstan for tax purposes.

Exempt Disposals of Shares

Since the Shares are admitted to Category “A” of the Official List of the KASE, until 1 January 2007 all disposals and acquisitions of the Shares are exempt from any tax payment, reporting or compliance requirements in Kazakhstan. After 1 January 2007 this exemption will only apply to income from open sales of Shares at a stock exchange, provided that such shares are admitted to the highest or second highest listing category at such stock exchange at the time of sale. It is unclear whether this exemption will apply only to shares sold at the KASE or at any stock exchange. The tax treatment of all disposals that do not qualify for such an exemption is discussed immediately below.

Taxable Disposals of Shares

This subsection applies only to disposals that are not exempt (see above).

(a) Treatment of Acquirer

Non-resident buyers or other transferees (including recipients of gift or inheritance) of Shares are not subject to Kazakhstan income tax on acquisition.

Under Kazakhstan tax law, buyers of Shares shall notify the relevant Kazakhstan tax authorities regarding the identity of the seller and the purchase price paid on acquisition within 10 days of the transaction taking place. Please note that there is currently no enforcement mechanism or sanction for non-compliance with this notification requirement. Moreover, it is unclear how this requirement can technically be complied with in respect of acquisitions made on a stock exchange, where specific sellers are not readily identifiable. According to our information, the Kazakh tax authorities are currently formulating new rules and procedures that should narrow the scope and establish an enforcement mechanism for this requirement.

(b) Treatment of Transferor

Income earned by Shareholders from the disposal of Shares in a taxable transaction is considered to be Kazakh source income. Therefore, as a general rule, the net gain realised from such a disposal is subject to income tax in Kazakhstan at the rate of 20%. Disposals include sales, exchanges and gifts.

Shareholders should register with the Kazakhstan tax authorities within 30 days from the date when the relevant income is earned. Although the tax law does not stipulate in which particular tax office such Shareholders have to register, the context appears to suggest that the registration should be carried out with the tax authority where the Company is registered.

Shareholders have to report their income earned on a disposal of Shares to the tax authority where the Company is registered by 31 March of the year following the tax year in which such income is earned. The associated tax liability should be paid in full within 10 days of the reporting deadline.

Eligible residents of certain countries may be exempt from Kazakhstan income tax on disposals of Shares under applicable double taxation agreements. In such case, no tax registration or compliance requirements should arise.

Taxation of Dividends

Dividends paid on Shares constitute Kazakh source income for Shareholders and are subject to withholding tax at the rate of 15%. The withholding tax is applied to the gross amount of dividends without allowance for any deductions and satisfies all Kazakhstan income tax obligations with respect to dividends. Neither Shareholders nor GDR Holders should be subject to any other tax reporting, payment, registration or compliance requirements with respect to dividends received by Shareholders.

Beneficial owners of dividends who are resident in countries with which Kazakhstan has double taxation treaties may be entitled to a reduced rate of withholding tax. Please note that for treaty purposes respective GDR Holders, rather than the issuer of GDRs, may well be considered to be the beneficial owners of dividends paid with respect to Shares represented by GDRs. However, there is no practical experience we are yet aware of in Kazakhstan in relation to this question, and so the issue, and its consequences for double taxation relief, are not determinable with certainty at present, though the maximum Kazakh tax withheld should, in any case, not exceed 15%.

Subject to the above, depending on the country of residence and satisfaction of certain other conditions, the dividend withholding tax rates under Kazakhstan's double tax treaties in effect as of the date of this document may be between 5% and 15%. Under double tax treaties effective on the date of this document, reductions below 10% may only be available to beneficial owners that are legal entities.

In order to avail themselves of this relief, eligible beneficial owners of dividends have to provide the Company with a document issued by the tax authority of their country of residence confirming their tax residence in a treaty jurisdiction. In addition, beneficial owners who are not immediate recipients of dividends from the Company (including GDR Holders) will need to provide the Company with documentary proof of their beneficial ownership. On the basis of the above documents, the Company may be entitled to withhold tax at an applicable reduced rate established by a relevant treaty.

If the above documents are not made available to the Company prior to the date of payment of dividends, then the Company should apply withholding tax at a standard 15% rate and transfer the withheld amounts to the Kazakhstan state budget account. In theory, beneficial owners who are eligible for a lower withholding tax rate should later be able to claim a refund of overpaid tax from the government of Kazakhstan. In practice, however, this process may prove to be administratively burdensome due to the unclear procedure and a general reluctance of the Kazakhstan authorities to grant refunds.

Taxation of GDR Holders

Since Kazakhstan domestic tax law does not contain the concept of constructive or beneficial ownership, income earned by GDR Holders, including (i) income received on disposals of GDRs, and (ii) premiums received by GDR Holders (associated with dividends announced with respect to Shares represented by such GDRs), appear to be outside the scope of Kazakhstan income tax.

There is some risk, however, that the tax authorities may take into account economic similarities between GDR Holders and Shareholders and attempt to subject GDR Holders to tax as constructive owners of shares.

In addition, effective from 1 January 2006, Kazakhstan tax law defines all income which may be taxed in Kazakhstan under applicable double tax treaties as income from a Kazakh source. Since certain double tax treaties entitle Kazakhstan to tax the above mentioned categories of income, GDR Holders resident in respective countries may be subject to tax on such income. It remains to be seen whether this newly introduced provision will be applied to increase the tax burden of treaty country residents, as compared to other non-resident persons.

Due to the lack of existing precedent or practice, we are unable to assess the likelihood of such challenge by the tax authorities or probability of its success, either with respect to treaty country residents or any other non-resident GDR Holders.

If income earned by GDR Holders is brought within the Kazakhstan tax net (either by successful challenge of the tax authorities or by application of double tax treaty), then:

- (i) Income earned on disposals of GDRs may be subject to tax in the same manner as income from a disposal of Shares (see discussion above); and
- (ii) GDR Holders may be considered as taxpayers for dividend withholding tax purposes. In this case, the tax withheld by the Company on distribution should be considered as a payment in full satisfaction of GDR Holders' dividend withholding tax liability. Premiums received by GDR Holders in relation to dividends that have already been taxed in Kazakhstan should not be subject to any further tax or compliance requirements in Kazakhstan.

United Kingdom

The comments below are of a general nature and are based on current United Kingdom law and HM Revenue & Customs practice at the date of this document, both of which are subject to change, possibly with retrospective effect. Except as otherwise stated, the summary only discusses certain UK tax consequences of holding the Shares or the GDRs for the absolute beneficial owners of the Shares or the GDRs (1) who are resident or ordinarily resident in the UK for tax purposes; (2) who are not resident for tax purposes in any other jurisdiction; and (3) who do not have a permanent establishment or fixed base in Kazakhstan with which the holding of the Shares or the GDRs is connected ("UK holders"). In addition, the summary (1) only addresses the tax consequences for UK holders who hold the Shares and the GDRs as capital assets, and does not address the tax consequences which may be relevant to certain other categories of UK holders, for example, dealers; (2) assumes that the UK holder does not either directly or indirectly control 10% or more of the voting power of the company; (3) assumes that a holder of the GDRs is beneficially entitled to the underlying Shares and to the dividends on those Shares; and (4) does not address the tax consequences of UK holders that are insurance companies, collective investment schemes or pensions connected with the Company.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular UK holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and HM Revenue & Customs practice, of the acquisition, ownership and disposal of the Shares or the GDRs in their own particular circumstances, by consulting their own tax advisers.

Withholding tax

Assuming that the income received under the GDRs does not have a United Kingdom source, there should be no United Kingdom withholding tax on payment of any such income. Dividend payments in respect of the Shares will not be subject to UK withholding tax.

Taxation of Dividends

A UK holder that receives a dividend on the Shares or the GDRs may be subject to UK income tax or corporation tax as the case may be, on the gross amount of any dividend paid before the deduction of any Kazakhstan withholding taxes, subject to the availability of any credit for Kazakhstan tax withheld. A UK holder who is an individual resident and domiciled in the UK will generally be subject to UK income tax on the dividend paid on the Shares or the GDRs. A UK holder who is an individual resident but not domiciled in the UK will generally be subject to UK income tax on the dividend paid on the Shares or the GDRs to the extent that the dividend is remitted, or treated as remitted, to the UK. A corporate UK holder will generally be subject to UK corporation tax on the dividend paid on the Shares or the GDRs. A corporate holder of the Shares or the GDRs that is not resident in the UK will generally be

subject to UK corporation tax on the dividend paid on the Shares or the GDRs where the Shares or the GDRs in question are attributable to a trade carried on by the holder in the UK through a permanent establishment.

Taxation of Disposals or deemed Disposals

The disposal by a UK holder of interests in the Shares or the GDRs may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK holder's circumstances and subject to any available exemption or relief. A UK holder who is an individual and domiciled in the UK will generally be liable to UK capital gains tax on chargeable gains made on the disposal of an interest in the Shares or the GDRs. A UK holder who is an individual but not domiciled, in the UK will generally be liable to UK capital gains tax to the extent that the chargeable gains made on the disposal of an interest in the Shares or the GDRs are remitted or treated as remitted to the UK. In particular, dealings in the GDRs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to UK capital gains tax liability.

An individual holder of the Shares or the GDRs who ceases to be resident or ordinarily resident in the UK for UK tax purposes for a period of less than five years and who disposes of such Shares or GDRs during that period may also be liable on returning to the UK for UK tax on capital gains despite the fact that the individual may not be resident or ordinarily resident in the UK for UK tax purposes at the time of the disposal.

A corporate UK holder will generally be subject to UK corporation tax on any chargeable gain arising from a disposal of the Shares or the GDRs.

Effect of Kazakhstan withholding taxes

As discussed in “—The Republic of Kazakhstan—Withholding Tax on Dividends” above, dividend payments in respect of the Shares and the GDRs will be subject to Kazakhstan withholding taxes. A UK holder should generally be entitled to a credit for Kazakhstan tax properly withheld from such payments against such investor's liability to income tax or corporation tax on such amounts, subject to UK tax rules for calculation of such a credit.

Stamp duty and stamp duty reserve tax (“SDRT”)

Assuming that any document effecting a transfer of, or containing an agreement to transfer, one or more of the Shares or the GDRs is neither (i) executed in the UK nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK (which may include involvement of UK bank accounts in payment mechanics), then no UK ad valorem stamp duty should be payable on such a document.

Even if a document effecting a transfer of, or containing an agreement to transfer, one or more of the Shares or the GDRs is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK ad valorem stamp duty on such a document unless the document is required for any purposes in the UK. If it is necessary to pay UK ad valorem stamp duty, it may also be necessary to pay interest and penalties.

As the GDRs relate to stock expressed in a currency other than sterling, no “bearer instrument” stamp duty should be payable on either the issue of the GDRs or any transfer of stock transferable by means of the GDRs.

Assuming that the Shares are neither (i) registered in a register kept in the UK nor (ii) paired with shares issued by a company incorporated in the UK, no SDRT should be payable in respect of any agreement to transfer the Shares or the GDRs.

United States

The following is a description of the principal United States federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of the Shares or GDRs. This description addresses only the United States federal income tax considerations of holders that are initial purchasers of the Shares or GDRs pursuant to the offering and that will hold the Shares or GDRs as

capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, including:

- financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities or currencies;
- tax-exempt entities;
- persons that received the Shares or GDRs as compensation for the performance of services;
- persons that will hold the Shares or GDRs as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for United States federal income tax purposes;
- certain former citizens and long-term residents of the United States;
- persons that have a “functional currency” other than the United States dollar; or
- holders that own or are deemed to own 10% or more, by voting power or value, of Shares.

Moreover, this description does not address the United States federal estate and gift or alternative minimum tax consequences of the acquisition, ownership and disposition of the Shares or GDRs.

This description is based:

- on the Internal Revenue Code of 1986, as amended (the “Code”), existing, proposed and temporary United States Treasury Regulations and judicial and administrative interpretations thereof, and the income tax treaty between the United States and Kazakhstan (the “Treaty”), in each case as in effect and available on the date hereof; and
- in part, on the representations of the depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

The United States tax laws and the interpretation thereof are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a “US Holder” is a beneficial owner of the Shares or GDRs that, for United States federal income tax purposes, is:

- a citizen or resident of the United States;
- a partnership or corporation created or organised in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if such trust validly elects to be treated as a United States person for United States federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust.

A “Non-US Holder” is a beneficial owner of the Shares or GDRs that is not a US Holder.

If a partnership (or any other entity treated as a partnership for United States federal tax purposes) holds the Shares or GDRs, the tax treatment of a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such a partner should consult its tax advisor as to its tax consequences.

This description assumes that the Company is not a passive foreign investment company (a “PFIC”) for US federal income tax purposes, and will not become a PFIC, which the Company believes to be the case. See “Passive Foreign Investment Company Considerations” below for a discussion of the PFIC rules and their potential consequences to US Holders.

An investor should consult its own tax advisor with respect to the United States federal, state, local and foreign tax consequences of acquiring, owning or disposing of Shares or GDRs.

Notice Pursuant to Internal Revenue Service Circular 230

To ensure compliance with Internal Revenue Service Circular 230, each investor is hereby notified that any discussion of United States federal tax issues in this prospectus is not intended or written to be used, and cannot be used, by the investor or any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the Internal Revenue Code. Such discussion is written to support the promotion or marketing by the Company of the Shares and GDRs. This prospectus is limited to the United States federal tax issues described herein. It is possible that additional issues may exist that could affect the United States federal tax treatment of an investment in the Shares or GDRs, or the matter that is the subject of the discussion herein, and this discussion does not consider or provide any conclusions with respect to any such additional issues. Each investor should seek advice based on its particular circumstances from an independent advisor.

Ownership of GDRs in General

For United States federal income tax purposes, a holder of the GDRs generally will be treated as the owner of Shares represented by such GDRs. No gain or loss will be recognised upon the exchange of GDRs for Shares.

The United States Treasury Department has expressed concern that depositaries for depositary receipts, or other intermediaries between the holders of shares of an issuer and the issuer, may be taking actions that are inconsistent with the claiming of United States foreign tax credits by US Holders of such receipts or shares. Accordingly, the analysis regarding the availability of a United States foreign tax credit for Kazakhstani taxes and sourcing rules described below could be affected by future actions that may be taken by the United States Treasury Department.

Distributions

Subject to the discussion below under “Passive Foreign Investment Company Considerations,” for a US Holder, for United States federal income tax purposes, the gross amount of any distribution made to such holder of cash or property, other than certain distributions, if any, of Shares distributed pro rata to all shareholders, including holders of GDRs, with respect to such holder’s Shares or GDRs, before reduction for any Kazakhstani taxes withheld therefrom, will be includible in such holder’s income as dividend income to the extent such distributions are paid out of the Company’s current or accumulated earnings and profits as determined under United States federal income tax principles. Subject to the discussion below under “Passive Foreign Investment Company Considerations,” non-corporate US Holders generally may be taxed on such dividends at the lower rates applicable to long-term capital gains for taxable years beginning on or before December 31, 2010. However, a US Holder’s eligibility for such preferential rate would be subject to certain holding period requirements, the non-existence of certain risk reduction transactions with respect to the Shares or GDRs and the Company’s eligibility for the benefits of the Treaty. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate US Holders. Subject to the discussion below under “Passive Foreign Investment Company Considerations,” to the extent, if any, that the amount of any distribution by the Company exceeds the Company’s current and accumulated earnings and profits as determined under United States federal income tax principles, it will be treated first as a tax-free return of the holder’s adjusted tax basis in Shares or GDRs and thereafter as capital gain. The Company does not maintain calculations of its earnings and profits under United States federal income tax principles. Therefore, a US Holder may be unable to show that any distribution is not a dividend.

If the Company pays a dividend in a foreign currency (currency other than the US dollar), any such dividend will be included in a US Holder’s gross income in an amount equal to the United States dollar value of such foreign currency on the date of receipt, which, in the case of GDRs, is the date payment is received by the Depositary. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution. If the dividend is converted into US dollars on the date of receipt, a US Holder generally should not be required to recognise foreign currency gain or loss in respect of the dividend income. A US Holder may have foreign currency gain or loss if the amount of such dividend is not converted into US dollars on the date of its receipt.

Dividends paid to a US Holder with respect to its Shares or GDRs will be treated as foreign source income, which may be relevant in calculating such holder’s foreign tax credit limitation. Subject to certain conditions and limitations, Kazakhstani tax withheld on dividends may be deducted from such holder’s taxable income or credited against such holder’s United States federal income tax liability. The limitation

on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that the Company distributes generally will constitute “passive income,” or, in the case of certain US Holders, “financial services income.” US Holders should note, however, that the “financial services income” category will be eliminated for taxable years beginning after December 31, 2006. For such years, the foreign tax credit limitation categories will be limited to “passive category income” and “general category income.”

Subject to the discussion below under “Backup Withholding Tax and Information Reporting Requirements,” a Non-US Holder generally will not be subject to United States federal income or withholding tax on dividends received by it on its Shares or GDRs, unless it conducts a trade or business in the United States and such income is effectively connected with that trade or business.

Sale or Exchange of Shares or GDRs

Subject to the discussion below under “Passive Foreign Investment Company Considerations,” a US Holder generally will recognise gain or loss on the sale or exchange of its Shares or GDRs equal to the difference between the amount realised on such sale or exchange and its adjusted tax basis in its Shares or GDRs. Such gain or loss will be capital gain or loss. If it is a non-corporate US Holder, the maximum marginal United States federal income tax rate applicable to such gain will be lower than the maximum marginal United States federal income tax rate applicable to ordinary income (other than certain dividends) for taxable years beginning on or before December 31, 2010, if its holding period for such Shares or GDRs exceeds one year. Gain or loss, if any, recognised by it generally will be treated as United States source income or loss for United States foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

As described under “Taxation—The Republic of Kazakhstan—Taxable Disposals of Shares” and under “Taxation—The Republic of Kazakhstan—Taxation of GDR Holders,” there is uncertainty as to whether a holder of Shares or GDRs will be subject to Kazakhstan tax upon the disposition of such Shares or GDRs in certain circumstances. Unless an investor is eligible for certain protection under the Treaty, gain or loss, if any, of a US Holder from such a sale generally will be treated as United States source income or loss for United States foreign tax credit purposes, and such holder may have insufficient foreign source income from other sources to claim a foreign tax credit attributable to any such Kazakhstan tax imposed on a sale or disposition.

The initial tax basis of a US Holder’s holding of Shares will be the United States dollar value of the KZT denominated purchase price determined on the date of purchase. If the Shares are treated as traded on an “established securities market,” a cash basis US Holder, or, if it elects, an accrual basis US Holder, will determine the United States dollar value of the cost of such Shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. If it converts United States dollars to KZT and immediately uses that currency to purchase Shares, such conversion generally will not result in taxable gain or loss to it.

With respect to the sale or exchange of Shares, the amount realised generally will be the United States dollar value of the payment received determined on (1) the date of receipt of payment in the case of a cash basis US Holder and (2) the date of disposition in the case of an accrual basis US Holder. If the Shares are treated as traded on an “established securities market,” a cash basis US Holder, or, if it elects, an accrual basis US Holder, will determine the United States dollar value of the amount realised by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Subject to the discussion below under “Backup Withholding Tax and Information Reporting Requirements,” a Non-US Holder generally will not be subject to United States federal income or withholding tax on any gain realised on the sale or exchange of such Shares or GDRs unless:

- such gain is effectively connected with its conduct of a trade or business in the United States; or
- it is an individual and has been present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

Passive Foreign Investment Company Considerations

A non-US corporation will be classified as a PFIC for United States federal income tax purposes in any taxable year in which, after applying certain look-through rules, either

- at least 75% of its gross income is “passive income”; or

- at least 50% of the average value of its gross assets is attributable to assets that produce “passive income” or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

Based on certain estimates of its gross income and gross assets and the nature of its business, the Company believes that it would not be classified as a PFIC for the taxable year ended December 31, 2005. The Company’s status in future years will depend on its assets and activities in those years. The Company has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC, but there can be no assurance that it will not be considered a PFIC for any taxable year. If the Company were a PFIC, a US Holder generally would be subject to imputed interest charges and other disadvantageous tax treatment (including the denial of the taxation of such dividends at the lower rates applicable to long-term capital gains, as discussed above under “Distributions”) with respect to any gain from the sale or exchange of, and certain distributions with respect to, its Shares or GDRs.

If the Company were a PFIC, a US Holder could make a variety of elections that may alleviate certain tax consequences referred to above, and one of these elections may be made retroactively. However, it is expected that the conditions necessary for making certain of such elections will not apply in the case of the Shares or GDRs. Investors should consult their own tax advisors regarding the tax consequences that would arise if the Company were treated as a PFIC.

Backup Withholding Tax and Information Reporting Requirements

United States backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, Shares or GDRs made within the United States, or by a US payor or US middleman, to a holder of Shares or GDRs, other than an exempt recipient (including a corporation), a payee that is not a United States person that provides an appropriate certification and certain other persons. A payor will be required to withhold backup withholding tax from any payments subject to information reporting to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28% through 2010.

Moreover, a payor may rely on a certification provided by a payee that is not a United States person only if such payor does not have actual knowledge or a reason to know that any information or certification stated in such certificate is incorrect.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of Shares or GDRs. Investors should consult their own tax advisors concerning the tax consequences of their particular situation.

DETAILS OF THE GLOBAL OFFER

Summary of the Global Offer

The Company is offering 23,086,791 Shares of which 17,898,878 Shares will be in the form of Shares and 5,187,913 Shares will be in the form of GDRs, each representing one sixth of a Share, at an Offer Price of KZT11,163.39 per Share and \$14.64 per GDR. In addition to the Global Offer, NC KMG will sell to the Underwriters 3,463,019 Shares, which are the Parent GDRs.

The Global Offer of GDRs is being made to certain institutional and professional investors in the U.K. and elsewhere outside the US, in reliance on Regulation S under the US Securities Act, and to QIBs in the US in reliance on Rule 144A under the US Securities Act or another exemption from, or transaction not subject to, the registration requirements of the US Securities Act. Certain restrictions that apply to the distribution of this document and Offer Shares are described below under "Selling Restrictions". Allocations of GDRs under the Global Offer will be determined by the Company after consultation with ABN AMRO Rothschild and Credit Suisse, after indications of interest from prospective investors have been received. Prospective investors will be required to specify the number of GDRs which they would be prepared to acquire at the different levels of the Offer Price. Subject to the Company determining allocations, there is no minimum or maximum number of GDRs which can be applied for. This process, known as bookbuilding, ceased on 28 September 2006.

The Offer Shares (including Shares and Shares in the form of GDRs) are being offered at the Offer Price, on a basis that is preferential, only as to allocation, to certain companies, individuals including Directors and members of the Management Board, institutions and/or other entities in Kazakhstan and elsewhere as designated by the Company, including holders of the Senior Notes. Holders of the Senior Notes are permitted to pay for Offer Shares in kind by surrendering their Senior Notes to the Company at the value determined by an independent appraiser licensed in Kazakhstan. These arrangements may result in the holders of the Senior Notes and such other allottees holding a significant portion of the Offer Shares and result in the Company's indebtedness being reduced accordingly.

Any Shares that are offered in Kazakhstan will be to investors in accordance with the securities laws of Kazakhstan. Allocation of Shares will be determined by Visor Capital after consultation with the Company and the Joint Bookrunners, in Visor Capital's capacity as a licensed broker and/or dealer in Kazakhstan authorised to act as an underwriter, after non-binding applications for Shares have been received from prospective investors via Kazakhstan brokers, with the exception of prospective investors that can act as a licensed broker and/or dealer in accordance with legislation of the Republic of Kazakhstan. Prospective investors will be required to specify the number of Shares or total order value which they would be prepared to acquire at the different levels of the Offer Price. Subject to Visor Capital, after consultation with the Company and the Joint Bookrunners, determining allocations, there is no minimum or maximum number of Shares which can be applied for. However, the minimum order size from a single investor will be set at KZT6,250,000. Visor Capital will be under no obligation to underwrite or otherwise subscribe or pay for Shares, including should any prospective investor fail to pay for its Shares. For the avoidance of doubt, neither ABN AMRO Rothschild nor Credit Suisse will offer or sell Shares in Kazakhstan or be responsible in any way for the offer of securities into Kazakhstan.

Pursuant to the Global Offer, the Company will receive KZT250,382 million (US\$1,970 million) from the subscription of the Offer Shares, net of underwriting commissions and other fees and expenses payable by the Company, (based on the current expectations of the number of Offer Shares to be sold).

All GDRs and Shares initially will be offered at the respective Offer Prices in US dollars and Tenge, which will be determined by the Company following discussions and arms length negotiations with the Joint Bookrunners and Visor Capital. The Company is offering GDRs and Shares at the same price, adjusted at the weighted average exchange rate of Tenge to the US Dollar as determined based on the results of trading during the morning (base) session at the KASE on 28 September 2006. A number of factors were considered in determining the Offer Prices and the basis of allocation, including the objective of establishing an orderly aftermarket in both the GDRs and Shares, prevailing market conditions and the level of absolute demand.

The Offer Prices and the number of Offered Shares, including GDRs and Shares, allocated to investors were announced by the Company on 29 September 2006. Concurrently with such announcement, the Company has published a pricing statement which stated the Offer Prices and the aggregate number of Shares and GDRs to be issued by the Company.

The Global Offer of GDRs is conditional on Admission to trading on the LSE becoming effective and on the Underwriting Agreement (the terms of which are summarised below) becoming unconditional and not having been terminated in accordance with their terms. If the Global Offer does not proceed, any monies received in respect of applications will be returned to applicants without interest.

Any new Offer Shares being issued by the Company will rank *pari passu* in all respects with the existing Shares, including the right to receive all dividends and other distributions declared, made or paid on the Shares after Admission.

Admission is expected to take place and unconditional dealings in the GDRs are expected to commence on the LSE on 5 October 2006. This date may be changed. There will be conditional dealings in the GDRs only, on 4 October 2006, with the Shares commencing dealing on the KASE on an unconditional basis at the same time.

When admitted to trading, the Regulation S GDRs will be registered with ISIN US48666V2043 and the Rule 144A GDR will be registered with ISIN US48666V1052.

The Shares of the Company issued or to be issued were listed on the KASE in 2004 and the Company will not therefore be required to apply for admission of the Offer Shares to the KASE. The Shares are registered under the National Securities Identification Number (NSIN) KZ1C51460018 and ISIN KZ000A0KEZQ2. All investors willing to subscribe to Shares will be required to act via a broker and/or dealer licensed in accordance with legislation of the Republic of Kazakhstan, with the exception of investors that can act as a licensed broker and/or dealer in accordance with legislation of the Republic of Kazakhstan to enable settlement via the KASE on 4 October 2006. On 29 September 2006, Visor Capital will notify investors whose applications have been satisfied, indicating the Offer Price per Share and the number of Shares allocated to the respective investors, and request each investor to (1) accept the offer by executing a share purchase agreement in the form provided by Visor Capital and return the signed counterpart of the agreement to Visor Capital by 2 October 2006 and (2) transmit the payment to the correspondence account of the KASE with the Monetary Operations Management Division of the National Bank of the Republic of Kazakhstan by 3 October 2006, with the exception of those investors that are prohibited to make advance payments in accordance with legislation of the Republic of Kazakhstan, which will be required to deliver the funds on 4 October 2006 prior to transfer of Shares. The funds collected by the KASE will be transferred to the Company on 4 October 2006. Visor Capital shall have the right to reallocate the Shares on the Company's behalf, if investors fail to deliver the signed share purchase agreement or pay for the Shares by the required date. The Company shall re-allocate Shares of such investors at its own discretion following consultation with Visor Capital.

Over-allotment and Stabilisation

In connection with the Global Offer, Credit Suisse, as the Stabilisation Manager (or any agent or other person acting thereof) may over-allot or effect transactions intended to enable it to satisfy any over-allocations or which stabilise, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail for a period of 30 days after the commencement of dealings. However, there is no obligation on the Stabilisation Manager, or any agent thereof to do this. Such transactions may be effected on the LSE, or any other securities market, over the counter market, stock exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end 30 days after the commencement of dealings. Save as required by law, the Stabilisation Manager does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer or the amount of any long or short positions.

In connection with the Global Offer, NC KMG will sell 3,463,019 secondary shares (equivalent in size to 15% of the Global Offer) to the Underwriters for the purpose of making over-allotments and to conduct stabilisation activities in the GDRs. Under the over-allotment structure, NC KMG has granted the Underwriters a put option, exercisable for a period of up to 30 days from the commencement of dealings, to sell to NC KMG any GDRs which have been purchased in the market as a result of stabilisation activities.

Underwriting Agreement

The Underwriting Agreement contains, amongst others, the following further provisions:

- The Underwriters will deduct from the proceeds of the Global Offer, certain selling commissions and management and underwriting commissions payable by the Company, of 3.69% of the gross proceeds of the Global Offer subject to a cap of US\$37.5 million.
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the Rights Issue having been carried out and the Shares not being subject to any pre-emption rights, approval for the Global Offer having been given by the Kazakhstan Financial Services Authority, the execution of the Sale and Put Agreement by the parties thereto, the accuracy of the representations and warranties under the Underwriting Agreement, the application for admission to the official list of the Financial Services Authority and to trading on the LSE having been approved on or prior to Closing and there not having occurred any particular adverse changes (as fully set out in the Underwriting Agreement) which in the sole discretion of the Global Co-ordinators makes it impracticable to market the GDRs or is likely to materially prejudice the success of the Global Offer in relation to the GDRs. The Global Co-ordinators may terminate the Underwriting Agreement prior to Closing in certain specified circumstances that are typical for an agreement of this nature. These include any breach of, or any event occurring which renders untrue or incorrect any of the representations or warranties, the occurrence of certain material adverse changes in the financial condition, business, results of operations, prospects or properties of the Company and certain changes in monetary, financial, political or economic conditions (as more fully set out in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived), or the Underwriting Agreement is terminated, prior to Closing, then the Global Offer will lapse.
- The Company has given customary representations and warranties to the Managers, including in relation to its business, its accounting records and financial reporting and its legal compliance, in relation to the Shares and GDRs and in relation to the contents of this document, marketing materials and press announcements.
- The Company has given customary indemnities to the Managers in connection with the Global Offer.
- If an Underwriter defaults with respect to the sale of the GDRs, the Underwriting Agreement provides that in certain circumstances, the purchase commitments of the non-defaulting Underwriters (other than Visor Capital) may be increased or the Underwriting Agreement may be terminated.

Dealing Arrangements

Admission is expected to take place and unconditional dealings in the GDRs are expected to commence on the London Stock Exchange on 5 October 2006. There will be conditional dealings in the GDRs only, on 4 October 2006, with the Shares commencing dealing on the KASE on an unconditional basis at the same time.

It is expected that GDRs allocated to investors will be delivered in uncertificated form.

On 31 December 2004, all of the Shares of the Company issued or to be issued, were admitted to Category “A” of the Official List of the KASE. Therefore the Company will not be required to apply for an admission of the Offer Shares or to submit a new prospectus to the KASE or the Kazakhstan Securities Agency.

Lock-Up Arrangements

The Company has undertaken that (other than as contemplated by the Underwriting Agreement) it will not for a period of 180 days after Admission offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly any of the Shares or securities convertible or exchangeable into or exercisable for the Shares or enter into any swaps or any other agreement or transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of any Shares, nor to mandate any third party to do so or publicly announce the intention to do so, in each case without the prior written consent of the Underwriters. This undertaking does not apply to grants of share incentive awards and options pursuant to the terms of the Employees’ Share Schemes to be adopted and as described in “The Company—Employees, Health and Safety—Executive Share Option Plan” and issuances of shares pursuant to the vesting or exercise of such awards or options.

Certain Directors and members of the Management Board acquiring Shares of GDRs in the Global Offer will undertake to the Company that they will not for a period of 180 days after Admission, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any Shares or GDRs or any other securities convertible into or exchangeable for Shares or GDRs or enter into any swaps or any other agreement or transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of any Shares or GDRs, nor to mandate any third party to do so or publicly announce any intention to do any of such things, in each case without the prior written consent of the Company save in certain limited circumstances including the grant of security or a pledge over the Shares or GDRs in connection with the purchase of such Shares or GDRs.

NC KMG has undertaken that (other than as contemplated by the Sale and Put Agreement) it will not for a period of 180 days after Admission offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any Shares or GDRs or any other securities convertible into or exchangeable into or exercisable for any Shares or GDRs or enter into any swap or any other agreement or any transaction that transfers in whole or in part, directly or indirectly, any of the economic consequences of ownership of any Shares or GDRs, or publicly announce any intention to do any of such things, in each case without the prior written consent of the Underwriters.

Conditionality of the Global Offer

Subject to their respective obligations and in accordance with the conditions set out in the Underwriting Agreement, each of the Company and ABN AMRO Rothschild and Credit Suisse acting jointly and in consultation with Visor Capital expressly reserves the right to determine, at any time prior to Admission, not to proceed with the Global Offer. If such right is exercised, the Global Offer (and the arrangements associated with it) will lapse and any monies received in respect of the Global Offer will be returned to applicants without interest.

Dilution

Following the Global Offer, and assuming that existing holders of Shares do not participate in the Global Offer, the Global Offer will see the existing holders of Shares be diluted from their current 100% holding position down to owning 43,671,125 shares out of a total 70,220,935 share equivalents (shares and GDRs), assuming the Underwriters do not exercise the Underwriters' Put Option, a 38% dilution.

Selling Restrictions

General

The distribution of this document and the offer of the Offer Shares and the GDRs in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those in paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Offer Shares or the GDRs, or possession or distribution of this document or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisements in connection with the Offer Shares or GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the offer of the Offer Shares and GDRs including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or purchase any of the Offer Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Purchasers of the Offer Shares may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Offer Price set forth on the cover page of this document.

United States

The Shares and the GDRs have not been and will not be registered under the US Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

In addition, until 40 days after the commencement of the Global Offer, an offer or sale of Offer Shares or GDRs within the United States by a dealer (whether or not participating in the Global Offer) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration or in a transaction not subject to registration under the US Securities Act.

(a) Rule 144A Shares and Rule 144A GDRs

Each purchaser of Shares or GDRs located within the United States by accepting delivery of this document, will be deemed to have represented, agreed and acknowledged that:

- (i) it is (A) a Qualified Institutional Buyer within the meaning of Rule 144A, (B) acquiring such Shares for its own account or for the account of a Qualified Institutional Buyer and (C) aware, and each beneficial owner of such Shares or GDRs has been advised, that the sale of such Shares to it is being made in reliance on the exemption from the registration requirements of the US Securities Act provided by Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the US Securities Act;
- (ii) it understands that such Shares or GDRs have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (A) in accordance with Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the US Securities Act, to a person that it and any person acting on its behalf reasonably believe is a Qualified Institutional Buyer purchasing for its own account or for the account of a Qualified Institutional Buyer, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (C) pursuant to an exemption from registration under the US Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States. Such purchaser acknowledges that the Shares offered and sold in accordance with Rule 144A are “restricted securities” within the meaning of Rule 144(a)(3) under the US Securities Act and that no representation can be made as to the availability of the exemption provided by Rule 144 under the US Securities Act for the resale of Shares;
- (iii) the Company, the Registrar, the Underwriters and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Shares for the account of one or more Qualified Institutional Buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
- (iv) the GDRs (to the extent they are in certificated form) will bear a legend to the following effect, unless the Company determines otherwise in compliance with applicable law:

THIS MASTER RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE COMMON SHARES OF JSC KAZMUNAIGAS EXPLORATION PRODUCTION REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF JSC KAZMUNAIGAS EXPLORATION PRODUCTION THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“QIB”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE

SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

Unless this certificate is presented by an authorised representative of The Depository Trust Company a New York Corporation (“DTC”), to the agent authorised by JSC KAZMUNAIGAS EXPLORATION PRODUCTION, a Kazakhstan company with limited liability, for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorised representative of DTC (and any payment hereunder is made to Cede & Co. or to such other entity as is requested by an authorised representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL in as much as the registered owner hereof, Cede & Co. has an interest herein.

PORTAL: JSCKFPC5

CUSIP No: 48666V105

Prospective purchasers are hereby notified that sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A or another exemption from the registration requirements of the Securities Act.

(b) Regulation S Shares and Regulation S GDRs

Each purchaser of the Shares or the GDRs offered in reliance on Regulation S (the “Regulation S Shares”) will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (i) The purchaser is, at the time of the offer to it of the Shares or the GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the US Securities Act;
- (ii) The purchaser is aware that the Regulation S Shares have not been and will not be registered under the US Securities Act and are being offered outside the United States in reliance on Regulation S; and
- (iii) Any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by the Company in respect of the Regulation S Shares.

It is expected that delivery of the Shares and GDRs will be made against payment therefore on or about the date specified above under “Details of the Global Offer—Dealing Arrangements” in this section, which will be the fourth business day following the date of pricing of the Shares. Pursuant to Rule 15c6-1 under the US Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise.

In addition, until 40 days after commencement of the Global Offer, an offer or sale of the Shares or GDRs within the United States by a dealer (whether or not participating in the Global Offer) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the US Securities Act.

- (iv) The GDRs (to the extent they are in certificated form) will bear a legend to the following effect, unless the Company determines otherwise in compliance with applicable law:

THIS MASTER REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JSC KAZMUNAIGAS EXPLORATION & PRODUCTION REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, PRIOR TO THE EXPIRATION OF A RESTRICTED PERIOD MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (B) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“QIB”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (B) ABOVE, THE TRANSFEROR SHALL PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES FROM THE REGULATION S FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE DEPOSIT AGREEMENT FOR DEPOSIT IN THE RULE 144A FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) THEREUNDER AND THAT RULE 144A GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY A MASTER RULE 144A GLOBAL DEPOSITARY RECEIPT BE ISSUED, IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT, TO OR FOR THE ACCOUNT OF SUCH QIB.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE SHARES REPRESENTED HEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER OR SALE OF THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE HOLDER HEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

ISIN No: US48666V2043
CUSIP No: 48666V204
Common Code No: 02661130

United Kingdom

Each Underwriter has represented and agreed that (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Offer Shares or GDRs in circumstances in which Section 21(1) of the FSMA does not apply to the Company, and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

The Republic of Kazakhstan

Each Underwriter has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Offer Shares or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the laws of Kazakhstan.

Canada

Each Underwriter has represented and agreed that (a) no prospectus has been issued or will be issued in respect of the Offer Shares or GDRs for distribution to the public under applicable Canadian securities

laws, (b) the GDRs will only be offered or sold, directly or indirectly, in Canada in the Canadian provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador and in compliance with applicable Canadian securities laws and accordingly, any sales of GDRs will be made (i) through an appropriately registered securities dealer or in accordance with an available exemption from the registered securities dealer requirements of applicable Canadian securities laws; and (ii) pursuant to an exemption from the prospectus requirements of such laws; and (c) it will file on a timely basis any required reports or documents with the relevant Canadian securities commissions.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) an offer to the public of the Offer Shares or GDRs may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any Offer Shares or GDRs may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State: (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (c) by the Managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of Global Co-ordinators for any such offer; or (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Offer Shares or GDRs shall result in a requirement for the publication by the Company or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares or GDRs to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Australia

No prospectus, disclosure document, offering material or advertisement in relation to the Offer Shares or GDRs has been lodged with the Australian Securities and Investments Commission or the Australian Stock Exchange Limited. Accordingly, a person may not (a) make, offer or invite applications for the issue, sale or purchase of Offer Shares within, to or from Australia (including an offer or invitation which is received by a person in Australia) or (b) distribute or publish this document or any other prospectus, disclosure document, offering material or advertisement relating to the Offer Shares or GDRs in Australia, unless (i) the minimum aggregate consideration payable by each offeree is the US dollar equivalent of at least A\$500,000 (disregarding moneys lent by the offeror or its associates) or the offer otherwise does not require disclosure to investors in accordance with Part 6D.2 of the Corporations Act 2001 (CWLTH) of Australia; and (ii) such action complies with all applicable laws and regulations.

This document does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Commonwealth of Australia (the “Corporations Act”) and will not be lodged with the Australian Securities and Investments Commission. The Offer Shares and GDRs will be offered to persons who receive offers in Australia only to the extent that such offers of shares for issue or sale do not need disclosure to investors under Part 6D.2 of the Corporations Act. Any offer of shares received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act. In particular, offers for the issue or sale of Offer Shares will only be made in Australia in reliance on various exemptions from such disclosure to investors provided by section 708 of the Corporations Act. Any person to whom Offer Shares are issued or sold pursuant to an exemption provided by section 708 of the Corporations Act must not within 12 months after the issue offer those Offer Shares for sale in Australia unless that offer is itself made in reliance on an exemption from disclosure provided by that section.

Hong Kong

Each Underwriter has represented and agreed that: (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Offer Shares or GDRs other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Offer Shares or the GDRs, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Offer Shares or the GDRs which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Offer Shares and the GDRs have not been and will not be registered under the Securities and Exchange Law of Japan, as amended (the “SEL”). Accordingly, the Offer Shares and the GDRs have not been and will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan), or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the SEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This document has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “MAS”) under the Singapore Securities and Futures Act (CAP. 289) (the “Securities and Futures Act”). Accordingly, the Offer Shares and the GDRs may not be offered or sold or made the subject of an invitation for subscription or purchase, nor may this document or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Offer Shares and the GDRs be circulated or distributed, directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (ii) to a sophisticated investor as defined, and in accordance with and subject only to the conditions specified in, Section 275 of the Securities and Futures Act or (iii) otherwise than pursuant to, and in accordance with the conditions of, any other applicable exemption under the Securities and Futures Act.

Any person acquiring the Offer Shares or the GDRs, under an exemption in sections 274 and 275 of the Securities and Futures Act will be deemed to have represented and acknowledged that it may not re-offer or re-sell or otherwise make any invitation to purchase the Offer Shares or GDRs, to any person other than those persons specified in either of sections 274 or 275 of the Securities and Futures Act unless and until at least six months have elapsed from the date the Offer Shares or the GDRs were initially acquired pursuant to an exemption under section 274 or 275 of the Securities and Futures Act and thereafter such restrictions will not apply in respect of any subsequent re-offer, re-sale or invitation to purchase provided that the Offer Shares and the GDRs are listed for quotation or quoted on a securities exchange or recognised securities exchange as defined by the Securities and Futures Act.

United Arab Emirates

This document is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates (“UAE”). The GDRs and the Shares have not been and will not be registered under Federal Law No. 4 of 2000 Concerning the Emirates Securities and Commodities Authority and the Emirates Security and Commodity Exchange, or with the UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities market or with any other UAE exchange.

The Global Offer, the GDRs and the Shares and interests therein have not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities in the UAE, and do not constitute a

public offer of securities in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

In relation to its use in the UAE, this document is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the GDRs and the Shares may not be offered or sold directly or indirectly to the public in the UAE.

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised the Company as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation—United States".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of The Bank of New York Depositary (Nominees) Limited as common nominee for The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by The Bank of New York in New York as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream

and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depository will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depository will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear and Clearstream are paid to Euroclear or Clearstream, as the case may be, and the Depository will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are paid to DTC.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depository in accordance with the terms of the Deposit Agreement.

Settlement and Delivery of Shares

Settlement for the Shares will be effected via the KASE. All investors in Shares will be required to deliver the funds to the correspondent account of the KASE with the Monetary Operations Management Division of the National Bank of the Republic of Kazakhstan by 3 October 2006, with the exception of those purchasers that are prohibited to make advance payments by legislation of the Republic of Kazakhstan, who will be required to deliver the funds on 4 October 2006 prior to transfer of the relevant Shares. The funds collected by the KASE will be transferred to the Company on 4 October 2006. Shares will be transferred to investors by the Central Securities Depository based on the instructions of the KASE into investors' sub-accounts with the Central Securities Depository, which is a joint stock company organised under the laws of Kazakhstan which is the sole licensed depository in Kazakhstan for government, municipal and corporate securities.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depository receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depository receipts.

Secondary Market Trading

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see “Description of the Global Depository Receipts—Transfer Restrictions”.

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depository receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depository receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in

US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depository to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depository to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depository to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depository to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, DTC and the CSD in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, DTC and the CSD, none of Euroclear, Clearstream, DTC or the CSD are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Underwriters, the Depository, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, DTC or the CSD or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, 22 floor West, New York, New York 10286. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286 and at The Bank of New York, One Canada Square, London E14 5AL.

ADDITIONAL INFORMATION

The Company

The Company was incorporated and registered in the Republic of Kazakhstan as a joint stock company on 31 March 2004 with its legal and commercial name being JSC “KazMunaiGas” Exploration Production” and with registered number 15971-1901-AO. The principal legislation under which the Company operates, and the Shares were created, is the Joint Stock Company Law and the regulations made thereunder.

The Company’s registered office is at 20/1 Kabanbay batyr Avenue, Astana 473000, Republic of Kazakhstan. The telephone number of the registered office is +7-3172-977-980. The Company’s headquarters are located at Building 2, Street 1, Left Bank, Astana 010 0 00, Republic of Kazakhstan.

Material contracts

No contracts have been entered into by the Company or members of the Group otherwise than in the ordinary course of business (i) in the two years immediately preceding the date of this document and which are, or may be, material or (ii) which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document, other than:

- (a) The Underwriting Agreement dated 29 September 2006 between the Company and the Underwriters providing for the underwriting of the Global Offer, referred to in “Underwriting Agreement” in the section headed “Details of the Global Offer”.
- (b) The Relationship Agreement dated 8 September 2006 between the Company and NC KMG managing the continuing relationship between the parties and ensuring the Company is capable of carrying on its business independently of NC KMG as a controlling shareholder, referred to in “Agreements with NC KMG and its affiliates” in the section headed “Principal Shareholders, Relationship with NC KMG and Related Party Transactions”.
- (c) The Services Agreement dated 8 September 2006 between NC KMG and the Company regulating the continuing relationship between the parties and pursuant to which NC KMG will continue to provide certain commercial services to the Company, referred to in “Agreements with NC KMG and its affiliates” in the section headed “Principal Shareholders, Relationship with NC KMG and Related Party Transactions”.
- (d) The Oil Sale Agreement dated 18 August 2004 between the Company and UTEXAM Limited for the sale and purchase of crude oil. Subsequently UTEXAM transferred all of its rights and obligations to Esomet pursuant to a Supplementary Agreement dated 28 April 2005, and further amended on 24 July 2006. See “The Company—Sales and Marketing—Esomet”.
- (e) The Sub-loan Agreement dated 26 January 2004 between UMG and NC KMG in respect of the US\$109 million IBRD loan, as amended by an additional agreement dated 5 May 2005, is summarised in “Agreements with NC KMG and its affiliates” in the section headed “Principal Shareholders, Relationship with NC KMG and Related Party Transactions”.
- (f) The Ministry of Finance of the Republic of Kazakhstan (“MF”) and the Company entered into a pledge agreement dated 24 March 2005 pursuant to which the Company pledged to MF certain machinery and equipment as security for the performance of the NC KMG obligations under an Internal Credit Agreement dated 3 June 2004 between MF, NC KMG and JSC Kazakhstan Development Bank, referred to in “Operating and Financial Review—Liquidity and Capital Resources—Borrowings”.
- (g) The Atyrau Refinery Sale Agreement dated 27 December 2005 between the Company and KMG TradeHouse is summarised in “Agreements with NC KMG and its affiliates” in the section headed “Principal Shareholders, Relationship with NC KMG and Related Party Transactions”.
- (h) A contract was entered into by EMG with each of CPC-K and CPC-R in April 2003 in its capacity as “affiliated shipper” of NC KMG for the CPC pipeline. The contracts were assumed by the Company upon the merger of EMG with the Company in 2004. The contracts remain in force until 31 December 2008 and then automatically renew or are renegotiated for successive one-year terms unless terminated by the Company giving 90 days’ advance notice, subject to contractual terms and conditions.

- (i) The Refinery Supply Undertaking dated 28 February 2006 between the Company and KMG TradeHouse is summarised in “Agreements with NC KMG and its affiliates” in the section headed “Principal Shareholders, Relationship with NC KMG and Related Party Transactions”.
- (j) An agreement for the merger of UMG and EMG was executed between these entities and approved by the EMG Shareholders on 27 February 2004 and the UMG Shareholders on 28 February 2004.
- (k) On 26 April 2005, the Company and NC KMG entered into an agreement relating to the provision of a KZT26.0 billion non-interest bearing loan to NC KMG. See “Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates—Interest Free Loans”.
- (l) The JSC Atoll sale agreement dated 13 December 2005 NO. 3831-22 between the Company and Sat & Company LLP. See “The Company—Asset Optimisation Programme”.
- (m) On 26 December 2005, the Company and KMG TradeHouse entered into the KMG TradeHouse Agency Agreement, referred to in “Agreements with NC KMG and its affiliates” in the section headed “Principal Shareholders, Relationship with NC KMG and Related Party Transactions”.
- (n) On 30 June 2006, the Company’s wholly owned Dutch finance subsidiary, Munaishy Finance B.V. entered into a note purchase agreement and a fiscal agency agreement in relation to the issue and sale of notes in aggregate amount of US\$800 million. Both agreements are guaranteed by the Company. See “Operating and Financial Review—Recent Developments—Bond Issue and Loan”.
- (o) On 30 June 2006, a loan agreement in an amount of approximately US\$800 million was entered into between Munaishy Finance B.V., and NC KMG for the partial financing of the acquisition of an interest in KazGerMunai. See “Operating and Financial Review—Recent Developments—Bond Issue and Loan”.
- (p) On 30 June 2006, NC KMG and the Company entered into an agreement for financial assistance in an amount of KZT24.4 billion offered to NC KMG for the partial financing of the acquisition of an interest in KazGerMunai. See “Principal Shareholders, Relationship with NC KMG and Related Party Transactions—Agreements with NC KMG and its affiliates—Interest Free Loans”.
- (q) On 30 June 2006, the Company and NC KMG entered into an option agreement in relation to the acquisition of 50% interest in KazGerMunai. See “Use of Proceeds” and “The Company—Recent Developments”.
- (r) The Deposit Agreement expected to be dated 4 October 2006, between the Company and The Bank of New York, as depository. See “Terms and Conditions of the Global Depository Receipts”.

Significant Change

Save as described in “Operating and Financial Review—Recent Developments”, there has been no significant change in the financial or trading position of the Group since 31 May 2006, the date to which the Group’s last interim financial statements were prepared.

Consents

Gaffney, Cline & Associates has given and not withdrawn its written consent to the inclusion in this document of its report in the section headed “GCA Report”, and the references thereto and to its name, in the form and context in which they appear and has authorised the contents of those parts of this document which comprise its reports and its letters for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules.

Gaffney, Cline & Associates accepts responsibility for the information contained in the GCA report in the section headed “GCA Report” included in this document. To the best of the knowledge and belief of Gaffney, Cline & Associates (who have taken all reasonable care to ensure that such is the case) the information contained in the GCA report in the section headed “GCA Report” included in this document is in accordance with the facts and contains no omission likely to affect its import.

Ernst & Young Kazakhstan LLP has given and not withdrawn its written consent to the inclusion in this document of its report in the section headed “Report on Review of Condensed Consolidated Interim Financial Statements”, and the references thereto and to its name, in the form and context in which they appear and has authorised the contents of those parts of this document which comprise its report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules.

Ernst & Young Kazakhstan LLP accepts responsibility for the “Report on Review of Condensed Consolidated Interim Financial Statements” included in this document. To the best of the knowledge and belief of Ernst & Young Kazakhstan LLP (who have taken reasonable care to ensure that such is the case) the information contained in the report in the section headed “Report on Review of Condensed Consolidated Interim Financial Statements” included in this document is in accordance with the facts and contains no omission likely to affect its import.

ABN AMRO Rothschild has given and has not withdrawn its written consent to the issue of this document with the inclusion in this document of its name in the form and context in which it appears.

Credit Suisse has given and has not withdrawn its written consent to the issue of this document with the inclusion in this document of its name in the form and context in which it appears.

Visor Capital has given and has not withdrawn its written consent to the issue of this document with the inclusion in this document of its name in the form and context in which it appears.

Merrill Lynch has given and has not withdrawn its written consent to the issue of this document with the inclusion in this document of its name in the form and context in which it appears.

AMEC has given and has not withdrawn its written consent to the issue of this document with the inclusion in this document of its name in the form and context in which it appears.

Costs and Expenses

The total costs and expenses relating to the issue of the Offer Shares and the GDRs, including the UK Listing Authority listing fee, the London Stock Exchange listing fee, professional fees and expenses and the costs of printing of documents are estimated to amount to approximately KZT7,400 million and are payable by the Company. Included within this total are commissions on the issue of the Shares and the GDRs, which are expected to be approximately KZT4,767 million, payable to the Underwriters.

NC KMG

The registered office of NC KMG is at 22 Kabanbay Batyr Avenue, Astana 010000, Republic of Kazakhstan.

Documents available for inspection

Copies of the following documents are available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this document for either a period of 14 days or until Admission, whichever is the longer period, at the offices of White & Case LLP at 5 Old Broad Street, London EC2N 1DW:

- (a) the Charter of the Company;
- (b) the consent letters referred to in “—Consents”;
- (c) the GCA report from Gaffney, Cline & Associates set out in the section headed “GCA Report”;
- (d) the audited consolidated accounts of the Group for the three years ended 31 December 2005;
- (e) the unaudited consolidated accounts of the Group for the five month periods ended 31 May 2005 and 31 May 2006 together with the Report on Review of Condensed Consolidated Interim Financial Statements by Ernst & Young Kazakhstan LLP for such periods; and
- (f) this document.

GLOSSARY OF TECHNICAL AND OTHER TERMS

The following are definitions of certain oil and gas terms and abbreviations used in this document:

2D seismic survey	seismic that is acquired, processed and interpreted to yield a two-dimensional picture of the subsurface.
3D seismic survey	seismic that is acquired, processed and interpreted to yield a three-dimensional picture of the subsurface.
A	“developed proven reserves” according to MEMR-approved classification of oil and gas reserves (see “Regional Overview of the Oil and Gas Industry—Resource Classifications”).
API gravity	an indication of density of crude oil or other liquid hydrocarbons as measured by a system recommended by the American Petroleum Institute, API, measured in degrees relative to the specific gravity scale. The higher the API gravity measure, the lighter the compound.
associated gas	gas, which occurs in crude oil reservoirs in a gaseous state.
B	“developed proved reserves” according to MEMR-approved classification of oil and gas reserves (see “Regional Overview of the Oil and Gas Industry—Resource Classifications”).
bbbl	abbreviation for a barrel, which is 42 US gallons.
bcpd	barrels of condensate per day.
bopd	barrels of oil per day.
C1	“explored proved reserves” according to MEMR-approved classification of oil and gas reserves (see “Regional Overview of the Oil and Gas Industry—Resource Classifications”).
C2	“preliminary estimated reserves” according to MEMR-approved classification of oil and gas reserves (see “Regional Overview of the Oil and Gas Industry—Resource Classifications”).
C3	“prospective estimated reserves (not explored)” according to MEMR-approved classification of oil and gas reserves (see “Regional Overview of the Oil and Gas Industry—Resource Classifications”).
cm or m³	Cubic metre, as measured under one atmosphere of pressure at 20°C.
condensate	light liquid hydrocarbons.
D0	“forecasted reserves” according to MEMR-approved classification of oil and gas reserves (see “Regional Overview of the Oil and Gas Industry—Resource Classifications”).
D1	“forecasted reserves” according to MEMR-approved classification of oil and gas reserves (see “Regional Overview of the Oil and Gas Industry—Resource Classifications”).
D2	“forecasted reserves” according to MEMR-approved classification of oil and gas reserves (see “Regional Overview of the Oil and Gas Industry—Resource Classifications”).
development well	a well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive for the purpose of producing hydrocarbons.
downstream	all petroleum activities including the refining/processing of crude oil/gas into petroleum products and the distribution, marketing and shipping of the products.
dry hole	any exploratory or development well that does not find commercial quantities of hydrocarbons.
enhanced recovery	the third stage of hydrocarbon production following secondary recovery during which energy extrinsic to the reservoir is applied, including pressuring, cycling, pressure maintenance and chemical flooding.

exploratory well	a well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive for oil or gas in another reservoir, or to extend a known reservoir.
field	an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition.
FOB sales	export sales made under free on board terms.
future net cash flows	amounts that are the result of subtracting future development and production costs and future income tax expenses from future cash inflows. Future cash inflows are computed by applying forecast oil and gas prices.
gas	petroleum that consists principally of light hydrocarbons. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.
gas condensate	the mixture of liquid hydrocarbons that results from condensation of petroleum hydrocarbons existing initially in a gaseous phase in an underground reservoir.
gross	gross oil and gas wells or gross acres are the total number of wells or acres in which the Company has an interest, without regard to the size of that interest.
hydrocarbons	are compounds formed from the elements hydrogen (H) and carbon (C) and may be in solid, liquid or gaseous form.
hydrofracturing	the forcing of fluids under pressure into the well so as to cause the fracturing of the target stratum.
km²	square kilometre.
m	metre.
net	net oil and gas wells or net acres are determined by multiplying gross wells or acres by the Company's working interest in those wells or acres.
oil	crude oil and condensate.
operator	the individual or company responsible for conducting oil and gas exploration, development and production activities on an oil and gas lease or concession on its own behalf and, if applicable, for other working interest owners, generally pursuant to the terms of a joint operating agreement or comparable agreement.
petrochemicals	chemicals such as ethylene, propylene and benzene that are derived from petroleum.
petroleum	hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.
petroleum gas	gas occurring in combination with crude oil, as distinct from gas occurring separately or manufactured from crude oil.
possible reserves	additional reserves that are less certain to be recovered than probable reserves, as defined by the SPE/WPC.
probable reserves	those unproved reserves which analysis of geological and engineering data suggests they are more likely than not to be recovered, as defined by SPE/WPC.

producing well	a well that is producing oil or gas, or one that is capable of production.
proved reserves	reserves which by analysis of geological and engineering data, are estimated with reasonable certainty to be commercially recoverable from a given date forward, from known reservoirs under current economic conditions, operating methods and government regulations as defined by SPE/WPC. Proved reserves can either be producing or non-producing.
recompletion	extensive maintenance operations conducted on existing wells which often include the reperforation of well bores and which are designed to restore production from wells closer to their original productive potential.
reserve life	reserves divided by the average annualised production volumes based on year end production rates.
reservoir	a porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.
royalty interest	an interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production.
secondary recovery	the second stage of hydrocarbon production during which an external fluid such as water or gas is injected into the reservoir to maintain reservoir pressure and displace hydrocarbons towards the wellbore.
seismic	the use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures.
shut in wells	wells which have encountered and are capable of producing crude oil or gas but which are not producing due to lack of available transportation facilities, available markets or other reasons.
SPE/WPC reserves definitions	definitions consistent with those approved in March 1997 by the Society of Petroleum Engineers and the World Petroleum Congresses.
tonne	metric tonne.
toe	metric tonne of oil equivalent.
upstream	exploring for oil or gas, developing oil or gas fields and producing oil or gas from the oil or gas fields.
well stimulation	any action taken by the well operators to increase the inherent productivity of an oil or gas well including, but not limited to, fracturing, shooting or acidising, but excluding cleaning out, bailing or workover operations.
working interest	the operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and to a share of production, subject to all royalties, overriding royalties and other burdens, and to all costs of exploration, development and operations and all risks in connection herewith.
workover	routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.

COMPETENT PERSON'S REPORT

Prepared for
JSC "KAZMUNAIGAS" EP

SEPTEMBER, 2006

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BCR/E1397.01/2171/mmi

29th September, 2006

The Directors,
JSC "KazMunaiGas" EP,
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ABN AMRO Bank N.V.,
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(together "**ABN AMRO Rothschild**")

Credit Suisse,
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London,
E14 4QJ.

Visor Capital
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Kazakhstan.

Dear Sirs,

COMPETENT PERSON'S REPORT

INTRODUCTION

In accordance with the Contract with JSC "KazMunaiGas" EP ("KMG EP") dated 15th August, 2005 Gaffney, Cline & Associates Ltd ("GCA") has reviewed and audited the petroleum interests owned by KMG EP in western Kazakhstan (Figure 1). These assets include producing properties, fields under development and duly licenced exploration interests and certain downstream processing units.

KMG EP has made available to GCA a data set of technical information including geological, geophysical, and engineering data and reports together with financial data pertaining to the fiscal terms applicable to the Licences and Contracts. In carrying out this review GCA has relied on this information. A Glossary of abbreviations, some or all of which may be used in this report, is attached as Appendix I. Reserves and resources have been estimated in accordance with the definitions of the Society of Petroleum Engineers, the World Petroleum Congresses and the American Association of Petroleum Geologists, as attached here as Appendix II.

GCA is an independent energy consultancy specialising in petroleum reservoir evaluation and economic analysis. In the preparation of this report, GCA has maintained, and continues to maintain, a strict consultant-client relationship with KMG EP. The partners and directors of



- LEGEND**
- Oil Field
 - Gas Field
 - Oil Pipeline
 - Gas Pipeline

**KazMunaiGas
Location Map**

Proj. E1397.01 Sep 06	Checked:	Fig. 1
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GCA have been, and continue to be, independent of KMG EP in the services they provide to the company including the provision of the opinions expressed in this review. Furthermore, the partners and directors of GCA have no interest in any assets or share capital of KMG EP or in the promotion of the company.

It should be clearly understood that the NPV of future revenue potential of a petroleum property, such as those discussed in this report, does not necessarily represent the market value of that property, nor any interest in it. In assessing a likely market value, it may be necessary to take into account a number of additional factors including: reserves risk (i.e. that Proved and/or Probable reserves may not be realised within the anticipated timeframe for their exploitation); perceptions of economic and sovereign risk; potential upside, such as in this case exploitation of oil reserves beyond the Proved and Probable level; other benefits, encumbrances or charges that may pertain to a particular interest and the competitive state of the market at the time. GCA has not explicitly taken such factors into account in deriving the NPVs presented herein.

This report must only be used for the purpose for which it was intended.

SUMMARY

KMG EP consists of two affiliates: EmbaMunaiGas and UzenMunaiGas. EmbaMunaiGas geographically operates in Atyrau administrative region of the Republic of Kazakhstan which is to the North – North East of the Caspian Sea; UzenMunaiGas operates in Mangistau administrative region, to the east of the Caspian Sea. Effectively all the fields are onshore. KMG EP holds a 100% interest in these Licences and Contracts.

Licences and Contracts Summary

EmbaMunaiGas – Licences and Contracts Summary						
	Licence	Licence duration	Licence expiry	Contract	Contract duration	Contract expiry
NGDU ZhaikMunaiGas						
S. W. Kamishitovoye	МГ № 281	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Zaburunye	МГ № 284	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Zhanatalap	МГ № 285	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
S. E. Kamishitovoye	МГ № 282	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Balgimbayev	МГ № 279	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Gran	МГ № 283	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Rovnoye	МГ № 280	10 years	01.12.2005	Contract № 211on 22 Emba fields	20 years	13.08.2018
S. E. Novobogatinskoye	МГ № 94	20 years	05.01.2016	Contract № 61 on S E Novobogatinskoye field	20 years	28.05.2017
NGDU ProrvaMunaiGas						
Nurzhanov	МГ № 232	20 years	25.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
West Field Area	АМ № 1007	26 years	08.10.2025	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
West Prorva	МГ № 97	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
Dosmukhambetovskoye	МГ № 96	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
Aktube	МГ № 233	5 years	27.07.2010	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
NGDU KainarMunaiGas						
Kenbay Field East Moldabek	МГ № 88	25 years	08.02.2020	Contract № 37 on Kenbay field	25 years	16.01.2021
Kenbay Field North Kotyrta	МГ № 88	25 years	08.02.2020	Contract № 37 on Kenbay field	25 years	16.01.2021
Zholamanov	МГ № 278	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
NGDU DossorMunaiGas						
Botakhan	МГ № 265	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Karsak	МГ № 267	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Altykul	МГ № 262	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Baychunas	МГ № 263	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Koshkar	МГ № 269	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Tanatar	МГ № 271	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Bek-Bike	МГ № 264	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Dossor	МГ № 274	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Komsomolskoye	МГ № 268	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Iskine	МГ № 266	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Sagiz (abandoned)	МГ № 270	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
NGDU MakatMunaiGas						
East Makat	МГ № 276	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
North Zholdybay	МГ № 277	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
Makat	МГ № 275	20 years	01.12.2015	Contract № 211on 22 Emba fields	20 years	13.08.2018
NGDU KulsaryMunaiGas						
Teren-Uzyuk	МГ № 229	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020

EmbaMunaiGas – Licences and Contracts Summary						
	Licence	Licence duration	Licence expiry	Contract	Contract duration	Contract expiry
Akingen'	MГ № 225	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
Kisimbay	MГ № 230	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
Akkuduk	MГ № 231	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
Karaton - Koshkimbet	MГ № 226	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
	MГ № 227	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
Koshagyl	MГ № 223	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
Kulsary	MГ № 221	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
Tyulyus	MГ № 224	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020
Tazhigali (abandoned)	MГ № 228	20 years	27.07.2015	Contract № 413 on Tengiz group of fields	20 years	03.03.2020

UzenMunaiGas

UzenMunaiGas – Licences and Contract Summary						
	Licence	Licence duration	Licence expiry	Contract	Contract duration	Contract expiry
Uzen	MГ № 254	25 years	05.09.2020	Contract № 40	25 years	29.05.2021
Karamandybas (oil)	MГ № 255	25 years	05.09.2020	Contract № 40	25 years	29.05.2021
Karamandybas (gas)	MГ № 289	25 years	11.12.2020	Contract № 67	25 years	17.06.2022
West Tenge	MГ № 287	25 years	11.12.2020	Contract № 68	25 years	17.06.2022
Aktas	MГ № 286	25 years	01.02.2021	Contract № 65	25 years	17.06.2022
Tasbulat	MГ № 288	25 years	01.02.2021	Contract № 66	25 years	17.06.2022
South Zhetybay	MГ № 927 Б	25 years	24.10.2021	Contract № 69	25 years	17.06.2022
East Uzen	AI 1561	25 years	13.12.2024	Contract № 458	24 years	13.12.2024

Reserves Summary

The Proved and Proved plus Probable reserves of KMG EP are estimated by GCA as of 31st December, 2005 to be as follows:

	Reserves, MMBbl	
	Proved	Proved plus Probable
UzenMunaiGas	490.9	1,147.3
NGDU ZhaikMunaiGas	54.2	154.0
NGDU ProrvaMunaiGas	36.1	79.2
NGDU KainarMunaiGas	19.3	39.7
NGDU DossorMunaiGas	12.1	32.7
NGDU MakatMunaiGas	12.7	31.8
NGDU KulsaryMunaiGas	13.2	30.5
Total	638.5	1,515.2

Notes:

1. Proved reserves are curtailed by the Licence Expiry date or the Contract expiry, whichever is sooner.
2. Reserves are net of Royalty.

The Proved plus Probable plus Possible Reserves for KMG EP as at 31st December, 2005 were estimated at 2,212.1 MMBbl of which approximately 696.9 MMBbl are Possible reserves.

Resource Summary

Apart from the producing assets KMG EP holds Licences for a number of exploration areas, one of which – Taisogan – has been identified as the most likely candidate for the full scale development. GCA has estimated KMG EP Contingent Resources as of 31st December, 2005 in the Taisogan permit as:

	Unrisked Contingent Resources MMBbl		
	Low	Best	High
Uaz	13.1	23.6	37.5
Kondibal	16.7	31.0	48.8

Production Forecast Summary

The oil production forecasts corresponding to the Proved and Proved plus Probable Reserves estimates given above are as follows.

	Oil Production Rate, bopd	
	Proved Case	Proved plus Probable Case
2006	188,366	190,953
2007	178,445	190,834
2008	170,382	188,837
2009	160,770	186,376
2010	151,276	183,777
2011	139,932	180,915
2012	127,908	177,845
2013	117,679	175,039
2014	108,879	169,956
2015	98,185	161,776
2016	75,320	150,654
2017	68,787	140,778
2018	64,696	131,960
2019	61,059	124,046
2020	37,512	116,911
2021	0	110,450
2022	0	104,577
2023	0	99,221
2024	0	94,318
2025	0	89,818
2026	0	85,676
2027	0	81,852
2028	0	78,315
2029	0	75,029
2030	0	71,980
2031	0	69,142
2032	0	66,496
2033	0	64,022
2034	0	61,695
2035	0	58,298
2036	0	54,512
2037	0	52,677
2038	0	50,960
2039	0	48,501
2040	0	47,042
2041	0	45,681
2042	0	44,386
2043	0	43,152
2044	0	41,981
2045	0	40,621
Total MMBbl	638.5	1,515.2

Notes:

1. Proved reserves are curtailed by the Licence Expiry date or the Contract Expiry, whichever is sooner.
2. There may be some rounding in the Totals.

Net Present Value Summary**Upstream Assets**

The results of cash flow analysis for the base case are outlined below. All NPVs quoted are those attributable to KMG EP's 100% interest in the properties reviewed.

POST-TAX NET PRESENT VALUE AS AT 31ST DECEMBER, 2005
U.S.\$MM

	Proved	Proved plus Probable
7.50%	2,478	5,485
10.00%	2,254	4,465
12.50%	2,069	3,759

The production profiles for gas at the Proved and the Proved plus Probable levels did not pass the economic limit test and thus there are no gas reserves at these levels. Accordingly, no value can be attributed to gas.

DISCUSSION**1. THE OIL AND GAS INDUSTRY OF KAZAKHSTAN**

Central Asia, and in particular the Caspian Sea area, is one of the oldest oil-producing regions of the world. Surface seeps in what is now the neighbouring country of Azerbaijan have been known since 4 B.C. when Alexander the Great's soldiers used oil from shallow hand-dug wells.

The oil and gas industry is of growing importance to Kazakhstan, accounting currently for about 30% of government revenues and around 50% of export revenues. Between 1999 and 2004 it is reported that Kazakhstan's oil production grew by around 15% each year. Gas had until recently not been developed in the country and until 2004 it was a net importer of gas.

Public reports on the Proven oil and gas reserves of Kazakhstan vary depending on the source of information but the oil Proven reserves are estimated at between 9 and 29 BBbl and the gas reserves at 65,000 to 70,000 Bcf. Such figures mean that Kazakhstan is a leading player in the global oil and gas industry.

In 2004, Kazakhstan produced approximately 1.22 MMbopd of oil and 1.5 Bcfd of gas. Around 1 MMbopd was exported but gas consumption was more or less equal to production. Government plans are for oil production to increase to 3.5 MMbopd by 2015 and gas to around 5 Bcfd by the same date. The bulk of this increase will come from major fields being developed, mainly by Western companies. 1 MMbopd is expected to come from Kashagan (offshore in the North Caspian Sea); 700 Mbopd from Tengiz; 600 Mbopd from Kurmangazy; and, around 500 Mbopd and 2.7 Bcfd from Karachaganak. These are giant fields with, for example, Tengiz reportedly having 6 to 9 BBbl of reserves (not categorised in the reports), Kashagan with up to 13 BBbl (depending on the success of the secondary recovery), Kurmangazy with over 7 BBbl and Karachaganak with between 16,000 and 20,000 Bcf of gas.

These fields (except Karachaganak) are all located in the west part of the country near the Caspian Sea and developed or prepared for development (Kashagan and Kurmangazy) by consortia of international oil companies. The national oil company KazMunaiGas, KMG EP's parent company, has shares in each of the projects.

2. GEOLOGY OF KAZAKHSTAN

Geographically, Kazakhstan is a large country with an area approximating to 11 times the size of the United Kingdom. The terrain extends from the areas around the Caspian Sea, to the plains of Western Siberia, to the desert of Central Asia and to the Altai Mountains in the east. The climate is continental with very cold winters, very hot summers and with arid and semi-arid areas. The temperature in the region ranges from +40°C in summer to -30°C in the winter.

Figure 2 demonstrates the oil and gas basins/provinces of Kazakhstan. The four basins/provinces which are considered the main hydrocarbon areas are, in order of importance:

- Pre-Caspian Basin
- South Mangyshlak Basin
- South Turgay Basin
- North Ustyurt Basin

KMG EP's assets are located primarily in the Pre-Caspian Basin, but also in the South Mangyshlak Basin, and are very favourably located geologically. Only these two basins are discussed below.

2.1 Pre-Caspian Basin

The basin covers some 550,000 km², of which 80% is in Kazakhstan, the remainder being in southern Russia. It represents a deeply subsided portion of the Russian platform bound on all sides by high-amplitude regional faults. At the centre, the basin is thought to contain greater than 20 km of sediment ranging in age from Cambrian to Quaternary. The Permian is very important within the sequence since it comprises a salt section which divides the basin's hydrocarbon system into a pre-salt section and a post-salt section. Pre-salt hydrocarbon accumulations are localised mainly in Devonian to Lower Permian carbonates in stratigraphic and/or Basement-related structural traps. Post-salt hydrocarbons are located predominantly in salt-related structural traps often with a stratigraphic component in the Mesozoic clastics.

The sub salt sequence consists mainly of Cambrian to Middle Devonian terrigenous rocks overlain by Upper Devonian – Lower Permian rocks locally represented by carbonates on the basin margins with terrigenous analogues in other parts of the Basin. The stratigraphic column for the Pre-Caspian Basin is presented as Figure 3. The Middle Devonian Domanik formation, which was deposited at the centre of the basin, is the main source rock for hydrocarbons. Most of the large fields in the basin (e.g. Kashagan Karachaganak and Tengiz) occur in reefs and/or carbonate rocks of the Devonian to Lower Permian that ring the basin. Reservoir facies include high-energy fringing reefs and banks as well as low-energy platform facies and slope deposits.

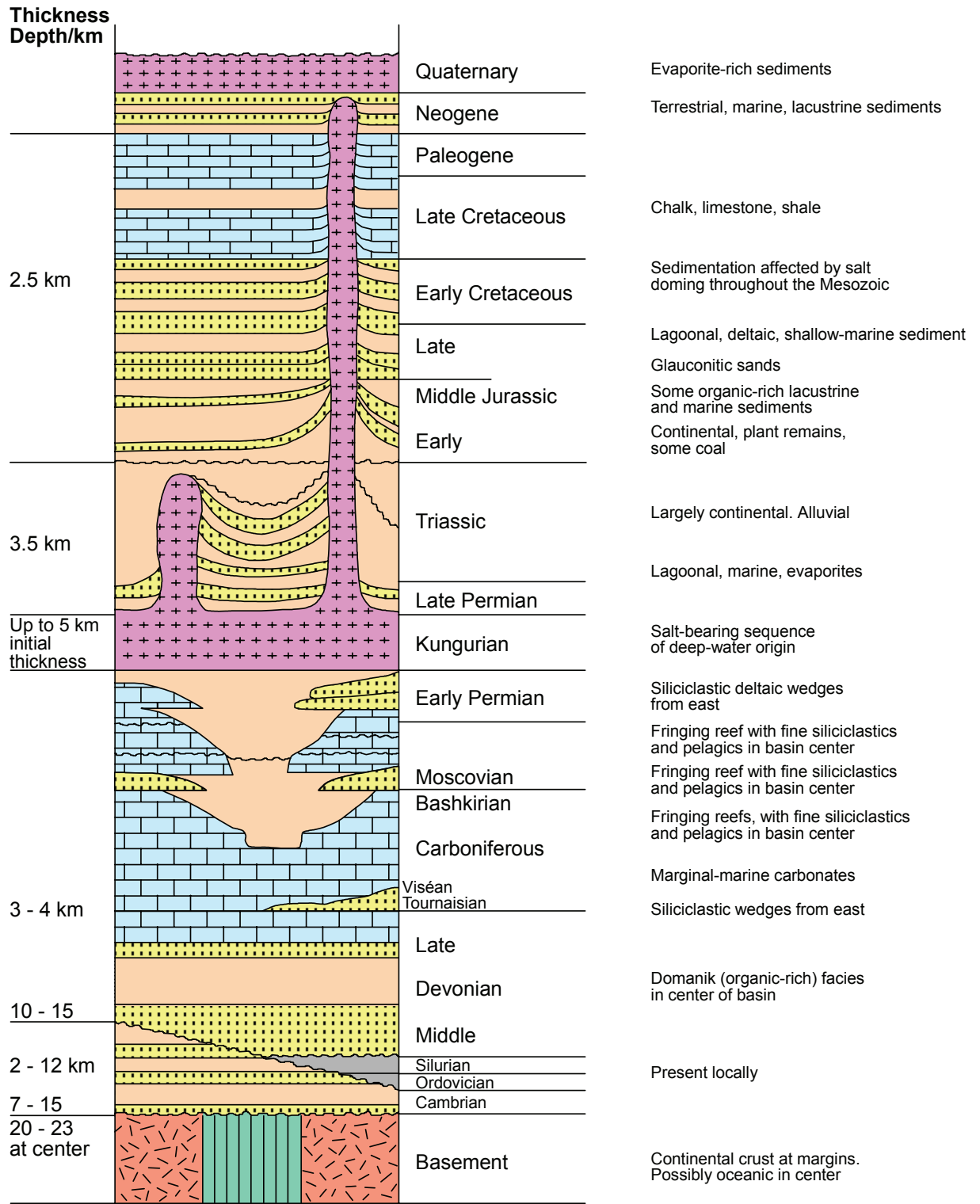


LEGEND


- Limits of oil and gas basins
- Town / City

**Oil and Gas Basins/Provinces
of Kazakhstan**

Proj. E1397.01 Sep 06 Checked: Fig. 2



**Schematic Stratigraphic Section
Pre-Caspian Basin**

Proj. E1397.01 Sep 06 Checked:  Fig. 3

Hydrocarbon production is usually associated with zones that have been enhanced by fracturing and/or karst development.

The Lower to Middle Permian (Kungurian) salt-bearing sequence is believed to be of deep water origin and was up to 3,000 to 5,000 m thick at the time of deposition. This salt is diapiric and thus today varies greatly in thickness across the basin. Its importance to the hydrocarbon potential of the basin cannot be over-stated. Post-salt stratigraphy consists primarily of continental and lacustrine facies from the Upper Permian, Jurassic and Middle Jurassic.

The Upper Jurassic and Lower Cretaceous sediments which follow were deposited in a predominantly marine environment. These are overlain by Upper Cretaceous limestones and the section ends with continental, lacustrine and shallow marine Palaeogene-Neogene sediments. Post-salt sedimentation, particularly during the Mesozoic, is influenced by the movement of the Permian salt.

2.2 South Mangyshlak Basin

The South Mangyshlak Basin covers an area of some 75,000 km², of which about 35,000 km² is onshore and the remainder within the Caspian Sea. It is part of the much larger North Caucasus-Mangyshlak petroleum province which stretches farther west into the Azov-Kuban Basin of southern Russia.

The basement of the South Mangyshlak Basin comprises various Middle to Late Palaeozoic deformed rocks. The Basement is overlain by Permian to Triassic terrigenous, carbonate and volcanic rocks. The thickness of the Permian-Jurassic rocks within the mountainous Mangyshlak foldback exceeds 7,000 m.

The Lower to Middle Jurassic are mainly terrigenous deposits of a continental and lagoon-continental origin and overlie the Permian-Triassic sequence. They are overlain by marine Upper Jurassic sediments, which in turn are overlain by Cretaceous Neocomian, Aptian-Albian, Senonian-Turonian and Maastrichtian marine deposits (although the Barremian is mainly continental).

Palaeogene deposits are present across the whole Mangyshlak area and are represented by marls in the lower part and a shale 600 – 700 m thick (analogous to the Maikop series of Ciscaucasia) in the upper part. The Palaeogene sequence reaches up to 2,000 m in thickness in the Terek-Caspian foredeep. Neogene to Quaternary deposits are marine terrigenous carbonates up to 500 m thick.

Structurally, the South Mangyshlak Basin consists of the Zhazgurlinskaya and Segendyk zones separated by the Karagiinskaya anticline. The Kokumbai and Zhetybai-Uzen monoclines are located to the north. Most of the oil or gas bearing structures of the South Mangyshlak Basin are associated with the Zhelybai-Uzen monocline. On the north the monoclines are bounded by the tectonic dislocation of the mountainous Mangyshlak foldbelt.

To the south of the Zhazgurlinskaya and Segendyk zones are the Karabogaz and Peschanomys uplifts. These uplifts stretch in the Caspian Sea and conjugate with the Terek-Caspian Basin of the Ciscaucasia hydrocarbon province.

The dominant petroleum fields of the Mangyshlak area are found in Middle Jurassic sandstones in structural traps (e.g. Uzen, Zhetybai and Karamandybas fields). Minor volumes are found in Triassic terrigenous and carbonate-terrigenous sediments. A few accumulations are also known in Lower Cretaceous sandstones. Source rocks are most commonly present in the Upper-Middle Triassic.

3. PRODUCING OIL ASSETS

The oil producing assets of KMG EP are located within the two production affiliates, UzenMunaiGas and EmbaMunaiGas. The production history and forecasts for these two affiliates (broken down into production units, or NGDUs for EmbaMunaiGas) are shown in Figure 4. This plot indicates the importance of the UzenMunaiGas fields.

KMG EP has provided long term forecasts of oil production for both EmbaMunaiGas and UzenMunaiGas to 2034. Over the period 2006 to 2034, KMG EP's forecast production is 53.83 MMT (390.2 MMBbl) for EmbaMunaiGas and 145.603 MMT (1,076.2 MMBbl) for UzenMunaiGas. The GCA forecast based on Proved plus Probable reserves over the same period is 322.6 MMBbl for EmbaMunaiGas and 999.4 MMBbl for UzenMunaiGas. Figure 5 demonstrates the historical production and GCA's Proved and Proved plus Probable forecast.

In the shorter term KMG EP has set itself the following production targets, which are essentially to maintain production at a constant level over the next five years.

KMG EP PRODUCTION FORECASTS 2006 – 2010 (MMT)

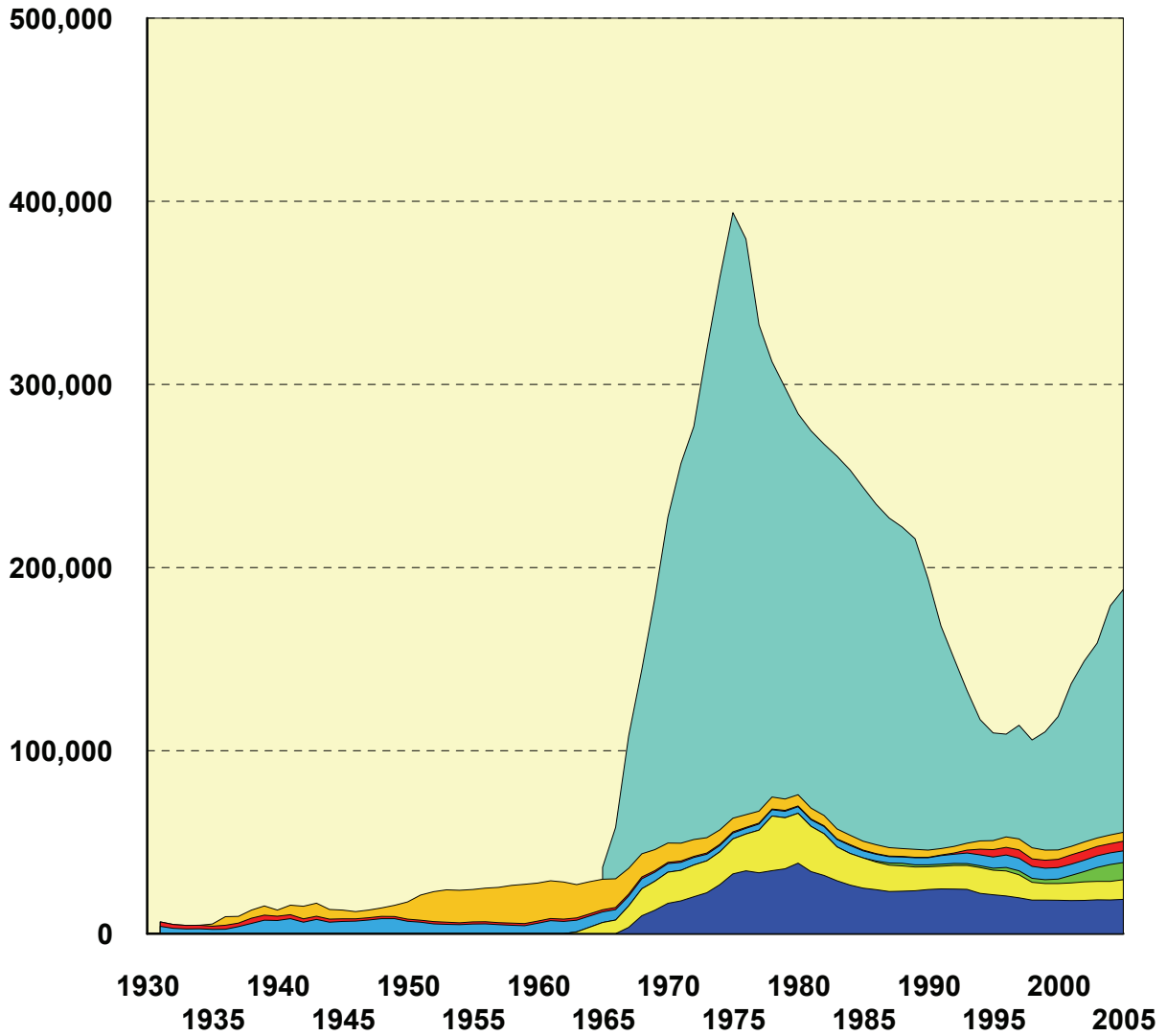
	2006	2007	2008	2009	2010
EmbaMunaiGas	2.8	2.8	2.8	2.8	2.8
UzenMunaiGas	6.65	6.7	6.7	6.7	6.7
TOTAL	9.45	9.5	9.5	9.5	9.5

For EmbaMunaiGas, GCA's Proved plus Probable forecast is lower than KMG EP's forecast. For EmbaMunaiGas, the five fields where GCA has its largest lowest forecast than KMG EP are East Moldabek, Botakan, Nurzhanov, West Prorva and East Makat. GCA considers that there is still potential in East Moldabek, Nurzhanov and East Makat, but is constrained either by the volumetric estimates or field performance from attributing higher reserves at this time. East Moldabek is still under technical review by KMG EP to improve the recovery factor for this viscous and heavy oil reservoir and with the application of new or enhanced recovery techniques, could produce closer to, or in excess of, the KMG EP estimates. However, on some of the ZhaikMunaiGas fields KMG EP has a lower forecast than GCA, though this is not sufficient to offset the aggregate forecast of GCA from being lower than KMG EP.

The field performance of many of the EmbaMunaiGas fields imply higher recovery factors than expected from the KMG EP estimate of STOIIIP, indicating that KMG EP's estimates of STOIIIP sometimes are too low. In many cases the KMG EP STOIIIP estimates were made around the time production started and have not been updated in recent years to reflect field performance. Thus GCA considers that these estimates of STOIIIP cannot be relied upon for estimating reserves. Figure 6 demonstrates the GCA forecasts in comparison with KMG EP and the fact that GCA's profiles are lower reflect this over-estimation by KMG EP.

Figure 7 shows the equivalent predictions for UzenMunaiGas. In this case GCA's Proved plus Probable forecast is similar to UzenMunaiGas.

Oil Production, bopd

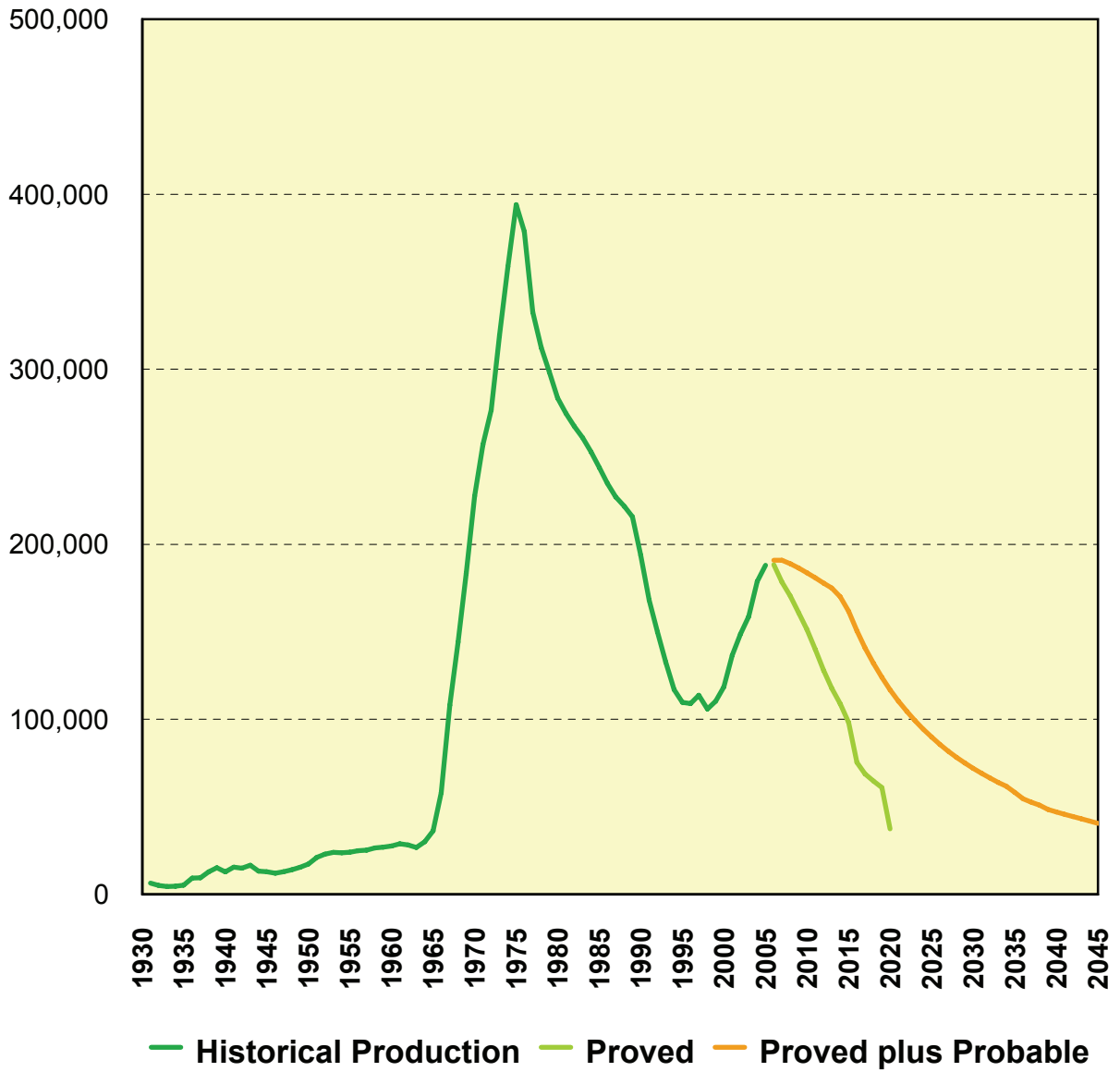


- UzenMunaiGas
- KulsaryMunaiGas
- MakatMunaiGas
- DossorMunaiGas
- KainarMunaiGas
- ZhaikMunaiGas
- ProrvaMunaiGas

KazMunaiGas
Historical Oil Production

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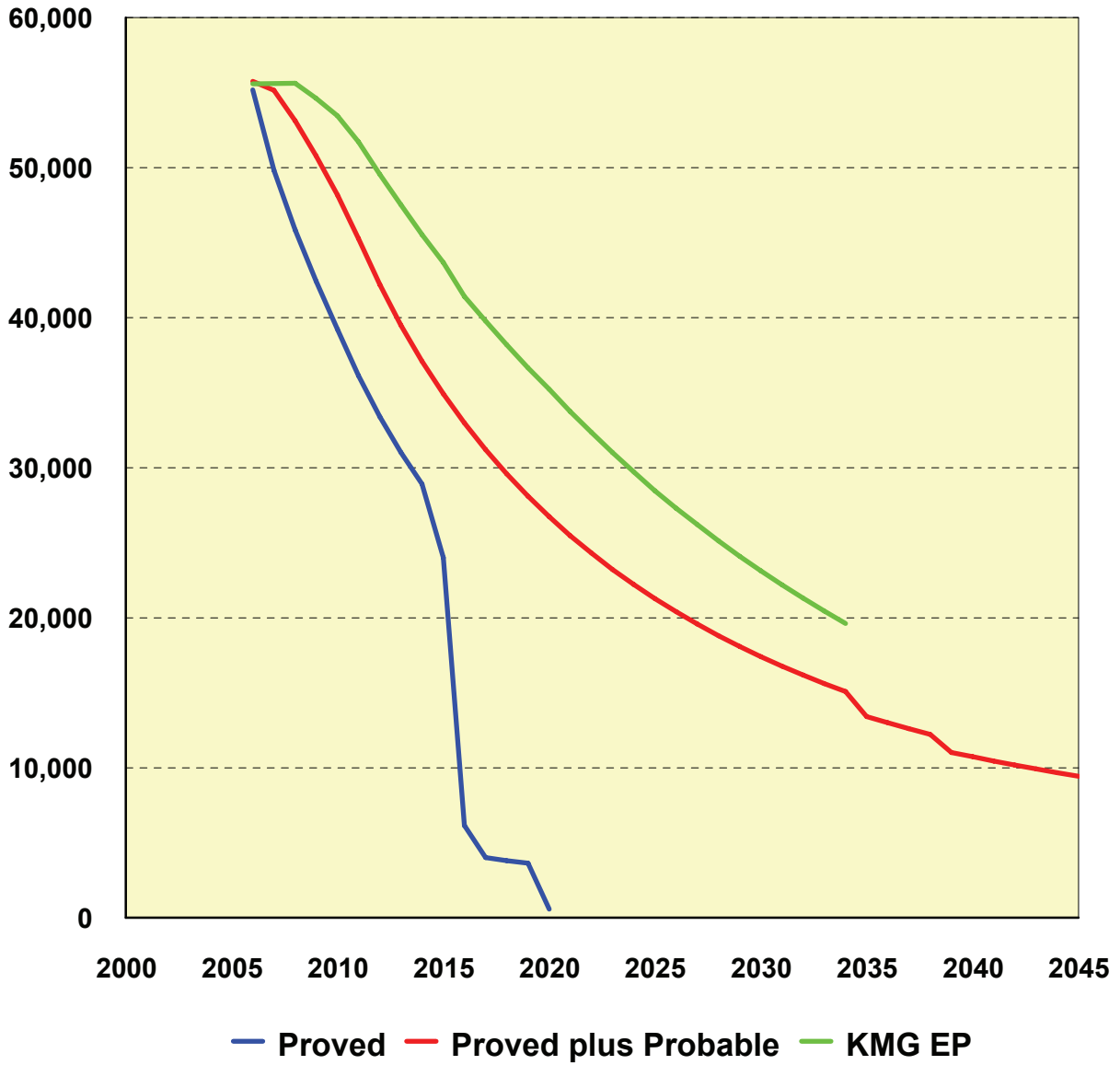
Oil Production, bopd



**KazMunaiGas
Historical and Forecast
Oil Production**

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Oil Production, bopd

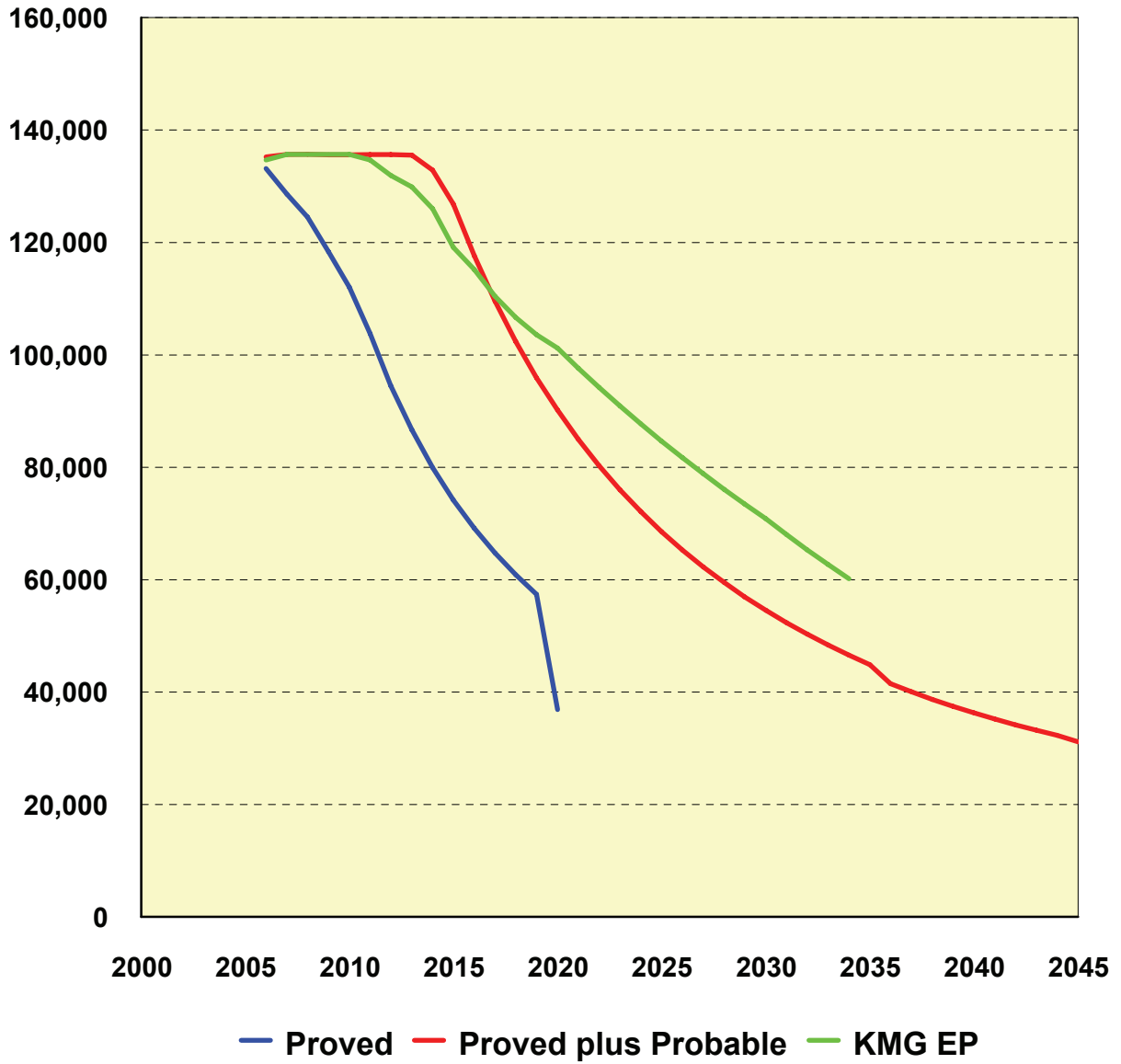


**EmbaMunaiGas
Comparison of GCA and KMG EP
Forecasts**

Proj. E1397.01 Sep 06	Checked:	Fig. 6
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KMG EP

Oil Production, bopd



**UzenMunaiGas
Comparison of GCA and KMG EP
Forecasts**

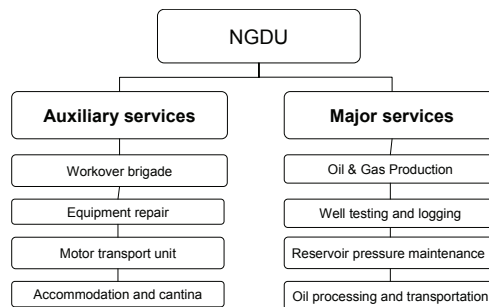
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KMG EP

3.1 **EmbaMunaiGas NGDUs**

EmbaMunaiGas is split regionally into six oil and gas production units (NGDUs). Each NGDU is responsible for oil and gas production, well testing, oil measuring, gathering and processing and oil transportation (Figure 8).

The typical organisation structure of NGDU is presented below:

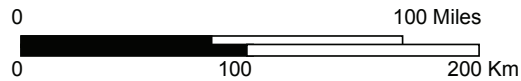


There are currently 37 oil fields operated by EmbaMunaiGas, of which 35 are on production and two abandoned. The fields in each NGDU are listed in the Licences and Contracts Table in the Summary section of this report. The first reported production from these fields was in 1911. Most of the fields are in the late stage of development with high water cuts and low oil production rates.

A summary of the production, geology, drilling plans and reserves is presented below. A summary of the five major fields (SW Kamishytoyoye, Nurzhanov, East Moldabek, Botakhan and East Makat) is also included. These five fields represent over 50% of the current production of EmbaMunaiGas.

The significant increase in oil production (37.8% higher in 2005 compared to 2000) has been achieved as a result of an aggressive workover and additional drilling campaign, as well as improvement in artificial lift and water injection. The annual field work programmes during this period were generally fulfilled, i.e. the planned number of wells were drilled and worked over. Other well operations were also carried-out. The reservoir management has also improved since the company introduced modern reservoir engineering software packages in its routine work, and reservoir models for a number of major fields were created to improve water injection efficiency and other aspects of the oil field development.

The current level of oil production and contribution for the EmbaMunaiGas fields are presented in the table below.



LEGEND

- Oil Field
- Oil Pipeline
- Gas Pipeline
- Oil Route by Truck

NGDU's

- ZhaikMunaiGas
- DossorMunaiGas
- MakatMunaiGas
- KainarMunaiGas
- KulsaryMunaiGas
- ProrvaMunaiGas

**EmbaMunaiGas
NGDU, Fields and Pipeline
Infrastructure**

Proj. E1397.01 Sep 06 Checked: Fig. 8

Rank	Field	Contribution to the total 2005 EmbaMunaiGas production	2005 oil production, bopd
1	Kenbay, East Moldabek Area	14.1%	7,836.7
	Kenbay, North Kotyrtas Area	0.68%	379.8
2	Nurzhanov	13.4%	7,408.0
3	S. W. Kamishitovoye	8.9%	4,942.8
4	Botakhan	8.5%	4,692.5
5	East Makat	8.4%	4,640.6
6	Zaburunye	7.0%	3,908.4
7	Zhanatalap	6.0%	3,338.4
8	S. E. Kamishitovoye	5.2%	2,880.5
9	Balgimbayev	3.5%	1,948.6
10	Teren-Uzyuk	2.9%	1,596.9
11	West Prorva	2.8%	1,341.0
12	Akingen'	2.4%	1,315.2
13	Zholamanov	2.4%	1,264.2
14	Gran	2.3%	1,341.0
15	Dosmukhambetovskoye	2.1%	1,179.1
16	Kisimbay	1.8%	999.7
17	Karsak	1.5%	852.2
18	Akkuduk	1.2%	642.6
19	North Zholdybay	1.0%	537.3
20	Aktyube	0.87%	480.5
21	Altykul	0.59%	329.6
22	Rovnoye	0.44%	241.9
23	Baychunas	0.39%	213.9
24	S. E. Novobogatinskoye	0.35%	193.3
25	Karaton-Koshkimbet	0.27%	151.4
26	Koshkar	0.18%	102.1
27	Koschagyl	0.16%	88.5
28	Kulsary	0.15%	81.1
29	Tanatar	0.15%	82.0
30	Bek-Bike	0.10%	57.1
31	Tyulyus	0.10%	55.2
32	Makat	0.09%	47.2
33	Dossor	0.05%	26.3
34	Komsomolskoye	0.04%	20.4
35	Iskine	0.01%	7.1
36	Sagiz (abandoned)	0.0%	0.0
37	Tazhigali (abandoned)	0.0%	0.0
	TOTAL	100.0%	55,447

EmbaMunaiGas successfully exceeded its production target in 2005, as demonstrated in the Table below, which also summarises the contribution of each of the NGDUs to the overall EmbaMunaiGas production.

**EMBAMUNAIGAS
2005 PRODUCTION AND CONTRIBUTION BY NGDU**

	2005 Planned Production (bopd)	2005 Actual Production (bopd)	Contribution to EmbaMunaiGas (%)
NGDU ZhaikMunaiGas	18,743	18,795	33.9
NGDU ProrvaMunaiGas	10,602	10,633	19.2
NGDU KainarMunaiGas	9,481	9,481	17.1
NGDU DossorMunaiGas	6,360	6,382	11.5
NGDU MakatMunaiGas	5,211	5,225	9.4
NGDU KulsaryMunaiGas	4,901	4,930	8.9
TOTAL	55,298	55,446	100.0

**EMBAMUNAIGAS
PRODUCTIVE HORIZONS**

	Productive Geological Horizon
NGDU ZhaikMunaiGas	Permian, Triassic, Jurassic, Lower Cretaceous
NGDU ProrvaMunaiGas	Triassic, Jurassic
NGDU KainarMunaiGas	Triassic, Jurassic, Lower Cretaceous
NGDU DossorMunaiGas	Jurassic, Cretaceous
NGDU MakatMunaiGas	Permian, Triassic, Jurassic, Lower Cretaceous
NGDU KulsaryMunaiGas	Permian, Triassic, Jurassic, Cretaceous

As tabulated earlier, KMG EP has set itself a target of maintaining constant production rates in EmbaMunaiGas over the next five years. In order to achieve this a drilling campaign of new wells, as shown in the following table, supported by an intensive programme of workovers and other well work will be carried out.

**EMBAMUNAIGAS
DRILLING PLAN (Number of Wells)**

	2006	2007	2008	2009	2010
NGDU ZhaikMunaiGas	15	20	20	20	10
NGDU ProrvaMunaiGas	3	10	10	8	8
NGDU KainarMunaiGas	54	10	3	-	-
NGDU DossorMunaiGas	5	3	-	-	-
NGDU MakatMunaiGas	7	6	-	-	-
NGDU KulsaryMunaiGas	6	7	5	4	2
TOTAL	90	56	38	32	20

Production forecasts and reserves for the EmbaMunaiGas fields have been mainly derived from an analysis of the oil cut or the oil rate decline, with provision for additional production from new wells. GCA's estimation of the Proved, Proved plus Probable, and Proved plus Probable plus Possible reserves as of 31st December, 2005 is summarised by NGDU in the following table:

**EMBAMUNAIGAS
RESERVES AS OF 31ST DECEMBER, 2005**

	Proved (MMBbl)	Proved plus Probable (MMBbl)	Proved plus Probable plus Possible (MMBbl)
NGDU ZhaikMunaiGas	54.2	154.0	190.4
NGDU ProrvaMunaiGas	36.1	79.2	94.7
NGDU KainarMunaiGas	19.3	39.7	72.7
NGDU DossorMunaiGas	12.1	32.7	39.2
NGDU MakatMunaiGas	12.7	31.8	42.5
NGDU KulsaryMunaiGas	13.2	30.5	45.6
TOTAL	147.6	367.8	485.1

3.1.1 South West Kamishytovoye Field - NGDU ZhaikMunaiGas

The South West Kamishytovoye oil field was discovered in 1962. The nearest producing fields are Balgimbayev and Zaburunye. The field has been on production since 1972 and is the biggest producing field in NGDU ZhaikMunaiGas.

The reservoirs are shallow, multilayered sandstones with sixteen production intervals represented by seven producing groups described as "Objects", ranging in age from Cretaceous to Triassic. Depths of the producing horizons vary from 222 to 800 m. Porosity ranges from 22 to 33% and permeability from 53 to 1,334 mD. Oil gravity is 26 to 58.2° API and GOR varies from 47 to 75 scf/Bbl.

STOIP is reported by KMG EP to be 255 MMBbl (33.93 MMT).

The peak production rate of 15,400 bopd (2,050 Tpd) was recorded in 1977. Field production gradually declined until 2001 since when the production rate has been increasing to about 4,940 bopd (658 Tpd) in 2005, as a result of additional drilling, workover campaigns and improved production optimisation. Total field cumulative oil production as of 31st December, 2005 was 109.3 MMBbl (14.541 MMT).

The average field water cut is 84%. Produced water is injected back into the reservoir. About 76% of the oil production is from the two Jurassic reservoirs, Objects II and III.

The South West Kamishytovoye field was initially produced by natural depletion, enhanced by some aquifer support and solution gas drive. Since 1977 water injection has been applied to Objects II and III only, Object I has been water flooded since 1988 and Objects V and VI since 1990 and 1995 respectively.

Sucker-rod pumping is the main artificial lift method in the South West Kamishytovoye field. 97% of producing wells are equipped with pump jacks.

Average well decline rates have decreasing in recent years, and currently average about 3% p.a. Whilst there is no established field or well decline rate, the oil cut decline is reasonably well defined, and GCA has used this as a basis for projecting future recovery and reserves. The Proved plus Probable reserves are estimated at 47.3 MMBbl, equivalent to a recovery factor of 62%.

There are a total of 262 wells drilled in the field:

- 185 oil producers
- 34 water injectors
- 3 currently shut-in wells
- 17 observation wells
- 22 abandoned wells and 1 well planned for abandonment.

No wells were drilled in the South West Kamishitovoye Field in 2005.

There is no further drilling planned for 2006, 5 wells are planned for 2007 and 2008, 4 for 2009 and 3 for 2010.

Workovers are performed in the South West Kamishitovoye field on a routine basis. The workovers mainly include additional perforating and re-perforation, converting wells to artificial lift and casing repairs. Daily oil production per worked over well in 2005 was approximately 14.2 bopd (1.83 Tpd).

The process facilities in the South West Kamishitovoye field constitute oil/gas/water separators, storage and pumping facilities. After the initial treatment, the oil is transported through a 8.5 km pipeline to the Rovnoye field and then to the Balgimbayev Central Processing Plant.

3.1.2 **Nurzhanov field - NGDU ProrvaMunaiGas**

The Nurzhanov field is located onshore 160 km to the South West of the Kulsary settlement. As the field is close to the Caspian Sea, it has occasionally been flooded although the field is now protected by a gravel dam. The nearest fields are Prorva West, Aktyube and Tengiz.

The reservoirs are deep, multilayered sandstones with thirteen production intervals divided into six "Objects". Productive horizons are at depths of 2,230 – 2,755 m in the Jurassic and at 3,120 – 3,340 m in the Triassic. There is some cross-field faulting, however, it is not clear if these are sealing. Porosity in the reservoirs range from 16 to 21% and permeabilities from 33 to 754 mD. Oil gravity varies from 28.9 to 31.3° API and GOR from 482 to 812 scf/Bbl.

KMG EP's estimate of the STOIP for Nurzhanov field was approved by the Soviet Authorities in 1987 (and in 2000 for the West part of the field) as 489.4 MMBbl (68.197 MMT).

The Nurzhanov field is the biggest producing field in NGDU ProrvaMunaiGas and the second biggest among EmbaMunaiGas fields. It is an oil and gas cap reservoir. Peak production of 19,400 bopd (2,700 Tpd) was recorded in 1978. Production then started to decline quite steeply to a low of about 4,900 bopd in 1990. Since 1999 field production has been steadily increasing and averaged 7,408 bopd in 2005. Cumulative oil production from the Nurzhanov field as of 31st December, 2005 was 149.8 MMBbl (20.87 MMT).

Average field water is cut 53%. 8,030 bwpd (1,277 m³d) of water was produced in 2005. The produced water is disposed by injection into shallower horizons at a depth of 800 – 1,000 m.

Production from Objects I, II, III and V started in 1967, 1963, 1987 and 1982 respectively.

Object IV was produced from 1964 to 1976 and restarted in 1997. In 2005 about 80% of the oil was produced from Objects II and IV.

The Nurzhanov field has been produced by natural depletion enhanced by some aquifer support solution gas and gas cap drive. About a third of producing wells are on natural flow and the rest are equipped with either electric submersible pumps or pump jacks.

There is no established field decline on Nurzhanov, though well decline rates have averaged about 5.2% p.a. The oil cut performance is also not well defined, but has been used as a basis for forecasting production. Production benefits are included for 16 new wells and 54 hydro-fracturing treatments between 2006 and 2010, as per the KMG EP business plan. Proved plus Probable reserves are estimated at 60.6 MMBbl, for a total recovery of 43%.

There are a total of 262 wells drilled in the field including:

- 136 oil producers
- 11 currently shut-in wells
- 1 water supply well
- 11 observation wells
- 9 absorption wells
- 78 abandoned wells
- 16 wells planned for abandonment

In 2005, 2 new wells were drilled. Average daily rate per new well was 300 bopd (41.6 Tpd). This compares with a field-wide average well rate of about 65 bopd (9 Tpd).

In 2005 workovers were performed on only 2 wells. One was unsuccessful and the other produced at an average rate of 10.5 bopd (1.46 Tpd).

The workover operations generally include additional perforation, water zone isolation, sand plugs removal, acid treatment in water injectors, re-perforation, pump installation and casing repairs. Hot oil treatment has been utilised to remove the paraffin in tubing and oil gathering system.

3.1.3 East Moldabek Area - NGDU KainarMunaiGas

Drilling on the East Moldabek structure began in 1988 and the field was discovered in the same year. Exploration drilling continued until 1990. The field is one part of the larger Kenbai development, which includes North Kotyrtas.

The field is a brachy-anticlinal fold that envelopes a salt core with relatively steep slopes. At the crest, the structure is complicated by two faults.

The oil occurs in the Lower Cretaceous and Middle Jurassic. The Cretaceous reservoirs (M) are sandy carbonates and the Jurassic reservoirs (1-0) are shaly fluvial sandstones. The Lower Cretaceous reservoir consists of one gas-oil horizon (M-I) and two oil horizons (M-II and M-III). Seven oil-bearing horizons were delineated in the Middle Jurassic, including three gas-oil horizons (J-I, J-II and J-III) and four oil horizons (J-IV, J-V, J-VI and J-VII). The reservoirs are found at depths between 190 m and 810 m. Porosity varies from 31 to 40% and permeability from 100 to 750 mD. Oil gravity ranges from 22.8 to 29.8° API and GOR from 27 to 83 scf/Bbl.

The area is characterised by high viscosity oil with adverse mobility ratio. Hence, oil recovery will be at high water cuts. STOIP for the East Moldabek was estimated in 1999 by KMG EP at 576.3 MMBbl (81.274 MMT). As a result of improved understanding of the field and significant amount of new data, the STOIP was re-calculated in 2004 by KMG EP, but the most recent estimates have not yet been approved by the Government.

GCA has audited the East Moldabek volumetrics and has derived a STOIP estimate of 404.17 MMBbl (57 MMT). The audit was based on the results of the 3D modelling data and petrophysical data provided by KMG EP.

Oil production in the East Moldabek area of the Kenbay field commenced in 1999 and it has increased gradually as a result of an aggressive drilling campaign. East Moldabek is currently the biggest oil producer of all the EmbaMunaiGas fields. The average oil rate in 2005 was around 7,840 bopd (1,105 Tpd) a slight improvement on 2004. This production represents 14.1% of the total EmbaMunaiGas oil production. Total cumulative area oil production as of 31st December, 2005 was 10.71 MMBbl (1.51 MMT).

The Objects that contribute to the East Moldabek area production are as follows:

- 35.3% Object III (MIII+JI)
- 33.3% Object II (M-II)
- 12.5% Object V (J-IV +V)
- 11.7% Object (J-III)
- 4.2% Object IV (J-II)
- 2.4% Object I (M-I)
- 0.6% Object VI (J-VI +VII)

There are total of 411 wells drilled in the field comprising:

- 305 oil producers
- 88 water injectors
- 9 currently shut-in wells
- 1 water supply well
- 2 observation wells
- 6 abandoned wells

The field has been under water flood since the second year of production. Water injection rate during 2005 was 12,063 bwpd (1,918 m³d). Water cuts are already increasing and averaged 47% during 2005. It is clear that oil recovery will be at high water cuts.

All producing wells are on artificial lift, either by sucker-rod pumping or through the progressive cavity pumps. 263 wells out of total 305 producers have the progressive-cavity pumps installed.

Various enhanced recovery mechanisms have been considered to recover the highly viscous oil from the shallow reservoirs, including steam and hot water injection and chemical flooding, but none of these has yet been demonstrated to be effective. The oil production level is maintained mostly due to the ongoing drilling campaign. However, individual well rates are rapidly declining at about 20 – 30% per year, which is an indication of adverse reservoir characteristics.

KMG EP is studying the feasibility of a production process, which has been successfully used in Alberta, Canada called CHOPS (cold heavy oil production of sand). The method

employs high-productivity progressive-cavity pumps. Initially, some significant sand production occurs with this method but as gas dissolution and other physical processes continue in the reservoir, the amount of sand produced with the liquid is reduced. The produced mixture of oil, water and sand needs to be specially treated on the surface, which means that significant expenditure for the new equipment purchase and installation will be required. There are currently no development plans or budget provision for this process, and it has not yet been proven to be appropriate for East Moldabek.

At the time of reporting, KMG EP's plan was to continue implementing the approved drilling schedule until all the wells in the current Field Development Plan have been drilled. Meanwhile KMG EP is expected to request the research institute to prepare the Feasibility Study for the application of the CHOPS method in the East Moldabek area.

66 new producing wells were drilled in 2005. Average oil rate per well in 2005 was 13.6 bopd (1.91 Tpd). Also, 14 new water injection wells were drilled in 2005.

In 2005, 79 workover operations were performed. Incremental oil production from these workovers was 74,147 Bbl (10, 457 T). The average oil rate per worked over well was 9.15 bopd (1.29 Tpd).

The workover operations included: additional perforations, water zone isolation, sand plug removal, acid treatment and re-perforation. Hot oil treatment has also been utilised to remove wax downhole.

Oil from the East Moldabek field is transported via 3.9 km pipeline to North Kotyrtas, then to the NPS-3 pumping station, NPS KTO Koshagyl pumping station and, finally, to Uzen – Atyrau – Samara trunk pipeline.

In spite of the ongoing increase in production at East Moldabek, individual well decline rates are high and water cuts are already approaching 50%. The long term development of the field is still undecided and there is a large uncertainty associated with the reserves.

GCA has estimated production and reserves for East Moldabek based on a projection of the oil cut versus cumulative oil performance, with provision for additional drilling. The KMG EP development plan only provides for a further 57 wells, which GCA has assumed in the Proved scenario. At a Proved plus Probable level, GCA has provided for 150 wells, on the basis that additional wells will be required to exploit the current undeveloped reservoirs. The Proved plus Probable reserves are estimated at 32.7 MMBbl (4.6 MMT), for a total recovery of 10.7% of the GCA estimated STOIIP. This low recovery factor demonstrates the poor recovery mechanism and the potential for enhanced recovery.

3.1.4 Botakhan field - NGDU DossorMunaiGas

Drilling on the Botakhan structure began in 1978 and the field was discovered in 1980.

Structurally the field is a salt dome. There are oil-bearing horizons in the Jurassic: J-I (layers I and II) and J-II (layers I, II, III and IV) at depths of 1,233 to 1,406 mss. Porosity ranges from 27.0 to 30.5% and permeabilities from 52 to 148 mD. Oil gravity ranges from 34.6 to 44.5° API.

KMG EP's STOIIP estimate for the Botakhan field is 89.58 MMBbl (11.989 MMT). This was officially approved in 2003.

Production in Botakhan commenced in 1981 and gradually increased to about 4,950 bopd

in 1997. From 1997 and until present day, the production has been relatively stable and is currently at about 4,700 bopd (630 Tpd). Total cumulative oil production as of 31st December, 2005 was 27.42 MMBbl (3.67 MMT).

A total of 134 wells have been drilled in the field:

- 102 oil producers
- 17 water injectors
- 8 observation wells
- 7 abandoned wells

Reservoir pressure is maintained through 17 water injectors. 12,751 bwpd (2,027 m³d) was injected in 2005; the average water production rate was 14,000 bwpd (2,230 m³d) giving a current water cut of 78%. There is one naturally flowing well in the field. The rest of the producers are operated with sucker-rod pumps.

Five new producers were drilled in 2005 with an average new well rate of 49.3 bopd (6.6 Tpd)

In 2005 14 wells were worked over with an average oil rate per worked over well of 3.7 bopd (0.5 Tpd). The workovers comprised additional perforation, water zone isolation, sand plugs removal, acid treatment.

There is no established field or well decline rate, however, water cuts have been increasing in recent years to about 75% in 2005. Total fluids production has hence also dramatically increased. GCA has estimated oil production and reserves based on extrapolation of the oil cut versus cumulative oil performance, with provision for 8 new wells. Proved plus Probable reserves are 20.0 MMBbl, for a recovery of 54%.

Facilities

The facilities at Botakhan comprise separation, treatment, storage, metering and pumping.

A 12 km oil pipeline connects Botakhan field with the Karsak off-loading terminal. A 2.5 km connection carries the oil to the Uzen – Atyrau – Samara pipeline.

3.1.5 East Makat field - NGDU MakatMunaiGas

The East Makat oil field was discovered in 1988 and put on production in 1993.

The reservoirs are shallow, multilayered sandstones, mainly of Jurassic and Triassic age with six intervals that have been grouped into three "Objects". The structure is an anticline formed between the Makat and Zholdybay salt domes. The structure is divided by faults into two blocks, northern and southern. The reservoirs are between 660 and 1,340 mss, porosities range from 23 to 31% and permeabilities from 50 to 590 mD. Oil gravity varies from 34 to 45.8° API and GOR from 28.3 to 1,210.7 scf/Bbl.

KMG EP's current estimate of STOIIP is 54.8 MMBbl (7.3 MMT). In 2002 GCA calculated the STOIIP as 60.25 MMBbl (8.0 MMT). In 2003 47.8 km² of 3D seismic was shot in the field. As a result, the STOIIP and recoverable volumes were re-estimated by KMG EP. In 2005 KMG EP submitted STOIIP and recoverable reserves estimates for East Makat to the special governmental body for reviewing and approval. The new estimate was

reviewed and subsequently approved by the State Commission on Reserves in early 2005 (protocol №384-05-Y).

Oil production in the East Makat field commenced in 1993 and gradually increased until 2001. From 2001 until present the production has been relatively constant at approximately 4,550 bopd (605 Tpd). In 2005 the field oil rate was 4,641 bopd (616.2 Tpd). There is no established field decline; the average well rate in 2005 was 83 bopd (11 Tpd), though there is a reasonably well defined oil cut decline trend.

Cumulative oil production as of 31st December, 2005 was 16.46 MMBbl (2.19 MMT).

The Objects contribute to the field production as follows:

•	5.0%	Object I	4 producers	1 injector
•	59.5%	Object II	33 producers	6 injectors
•	35.5%	Object II	12 producers	2 injectors

The field is produced under waterflood. Currently, there are 9 active water injectors. 5,721 bwpd (910 m³d) was injected in 2005; the water production rate was 4,611 bwpd (733 m³d); average water cut during 2005 was 50%.

7 wells are naturally flowing and one well is equipped with a progressive cavity pump. The rest of the producers are operated with the sucker-rod pumps.

There are total of 78 wells drilled in the field comprising:

- 52 oil producers
- 9 water injectors
- 7 water supply wells
- 5 observation wells
- 5 abandoned wells

In 2005 4 new wells were drilled and produced an average of 116 bopd (15.4 Tpd).

7 wells were worked over in 2005, giving an average rate improvement of 21 bopd (2.78 Tpd) per well. The workover operations include additional perforation, water zone isolation, sand plugs removal, acid treatment, re-perforation. Hot oil pumping has also been utilised to remove wax.

As there is no established field or well decline on East Makat, GCA has forecast oil production and reserves from an extrapolation of the oil cut versus cumulative oil trend, with provision for 13 new wells, as proposed by KMG EP. Proved plus Probable reserves are 29.2 MMBbl, equivalent to a recovery factor of 76%, based on the GCA STOIIIP estimate. This is clearly too high for a reservoir with the characteristics of East Makat. Given the field performance, however, and the conservative performance-based forecast, GCA considers that the volumetric estimate of STOIIIP does not recognise the full field potential.

3.2 UzenMunaiGas

UzenMunaiGas comprises four separate production units. As they are all located within the same geographic area, and share many of the same facilities, GCA is reporting UzenMunaiGas on the basis of the two oil fields (Uzen and Karamandybas), and not by production unit. The locations of the fields and pipeline infrastructure are shown in Figure 9.

Uzen is the largest field in the KMG EP portfolio, contributing 70% of the company's total oil production.

Both Uzen and Karamandybas are mature fields, with Uzen having been on production since 1964 and Karamandybas since 1973.

2005 UZENMUNAIGAS OIL PRODUCTION

Field	Oil Production, bopd
Uzen	124,587
Karamandybas	7,987
Total UzenMunaiGas	132,574

Geology

The Uzen and Karamandybas fields are part of one large anticlinal structure located in the South Mangyshlak region of the Middle Caspian Basin. Upper Jurassic shales and carbonates form the regional seal. Reservoir depths range from 852 m at the crest of the structure to 1,700 m at the flanks of the deeper horizons. The overall structure measures some 39 km by 9 km.

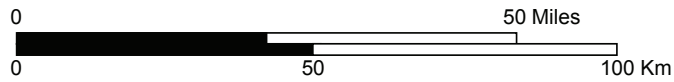
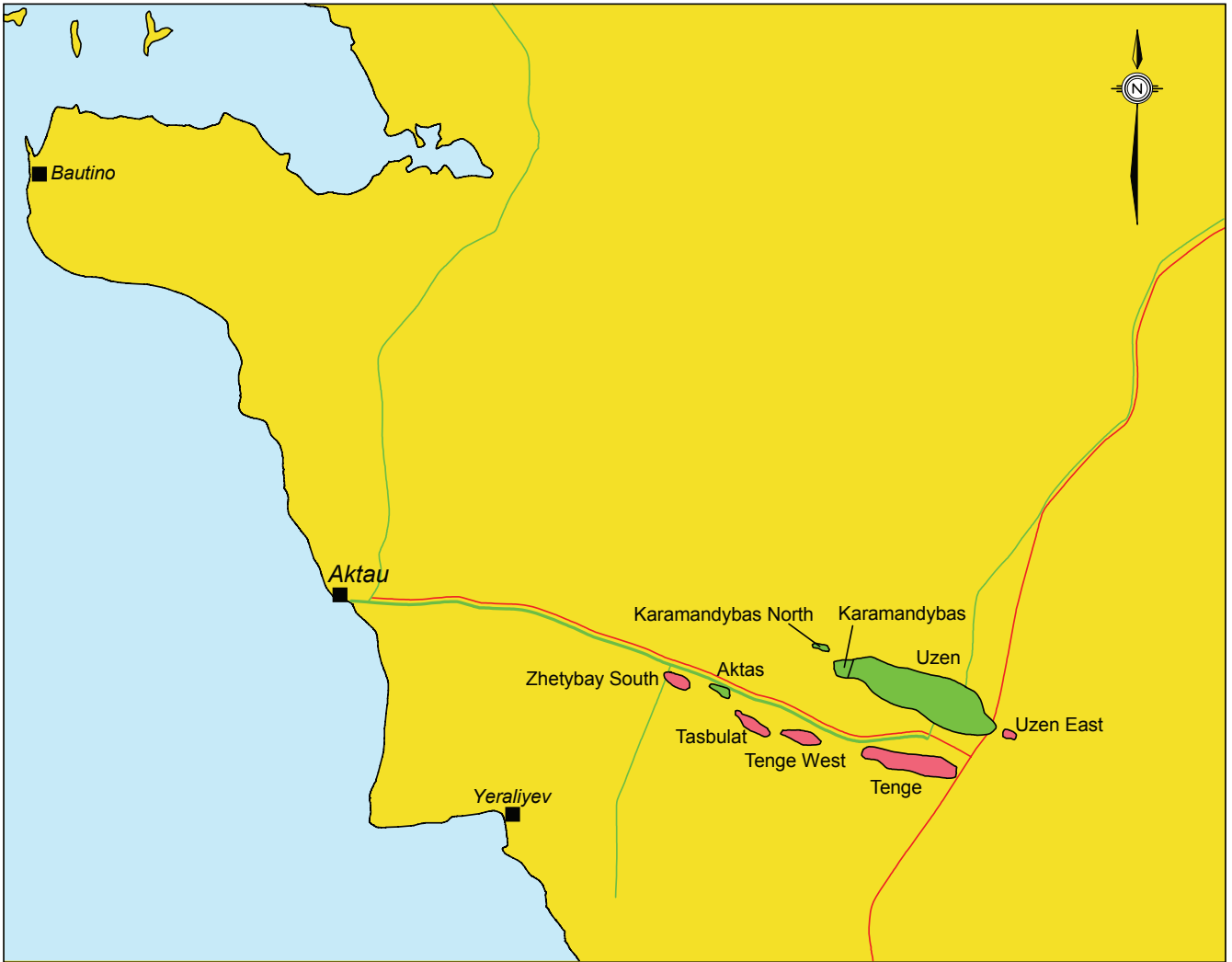
The reservoir rocks are of Jurassic age, poorly sorted and silty alluvial sandstones, mostly deposited in a braided stream environment. This type of depositional environment gives rise to a complex internal reservoir geometry which affects the sweep efficiency of a water flood. Thus thousands of wells are required to achieve reasonable production rates.

Production





Uzen is by far the larger of the two fields, with about 95% of the STOIP and 96% of the production to date.

Oil production began from Uzen in 1964 with largely commingled production from the different Horizons. Karamandybas came on stream in 1973. Although the development plan called for full pressure maintenance by water injection, it was some years before this was implemented. The original water injection scheme was a line drive with 4 km spacing between lines of injectors (later in-filled to 2 km spacing). These lines of water injectors now define sixteen "injection blocks" in an east-west direction across the field, usually referred to as Block 1, Block 1A, Block 2 etc.


Reservoir pressure declined as a result of early production and, since the main reservoirs are only slightly undersaturated, GOR increased from around 400 scf/bbl (60 m³/m³) to 800 scf/bbl (120 m³/m³) by 1970. By 1974 water injection had restored reservoir pressures.



LEGEND

-  Oil Field
-  Gas Field
-  Oil Pipeline
-  Gas Pipeline

**UzenMunaiGas
Field and
Pipeline Infrastructure**

Proj. E1397.01 Sep 06 Checked:  Fig. 9

Once the initial development was complete, oil production reached a peak of almost 330,000 bopd (16.25 MMT per year) in 1975. However, production then began to decline caused by a variety of production problems, in particular, early water breakthrough in high permeability sands left large volumes of unswept oil in the lower permeability sands. Degassing of the oil, which is close to its pour point, in some poor connectivity sands is likely to have further reduced production, with paraffin wax being deposited in the reservoir.

The development plan was modified to arrest this production decline. More rows of injectors were drilled, pattern flooding began in addition to the line drive, and more dedicated wells were drilled to access the tighter sands, particularly in the Horizon XIII.

The increased drilling and workover activity reduced the decline rate to about 4% p.a. from 1980 to 1989.

Following the break-up of the USSR the oil production in UzenMunaiGas fell rapidly from 169,700 bopd (11.1 MMT per year) in 1989 to 56,140 bopd (2.8 MMT per year) in 1996 as the number of active wells in the field (producers and injectors) fell from about 4,000 to 3,100. Surface facilities also suffered from lack of investment.

As a result of subsequent improved reservoir management, particularly to optimisation of the water injection, the total UzenMunaiGas field production increased up to a 2005 rate of 132,574 bopd (6.5 MMT per year). The average water production rate in 2005 was 484,800 bwpd (77,080 m³d); water injection equalled 856,200 bwpd (136,100 m³d). Average field water cut is 78.6%.

The following operations were performed in 2005 in UzenMunaiGas:

- 90 new oil wells were put on-stream;
- 385 producers, 378 injectors and 32 gas wells were worked over;
- 83 shut-in wells and 6 observation wells were put back on production;
- 27 water injectors were drilled;
- 22 producers, 37 shut-in wells and 4 observation wells were converted into injectors;
- 33 oil wells were sidetracked;
- high capacity pumps were installed in 310 wells;
- Christmas trees and other surface equipment were replaced in 689 wells;
- 3,689 producers and injectors underwent various downhole treatments including: hot-oiling, re-perforation and additional perforation, acidization etc.;
- Production performance of 1,193 wells was optimised by adjusting beam travel time and pumping frequency;
- New EOR technologies such as sonic and electric bottom-hole zone treatment hydrofracturing and gel selective isolation were applied in 728 wells;
- 150 wells were abandoned.

Facilities

The produced liquid in both Uzen and Karamandybas fields is delivered to the water treatment facilities, where it undergoes the first stage of separation. The treated oil emulsion with 10 – 15% water cut goes to the Oil Preparation and Pumping Unit for the further separation to meet KazTransOil trade oil standards, mainly on salt and water content. The located oil is pumped into Uzen – Atyrau – Samara trunk oil pipeline and delivered to the domestic market or exported abroad.

The separated water is pumped to the Water Pumping Units for re-injection into the reservoir.

Drilling Plans

The KMG EP Business Plan is for 680 wells (420 producers and 260 injectors) over the period 2006 to 2010 for Uzen and 70 wells (50 producers and 20 injectors) for Karamandybas. There is also an ongoing campaign of hydraulic fracturing with 854 producers planned over the five year period. KMG EP has plans for continuing drilling and hydraulic fracturing to 2025 and 2015 respectively although these are not yet part of the formal Business Plan.

Production Forecasting and Reserves

GCA has performed a detailed analysis of the production performance on Uzen and Karamandybas. In addition to production decline and oil cut decline analysis, GCA has also undertaken an analysis of the vertical fractional flow for reservoirs XIII to XVIII. This has required deriving a relationship between the permeability and pore volume distribution for the reservoirs. The different methods tended to support each other and on the basis of this, GCA has forecast the oil production and reserves from an extrapolation of the oil cut versus cumulative production, with provision for additional benefits from new wells and other hydrofracturing campaign.

UZENMUNAIGAS RESERVES AS OF 31ST DECEMBER, 2005

Field	Proved MMBbl	Proved plus Probable MMBbl	Proved plus Probable plus Possible MMBbl
Uzen	466.3	1,100.8	1,659.3
Karamandybas	24.6	46.5	67.6
Total NGDU UzenMunaiGaz	490.9	1,147.3	1,726.9

3.2.1 Uzen Field

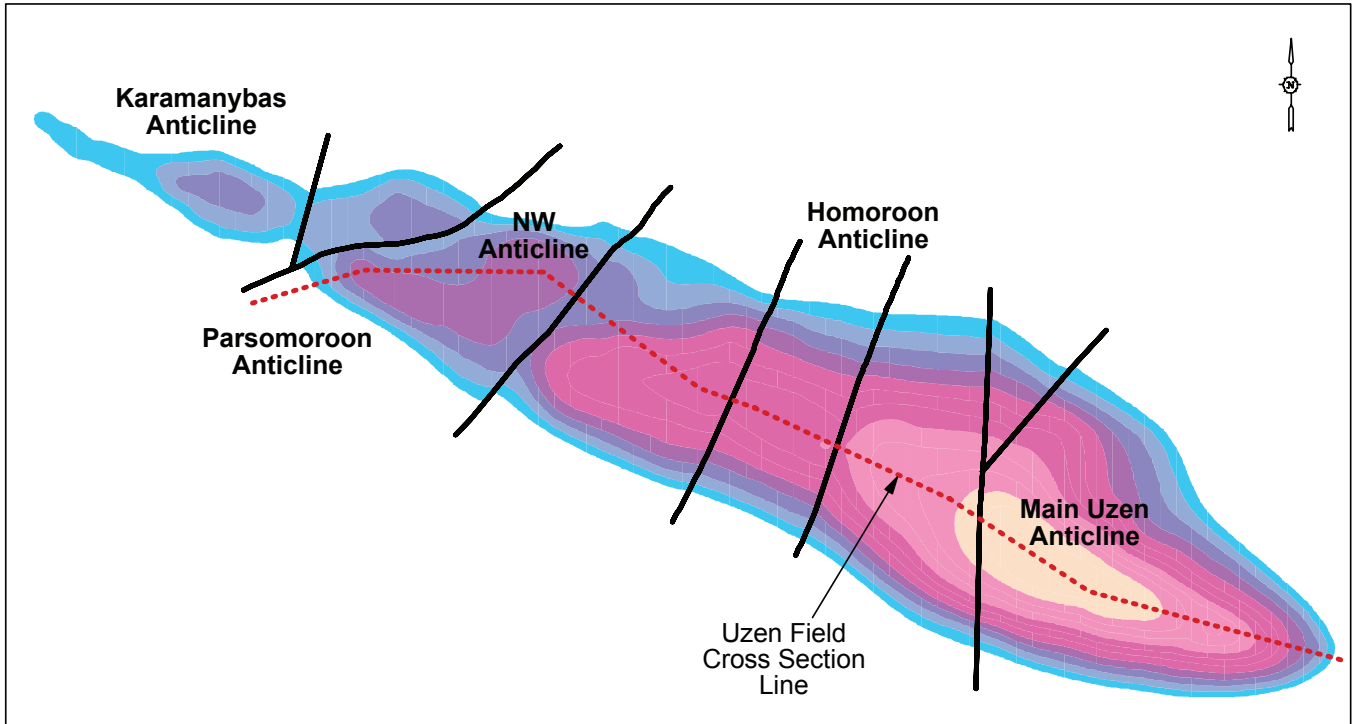
The Uzen field comprises one single structure. The crestal area, or Main Anticline, is located in the East, moving westward, and structurally downdip, the areas are Homiroon, NW Anticline and Parsomoroon (Figures 10 to 12). For the purpose of this study, GCA has considered Uzen as a single structure.

There are twelve main oil-bearing horizons, labelled XIII to XXIV, which contain 88% of oil resources. Horizon XIII and Horizon XIV are the largest, and between them contain about 58% of the total STOIP. The deeper horizons, XIX to XXIV are poor quality, less developed and contain only about 12% of total STOIP.

The shallower Horizons I to XII contain gas. Some of the oil-bearing horizons (such as XVI, XIX, XX and XXI) have primary gas caps.



Oil has similar properties throughout the cross-section. It has high wax and resin content (up to 41%), with no sulphur and with a pour point of +30 Deg C. The average density of Uzen oil is 35° API (851 kg/m³). Oil viscosity at reservoir conditions is 34 - 40 cP.

The properties for Horizon XIII are as follows:




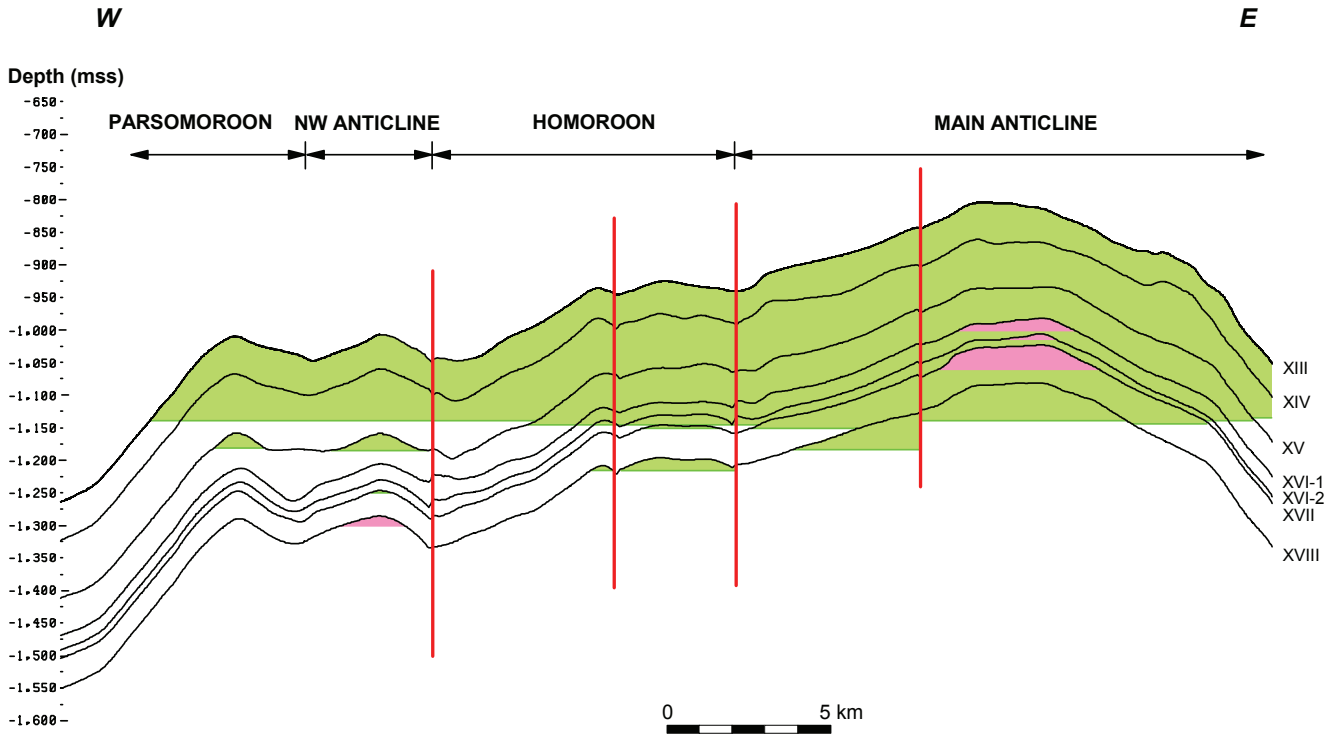
0 5 km

LEGEND

-  Shaded Above the OWC for Horizon XIII
-  Fault

**Uzen and Karamandybas Fields
Field Outline and Locations of
Anticlines**

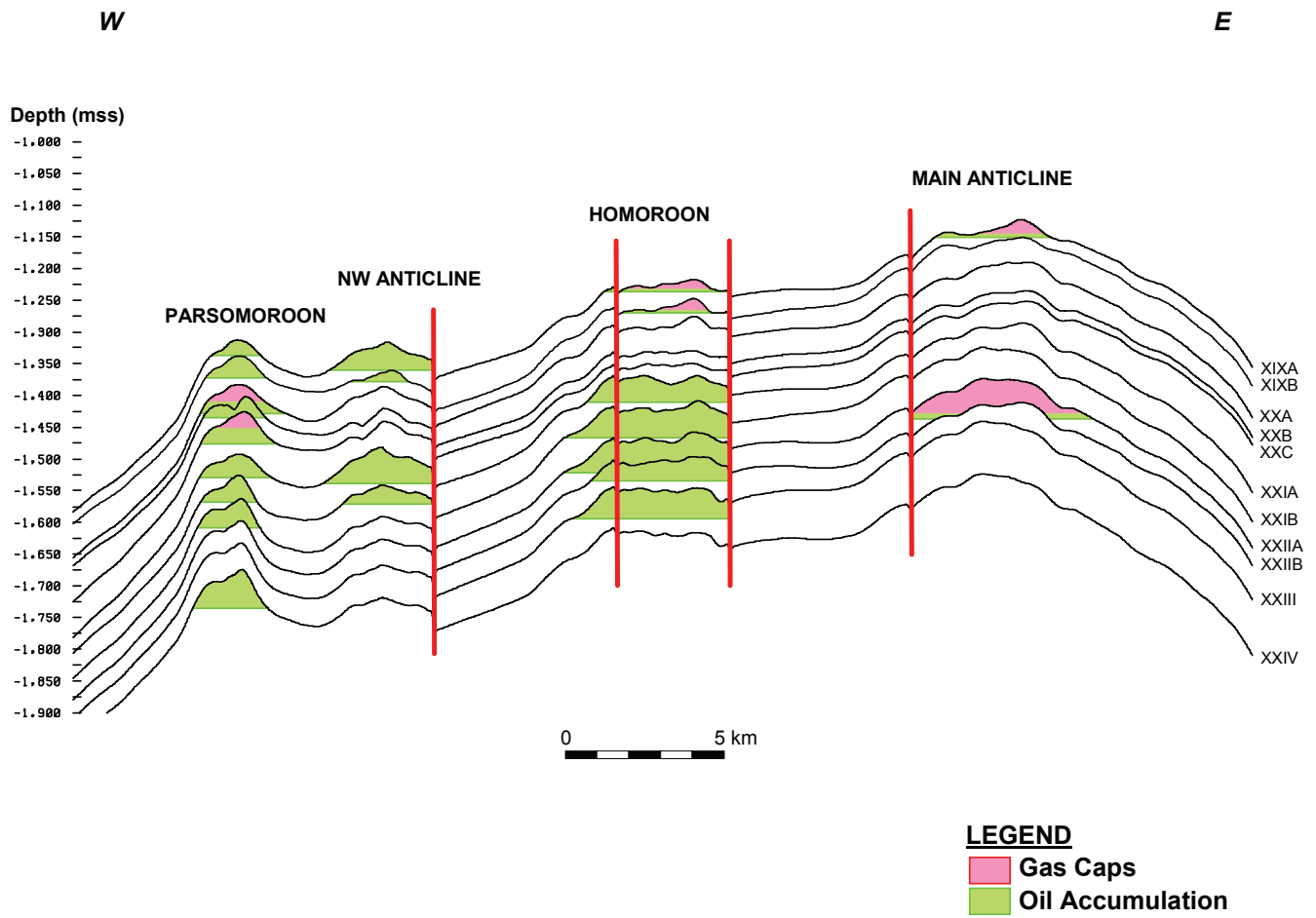
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Note: Top of each horizon plotted

LEGEND
 Gas Caps
 Oil Accumulation

**Uzen Field
 Reservoir Zones XIII - XVIII
 East-West Cross Section Showing
 Oil Accumulations**
 Proj. E1397.01 Sep 06 Checked: *[Signature]* Fig. 11



Note: Gas accumulations with no oil are not shown; Top of each horizon plotted

**Uzen Field
Reservoir Zones XIX - XXIV
East-West Cross Section Showing
Oil Accumulations**

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Property	Horizon XIII
Bubble point pressure, psia	1,200
GOR, scf/bbl	310
FVF	1.20
Oil viscosity, cP	42.0
Oil gravity, °API	50.6
WAT, °C	58

Initial reservoir pressure is close to hydrostatic at 1,508 psia (10.4 MPa) and 1,813 psia (12.5 MPa) for Horizons XIII and XVIII respectively. Initial bubble point pressures for Horizons XIII and XVIII are 1,204 psia (8.3 MPa) and 1,624 psia (11.2 MPa) respectively.

The total number of producers as of 31st December, 2005 was 3,316 with 1,155 injectors. 33 wells are flowing, 95 are equipped with electric submersible pumps, 5 have progressive cavity pumps and the rest of the wells are produced by conventional sucker-rod pumps. There are also 12 water supply wells, 71 observation wells and 1,479 abandoned wells in the Uzen field.

STOIIP is estimated by KMG EP at 7,820 MMBbl (1,059 MMT). As of 31st December, 2005 the total cumulative oil production was 2,201 MMBbl (297.8 MMT).

The 2006-2010 Business Plan includes provision for drilling 420 producers, 260 water injectors and performing hydro-fracture and other special treatments on 854 wells, which GCA has accepted in the Proved scenario, on the basis that the annual programme is consistent with recent historical activity levels. KMG EP has also presented to GCA a drilling schedule of 1,195 producing wells up to 2025 and 1,688 special treatments up to 2015. Whilst it is not possible to predict accurately drilling and workover activity so far into the future, GCA has accepted KMG EP's forecasts up to 2015 (760 new producing wells and 1,688 special treatments) as a reasonable forecast in assessing the Proved plus Probable reserves and production forecasts. Proved plus Probable reserves for Uzen at 31st December, 2005 are 1,101 MMBbl(156.4 MMT), giving an ultimate recovery factor of 42%.

3.2.2 Karamandybas Field

The Karamandybas field is located at the western end of the Uzen field. When the decision to develop the area was made, the Uzen field was artificially divided into two fields, Uzen and Karamandybas, although it is actually all part of the same structure. Field geology, oil distribution and properties in Karamandybas are essentially the same as in the rest of the Uzen field. As with Uzen, most of the oil in Karamandybas is contained in Horizons XIII and XIV.

KMG EP's estimate of STOIIP for Karamandybas is 404.3 MMBbl (54.7 MMT).

The cumulative oil production as at 31st December, 2005 was 88.4 MMBbl (11.9 MMT).

Average oil production rate in 2005 was 7,987 bopd (1,081 Tpd). The average water production rate in 2005 was 27,670 bwpd (4,400 m³d); water injection equalled 60,700 bwpd (9,650 m³d). Average field water cut is 78%.

99.5% of the wells in the Karamandybas field are produced with beam-pumps. There are two flowing wells. Also there are 16 observation wells and 59 abandoned wells.

As with Uzen, KMG EP has presented to GCA a drilling and hydro-fracturing schedule that runs until 2015, which GCA has accepted in its Proved plus Probable scenario. The 2006 – 2010 Business Plan includes provision for drilling 50 producers and 20 injectors. Proved plus Probable reserves for Karamandybas at 31st December, 2005 are 46.5 MMBbl (6.3 MMT), giving an ultimate recovery factor of 33%.

4. PRODUCING GAS ASSETS

Natural gas is produced in all of the EmbaMunaiGas and UzenMunaiGas fields. Part of this gas is in solution with the oil and is produced in association with the oil production (associated gas). The remainder is produced from gas bearing formations and is not usually associated with oil production (non associated gas), though there may be condensate produced with the gas. Non associated gas is generally only produced if there is a market or a pipeline system for export, or if it contains sufficient condensates that can be recovered. Associated gas is often produced in insufficient volumes to justify a gas gathering or export system. Any volumes surplus to local requirements (power generation, process heating etc) are usually flared.

Gas production in the EmbaMunaiGas fields is practically all associated gas and there is no existing infrastructure to conserve the gas. Any volumes surplus to local processing or heating requirements are flared. KMG EP is studying various alternatives for gas utilisation, though realistically none of these are expected to conclude that the gas can be montized, given the low volumes and pressures. GCA considers that the most realistic use of associated gas from the EmbaMunaiGas fields would be some form of liquids recovery and local use of the gas. It is not conceived at this stage that any value could be assigned to this gas.

The only other issue is whether KMG EP could become obliged to minimise or eliminate gas flaring.

Gas production in the UzenMunaiGas fields is a combination of both associated and non associated gas. The gas is produced from the following fields:

Both associated and non associated gas:

- Uzen
- Karamandybas

Non associated gas:

- West Tenge
- Aktas
- Tasbulat
- South Zhetebay
- East Uzen

2005 UZENMUNAIGAS GAS PRODUCTION

Field	Associated Gas Production, Mscfd	Non Associated Gas Production, Mscfd	Condensate production, bcpd
Uzen	23,815	2,654	
Karamandybas	1,527	2,909	
Western Tenge		7,457	106
South Zhetybay		61,172	368
Tasbulat		3,440	52
Aktas		942	7
East Uzen			
Total UzenMunaiGas	25,342	78,574	533

Gas and condensate separated in the field are delivered to the Uzen gas processing plant, where they are processed into a dry gas stream (methane and ethane), liquified petroleum gases, or LPG (mainly propane and butane), natural gas liquids (mainly hexanes and heptanes) and furnace oil. Any surplus gas that is not required for local or processing requirements is sold to a power generation plant. Liquids are also sold.

On the basis that there is value associated with these product streams are being produced and sold, GCA has evaluated the resources of gas and associated liquids for the UzenMunaiGas fields.

Most of the non associated gas fields are at a late stage of development and have been on decline for a number of years. The production and pressure data provided by KMG EP has been limited and hence GCA's production forecasts have been reasonably conservative. They have been based on a combination of production decline analysis and material balance.

No reserves are attributed to the gas or associated liquids on the basis that the development of these resources is not commercially viable at the existing production prices. Gas resources have, therefore, been classified as Low and Best estimates. The gas and liquid forecast for the Low and Best estimates are presented in the following table:

	SALES GAS		LPG		NGL Mix		Furnace Oil	
	MMscfd	MMscfd	T/day	T/day	T/day	T/day	T/day	T/day
	Low	Best	Low	Best	Low	Best	Low	Best
2006	80.2	80.9	193.0	229.0	102.2	114.5	22.7	22.9
82007	72.8	74.9	175.2	212.0	92.7	106.0	20.6	21.2
2008	66.2	69.4	159.3	196.6	84.4	98.3	18.7	19.7
2009	59.9	64.5	144.1	182.6	76.3	91.3	17.0	18.3
2010	54.1	60.0	130.2	170.1	68.9	85.0	15.3	17.0
2011	48.4	56.0	116.5	158.7	61.7	79.3	13.7	15.9
2012	21.1	52.4	50.9	148.3	26.9	74.1	6.0	14.8
2013	1.1	49.0	2.7	138.8	1.4	69.4	0.3	13.9
2014	0.0	45.5	0.0	128.8	0.0	64.4	0.0	12.9
2015	0.0	41.6	0.0	117.8	0.0	58.9	0.0	11.8
2016	0.0	37.3	0.0	105.6	0.0	52.8	0.0	10.6
2017	0.0	33.5	0.0	94.8	0.0	47.4	0.0	9.5
2018	0.0	30.0	0.0	85.1	0.0	42.5	0.0	8.5
2019	0.0	26.9	0.0	76.2	0.0	38.1	0.0	7.6
2020	0.0	24.1	0.0	68.1	0.0	34.1	0.0	6.8
2021	0.0	21.4	0.0	60.7	0.0	30.4	0.0	6.1
2022	0.0	19.1	0.0	54.0	0.0	27.0	0.0	5.4
2023	0.0	16.7	0.0	47.4	0.0	23.7	0.0	4.7
2024	0.0	14.7	0.0	41.5	0.0	20.7	0.0	4.1
2025	0.0	12.8	0.0	36.2	0.0	18.1	0.0	3.6
2026	0.0	11.1	0.0	31.4	0.0	15.7	0.0	3.1
2027	0.0	9.5	0.0	27.0	0.0	13.5	0.0	2.7
2028	0.0	8.1	0.0	23.0	0.0	11.5	0.0	2.3
2029	0.0	6.8	0.0	19.2	0.0	9.6	0.0	1.9
2030	0.0	5.6	0.0	15.7	0.0	7.9	0.0	1.6
2031	0.0	4.4	0.0	12.5	0.0	6.3	0.0	1.3
2032	0.0	3.4	0.0	9.5	0.0	4.7	0.0	0.9
2033	0.0	2.4	0.0	6.7	0.0	3.4	0.0	0.7
2034	0.0	1.5	0.0	4.1	0.0	2.1	0.0	0.4
2035	0.0	0.6	0.0	1.7	0.0	0.8	0.0	0.2
2036	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2037	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2038	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2039	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2040	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2041	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2042	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2043	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2044	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2045	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Bcf/MT	147.4	322.7	354.8	913.7	187.8	456.8	41.7	91.4

Gas utilisation in UzenMunaiGas is about 150 MMm³ per year. There are further plant losses and shrinkage of about 5.5%. Liquid volumes have been calculated based on yields of 85 to 115 T/MMm³ for LPG, 45 to 55 T/MMm³ for NGL mix and 10 T/MMm³ for furnace oil.

5. EXPLORATION ASSETS

KMG EP is currently undertaking a number of exploration opportunities throughout western Kazakhstan. KMG EP holds Licences to undertake exploration and production in the Taisoigan and Liman areas. KMG EP is also in negotiation for the contract on R -9 for exploration and production where the process of transferring the contract from KMG Corporate to KMG EP is in progress. Figure 13 shows the location of the four exploration concessions in the context of the overall asset portfolio.

In addition, KMG EP owns 100% of the East Makat, Nurzhanov and 'Akingen fields and is undertaking additional exploration activities in order to determine the extent of the fields.

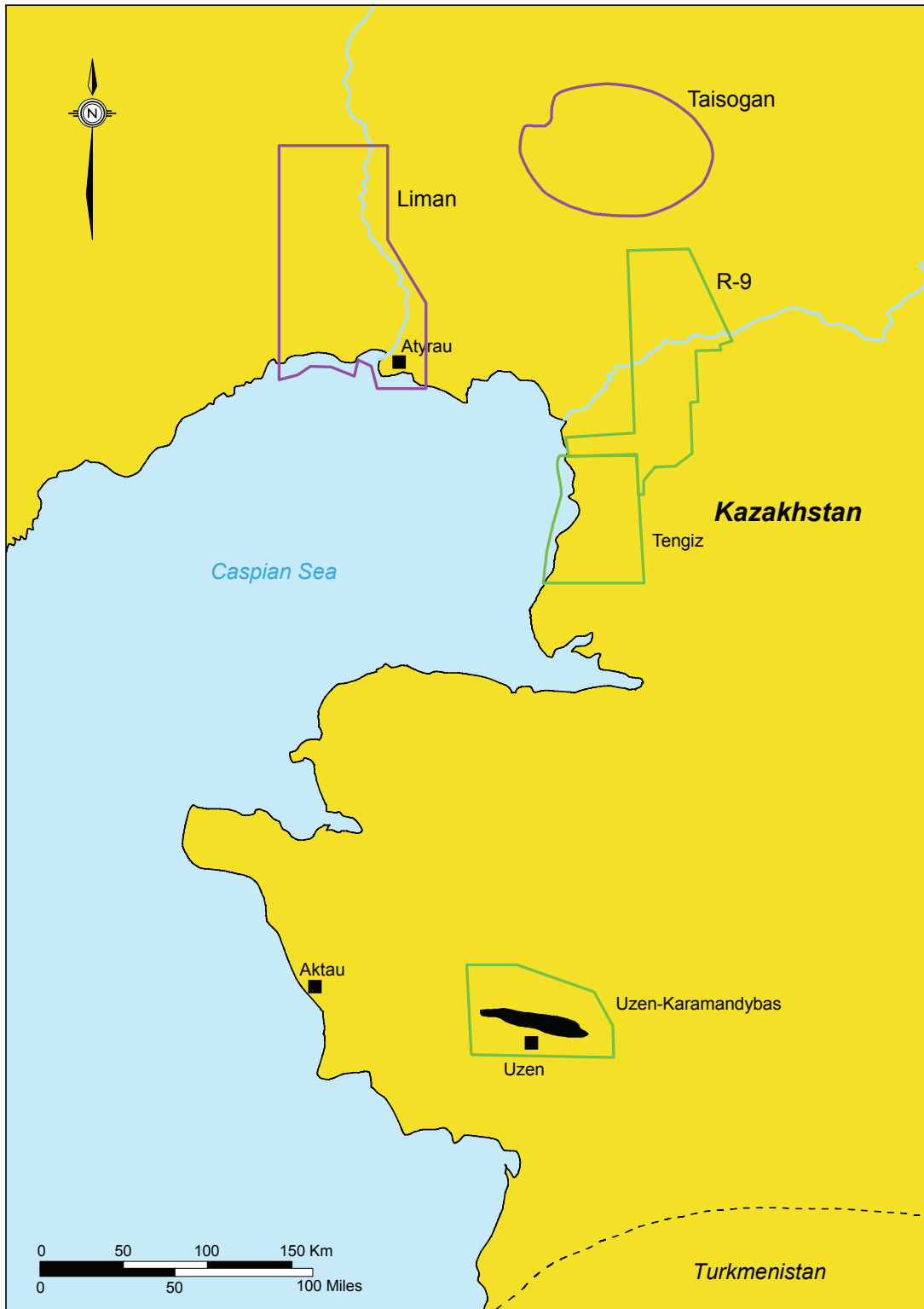
GCA understands that KMG EP is in the process of expanding its exploration activities. These plans include seismic surveys adjacent to Uzen and Karamandybas; drilling the underlying Triassic at Uzen and Karamandybas; agreeing a Memorandum of Understanding with a major international oil company for a further exploration project in the North Caspian Sea region; and, finally, obtaining a licence to explore the post-salt structures above the Tengiz field (which is found beneath the salt).

5.1 Taisoigan Exploration Area



KMG EP signed an exploration contract in 1999 for the Taisoigan area which permits the acquisition of seismic data and exploration drilling on behalf of the previous operator, EmbaMunaiGas. The Taisoigan region is approximately 180 km northeast from Atyrau and a large part is covered by a missile testing range rented by the Russian Government from the Government of Kazakhstan. The 1999 exploration Licence was suspended in 2001 in connection with the renewal of the missile testing range. A full resumption of exploration activities is dependent on the continued negotiations between the Kazakh and Russian governments. KMG EP is currently working with approval of the military command only in unrestricted areas in the north and south of Taisoigan (Figure 14). The areas currently being investigated by KMG EP account for only 2,125 km² of a total exploration area of some 8,462 km².

Prior to the suspension of the exploration contract in 2001, a significant amount of seismic data had been acquired and several exploration wells drilled. The primary targets for exploration are post-salt anticlinal structures with potential to contain hydrocarbon bearing formations in the Permo-Triassic, Middle Jurassic and Lower Cretaceous fluvial sandstones similar to those encountered in the neighbouring East Moldabek and Sagiz fields. The presence of source rocks and migration pathways is not considered a significant risk nor is the presence of suitable reservoir formation. The major risks associated with the structures in the Taisoigan area are associated with the structural closures, which are typically of low relief, and the sealing mechanism of the prospects. A geological chance of success (GCOS) for the fields in the Taisoigan area has been estimated by GCA to be 0.58.


KMG EP has identified more than 24 structures from the 2D seismic (not available for review by GCA), which it defines as "high confidence". A further 8 weaker leads have also been identified by KMG EP. The structures are predominantly un-faulted anticlinal structures and are found at depths of between 300 and 1,800 mss. The shallow depth of the structures suggests that, while they may be hydrocarbon bearing, any oil discovered will be of moderate to poor quality, typically less than 18° API and similar in character to that found in East Moldabek. 9 of the above 24 high confidence structures were identified by KMG EP as strong prospects and

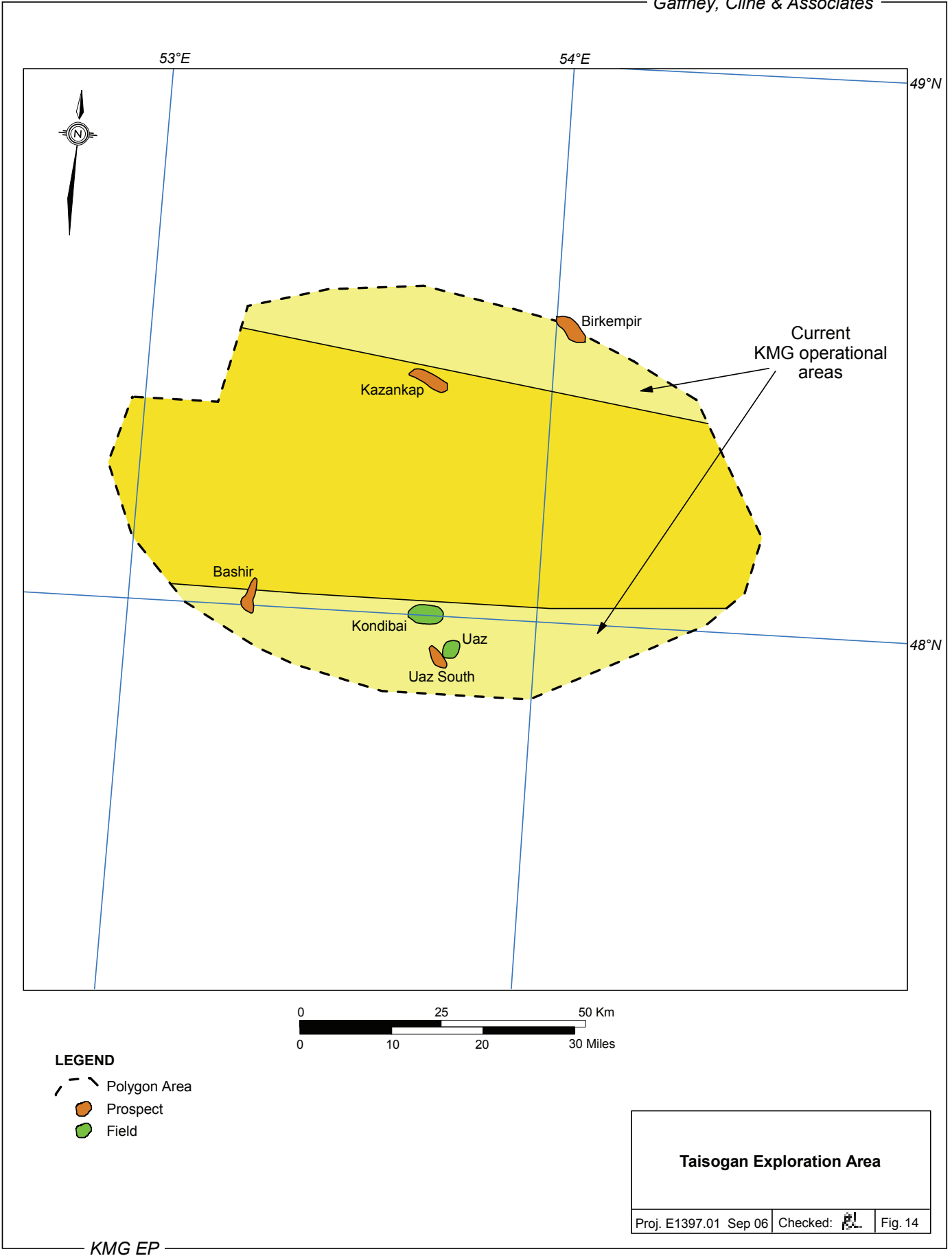


LEGEND

-  KMG EP Exploration Permits
-  Exploration Permits in Negotiation

**KMG EP
Exploration Areas**

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these are tabulated below. GCA has not been provided with any details or descriptions of many of these prospects and is unable to comment on them. Of these, 12 prospects only two fall within the current KMG EP operating area; these are the Uaz and Kondybai prospects. However, a further two, where no initial estimate of STOIP has been prepared, also lie within the approved zone and are the Bazhir and Birkempir structures.

GCA understands that an active exploration programme is planned for 2006, including 150 km of 2D seismic; 80 km on the South Bazhir structure and the remainder divided between the Ongar, Kaidasyn and SE Kozha structures. Four wells are planned; two in each of the Uaz and Kondybai areas.

The Uaz and Kondybai prospects have now been drilled and were both discoveries with the discovery wells flowing oil at around 200 bopd. A further prospect, Kazankap, which lies just outside KMG EP's permitted zone, was drilled but found to be dry from the 2 exploration wells drilled on the prospect to date. A summary of the STOIP and potential recoverable resources are tabulated below.

Apart from the two discoveries all these volumes are considered to be prospective resources. It is understood that no significant work has yet taken place to assess the commercial viability of the Uaz and Kondybai discoveries and these are considered to be contingent resources.

SUMMARY OF THE RESOURCES ASSOCIATED WITH IDENTIFIED DISCOVERIES AND PROSPECTS IN THE TAISOIGAN AREA

	Unrisked Contingent Resources					
	STOIP			Resources		
	MMBbl			MMBbl		
	Low	Best	High	Low	Best	High
Uaz	62.3	108.5	157.4	13.1	23.6	37.5
Kondybai	79.4	141.1	203.9	16.7	31.0	48.8

	Prospective Resources								
	Unrisked Volumes						Risked Volumes		
	STOIP			Resources			Resources		
	MMBbl			MMBbl			MMBbl		
	Low	Best	High	Low	Best	High	Low	Best	High
SE Kozha	4.4	7.8	11.3	0.9	1.7	2.7	0.5	0.9	1.5
Taisoigan West	294.1	506.3	719.1	60.5	110.0	172.0	33.9	61.6	96.3
Taisoigan East	269.4	468.6	664.6	55.6	102.5	159.3	31.1	57.4	89.2
Shigankol West	163.4	269.3	396.1	34.2	58.5	96.7	19.2	32.7	54.2
Shigankol East	312.4	512.3	761.1	64.8	110.7	182.4	36.3	62.0	102.2
Barlyban	69.2	114.3	169.9	14.4	24.8	40.5	8.1	13.9	22.7
Kazlygansor NW	473.3	765.7	1126.9	96.3	165.2	269.9	53.9	92.5	151.1
Kazlygansor	251.7	415.8	621.9	52.2	89.8	148.8	29.2	50.3	83.3
Tobekmola	46.2	89.8	148.8	9.7	16.5	27.4	5.4	9.2	15.4

5.2 Exploration Block R-9

The R-9 exploration block is located 170 km east of Atyrau and covers an area of approximately 500 km². The block is currently contracted to KMG Corporate but the transfer of the Licence to KMG EP is in progress and it is currently with the Ministry of Energy and Mineral Resources for approval.

KMG EP's activity has been limited to the review of existing 2D seismic and the preparation of potential prospects for drilling. One structure, the Kulsari Northwest prospect, has been identified as a drillable prospect and is estimated to contain around 80 MMBbl of STOIIP (Unrisked). No data was available for an independent review of the Kulsari Northwest prospect by GCA. However, a well was spudded on the Kulsari Northwest prospect in October, 2005 and, at the time of reporting, the well was testing two intervals.

If and when KMG EP is confirmed as the Licence holder for Block R-9, a work programme will be planned. In 2005, 680 km of 2D seismic was acquired and a 3D seismic survey was shot in the Akingen' area.

The 2006 work programme includes the acquisition of 800 km of 2D seismic, the drilling of one well on the south flanks of the Akingen' structure, two wells on a structure known as North Dyusyuke and one well on the Koykara prospect.

The prospects and leads are considered to be analogous to the neighbouring fields, Akingen', Kulsary and Komsomolski. These existing fields are typically flowed at less than 1,000 mss but have multiple reservoir horizons of Jurassic and Permo-Triassic age. The individual reservoir units are thin (1 to 10 m) and of good porosity (around 28%) and permeability (200 mD). The oil produced from these fields is paraffinic (up to 2%) and is often biodegraded. The oils range in specific gravity from 0.85-0.9 g/cc. Moderate rates of between 100 and 350 bopd have been achieved by production wells on these fields. The table below sets out the in-place volumes estimated by KMG EP for the structures on Block R9. No data was available to assess the reasonableness of these volumes. In the absence of seismically defined structural leads the geological chance of success must be considered by GCA to be less than 10%. A recovery factor of 20% has been assumed and is based on analogy with existing fields and takes into consideration the potentially heavy oil that may be encountered.

BLOCK R- 9 EXPLORATION LEADS

Exploration Leads	Unrisked STOIIP MMBbl	Unrisked Potentially Recoverable Resources MMBbl	Risked Potentially Recoverable Resources MMBbl
Kulsari Northwest	226.4	45.3	4.5
Kamishkoi North	201.6	40.3	4.0
Koshagyl	114.2	22.8	2.3
Koykara	98.8	20.2	2.0
Kuzylkuduk East	73.4	14.6	1.5
Masabay Northwest	61.6	12.3	1.2
Kuzulkala Southwest	60.1	12.0	1.2
Kuzulkala Northeast	56.6	11.3	1.1
Zhaduracun	32.3	6.5	0.7
Tyrgyzba Northwest	18.3	3.7	0.4
Total	943.3	189.0	18.9

As KMG EP does not as yet have legal title to this block no Prospective Resources can be credited for this block at this time.

5.3 Liman Area

The Liman licence area covers some 6,030 km² and is located in the coastal part of the north Caspian Sea just to the west of Atyrau. The fields are located within the Liman Block (but have separate production licences) to the south of the Liman area and include SE

Novobogatinsk, S W Kamishitovoye, S E Kamishitovoye and Rovnoye, all of which are within the twelve largest fields owned by EmbaMunay Gaz. The S W Kamishitovoye field has been discussed in detail earlier in this report.

The area was previously explored by other companies but KMG EP was awarded a new exploration contract (No. 4013-17) on 22nd December, 2005. KMG EP has applied for a 2 year extension to the 2 years granted. In 2006 only geological and geophysical work is planned, including seismic reprocessing. The company is required to drill a total of 13,500 m of exploration wells (an average of 1,500 m per well) and spend a minimum of U.S.\$7.3MM.

Exploration activity has been carried out in this area since the 1950s. More than 12,000 km of 2D seismic was shot between 1970 and 1994. In 2000 440 km of 2D data was acquired, followed by a further 1,166 km in 2001-2002. KMG EP reports that these seismic surveys indicate there are a number of structures in both the post-salt sequence and in areas around the salt domes, which could have the potential for oil and gas discoveries. However, it also reports that these structures are small in size and the prospective resources of each are not significant. GCA has not had sight of any of the seismic data or the maps and is thus unable to comment on these results.

The report prepared by KMG EP states that exploration drilling has been carried out on 21 of these structures; Sarsai, Shokeimola, Sarsai South, Peschanny East, Peschanny South, Torgali, Kshil, Baksai, SW Baskai, Torgali East, Yamanka, Tegen, Tegen East, Liman, Liman South, Sorochinka, Knodaurovo, Redut, Kusbanai, Kusbanai West and Novobogatinsk. However, results were only available to GCA in respect of five of these wells, four of which were drilled on the Tegen East structure and one on West Kusbanai. Of the four wells on Tegen East, three were drilled on the eastern flank of the structure with one, ET1, testing oil, but only at the rate of between 1.5 and 45 bopd from the Lower Cretaceous at a depth of 370 to 374 m. Each of the other Tegen East wells was dry, as was the West Kusanbai well.

GCA has been given no data with which to verify this information but a report prepared by KMG EP states the following estimated oil-in-place and potentially recoverable resources. These are assumed to be unrisks and without data it is impossible for GCA to gauge the geological risk associated with these prospects. However judging from the fact that 21 unsuccessful exploration wells have been drilled, the risk must be considered as high. Figure 15 shows the location of certain of these prospects.






LIMAN BLOCK OIL-IN-PLACE AND UNRISKED PROSPECTIVE RESOURCES


Play Type	Structure	STOIP MMBbl	Unrisks Potentially Recoverable Resources MMBbl
Post salt structures			
	Sorochinka	19.5	6.0
	Liman	14.2	4.5
	Baksai	11.2	3.0
	Peschany	12.0	3.7
	Kshil	7.5	2.2
Salt dome flanks			
	SW Novobogatinsk	22.2	5.2
	NE Novobogatinsk	15.7	3.0
	Baksai-Shokeimola	16.5	3.0
	Peschany	32.2	7.5



0 50 Km

LEGEND

-  Block Outline
-  Producing Field (Separate Production Licence)
-  Prospect
-  Oil Pipeline
-  Gas Pipeline

Liman Exploration Area			
Proj. E1397.01 Sep 06	Checked: 	Fig. 15	

5.4 East Uzen

The principal objective of exploration in the area adjacent to the Uzen and Karamandybas fields is to identify structures in the Jurassic and Triassic deposits, as well as to explore potential in the Triassic deposits outside the area of the Uzen and Karamandybas fields.

The work commenced in 2005. A total of 301 km² of 3D seismic survey was acquired by KMG EP in 2005 east of the Uzen Field; the seismic is currently being processed and interpreted. Well No. 6244 was drilled in East Parsumurun Area in 2005 to evaluate the prospects and explore oil pools in the Triassic and Lower Jurassic deposits. By end 2005 the well had not been completed. Based on the drilling results and well logging, hydrocarbons have been found in the Lower Jurassic (between 1,999-2,047 m) in the Parsumurun uplift. The drilling of the well is expected to be completed in the first half of 2006. Exploration plans for 2006 envisage 700 km of 2D seismic in the territory adjacent to Uzen-Karamandybas zone, as well as the drilling of one appraisal well with a projected depth of 2,500 m in the Uzen Area and one exploratory well with the projected depth of 2,750 m in the Karamandybas Area.

5.5 Other Near-field Exploration Opportunities

Throughout the KMG EP-operated areas the developed fields are characterised by multiple reservoir horizons, commonly with different contacts and hydrocarbon types. The fields offer the opportunity for further upside potential through the investigation of undrilled or untested reservoirs within the existing field boundaries.

In 2005, in order to expand the pay zones, additional exploration started in the Nurzhanov and East Makat fields. One well was drilled in each field. Exploration in the Akingen' field will start in 2006, and the approved plan envisages the drilling of one well.

Nurzhanov

The productivity of Jurassic and Triassic deposits has been established in the Nurzhanov field. A 3D seismic survey was carried out in 2002. In order to evaluate the oil and gas potential of the Triassic (pay horizons T-I, II, III, IV), Well No. 500 was drilled in 2005 in the NE part of the area to the depth of 3,400 m. Based on the drilling results, T-VI horizon yielded oil from the interval 3,159-3,174.4 m. A further well (no. 501) is planned in the first half of 2006.

In 2005, 50 km of 2D seismic survey was carried out in the territory previously not covered by seismic due to flooding by sea water blown by the wind. Two new structures have been identified in the northern part of the area from this seismic. Estimated prospective resources in the new structures by KMG EP are 22 to 51 MMBbl (3-7 MMt). Drilling on these structures is planned for 2006.

East Makat

East Makat has produced since 1993. The pay zones are Triassic, Jurassic and Cretaceous. In 2003 a 3D seismic survey established a possible western continuation of the oil and gas-bearing zone of the field, due to the fault dying upwards in the section. No drilling has been previously carried out in this part.

In 2005, to confirm the presence of oil in the western part of the field, KMG EP drilled directional exploration well No. 94 to 930 m. A pay zone identified in the interval 844.5-855 m was selected for testing based on well logging results. At end 2005, well testing was in progress.

Akingen'

This field produces from the Cretaceous. A 3D seismic interpretation conducted in 2003 identified potential traps in the Jurassic of the southern wing. In 2006, in order to test the potential of Jurassic and possibly Triassic rocks, an exploratory well is planned to a depth of 2,200 m within the southern wing.

6. UPSTREAM SITE VISITS

GCA has performed a due diligence review of upstream operations in the oil and gas fields operated by KMG EP. The review was accomplished through visits to selected fields and production facilities for interviews with attending senior operations personnel and visual inspection, supplemented by examination of available engineering documentation.

Visits were made to fields operated by EmbaMunaiGas and UzenMunaiGas. Not all fields were visited; the fields visited were selected on the basis that they are considered to be representative of the range of conditions experienced by KMG EP and that they reflect the operating practices employed by KMG EP across the geographical spread of the company's operations.

Figure 8 provides a map of the fields operated by EmbaMunaiGas and Figure 9 shows the general location of fields operated by UzenMunaiGas.

Each field was examined on the basis of its suitability to produce the reserves, maintenance and operating condition, and safety systems. A full suite of photographs was taken to document the wells, fields and facilities visited. This report includes selected photographs from the suite.

6.1 Upstream Site Visit Summary

6.1.1 Conclusions

Twenty-three sites, comprising wells, production, process and fluid transportation facilities, were visited during the period from 8th to 19th August 2005. Five days were spent touring the UzenMunaiGas operating area and five days were spent touring the EmbaMunaiGas operating area. In each area, a representative sample of wells and facilities was examined.

Wells and facilities in the UzenMunaiGas area were generally found to be fit for purpose, though considerable rehabilitation work remains in the giant Uzen and Karamandybas fields to renew and modernize aging wells and facilities for efficient operation and reservoir management. These fields would also benefit from operational improvements, some of which are currently being implemented. Both fields rely on waterflooding and artificial lift for continued production. Water cut ranges up to 99%.

Wells and facilities in the EmbaMunaiGas area were generally found to be fit for purpose to serve the smaller fields found in that area. In some fields the equipment is old and inefficient by modern standards, however, a number of field refurbishments and modernisation programmes were observed to be in progress.

All of the EmbaMunaiGas oil fields visited were at a mature to very mature development stage. Waterfloods have been implemented for secondary-recovery in all fields visited except Nurzhanov, which has been produced only by natural depletion to date. All of the fields visited rely heavily on artificial lift for continued operation. Water cut is generally in the range from 50% to more than 98%.

Some of the fields visited in EmbaMunaiGas are very mature and flowing oil at very low rates (e.g. 3 to 5 bopd per well) and it is expected that some of the wells are approaching their economic limit.

In both EmbaMunaiGas and UzenMunaiGas, KMG EP is experiencing some familiar problems associated with increasing water cut. Water is heavier than oil and therefore robs the production systems of energy - thus artificial lift is required.

Aside from the well-understood problems associated with high water cut, there are no particularly challenging operating conditions, though problematical production chemistry in the Uzen and Karamandybas fields, together with the use of Caspian Marine Seawater in waterflooding operations, demands diligent attention to remedial operating practices.

Operation, maintenance and safety standards in the fields and facilities appear to be below Western standards but are typical of FSU facilities. The fields have a history of reliable production that gives some confidence to a future of continued safe operation.

Crude oil is delivered to KazTransOil (KTO) for sale. Metering of crude oil for sale ("Fiscal Metering") is performed by KTO and was not observed in KMG EP facilities during the visit. Field metering of crude oil at the well, group and field level was observed and found to be generally acceptable, although some metering facilities are in need of rehabilitation and calibration of meters is less frequent than would normally be applied in Western operations. The range of methods for field metering was wide, from tank "dipping" to measure volume via changes in liquid levels, to sophisticated mass flow meters.

In the Uzen area, gas that is not used for fuel is delivered to the Uzen Gas Plant for processing and sale. In the Emba area, gas that is not used for fuel is flared. It is not desirable to flare associated gas, but where there is no market or other use for the gas (such as reinjection for secondary recovery) it is unavoidable if oil production is to be maintained. Reinjection of gas in Emba is not economically viable. In both areas, produced gas is metered using orifice meters equipped with a two-pen recorder for measuring both static and differential pressure. This is an acceptable method for measuring gas production in the field.

Zhetybay South, the largest non-associated gas field operated by UzenMunaiGas, is a simple, mature, trouble-free gas field that is in a period of declining production.

The operating organizations in the field are well staffed, and field offices, accommodations and warehousing meet or exceed Western standards.

The fields are heavily reliant on electrical power purchased from the State electrical power company. In particular all artificial lift systems are driven by electrical power.

Housekeeping could be better in some of the fields visited, and international best practice would be to restrict vegetation levels in plant sites to a greater level than that observed in some facilities as part of the safety policy.

6.1.2 Operating Conditions

The KMG EP fields can be characterized as mature fields operating on secondary recovery and artificial lift. Produced water cut is high and water handling and management - lifting, processing and injection - is a fundamental activity in all of the fields visited. Waterfloods have been implemented for secondary-recovery in all fields visited except Nurzhanov.

Carbon Dioxide (CO₂) and Hydrogen Sulfide (H₂S) are present in produced fluids in both EmbaMunaiGas and UzenMunaiGas. However, except in the Nurzhanov field, they do not present exceptional corrosion or safety problems because of the low producing pressures and temperatures. The partial pressure of both CO₂ and H₂S is generally too low to be of particular concern with respect to corrosion in the surface facilities.

An H₂S content of up to 6% was reported in the associated gas produced with Nurzhanov crude oil. This represents a safety and corrosion concern. Operating personnel indicated that they are aware of the issues associated with H₂S in this concentration and have taken appropriate measures. KMG EP are understood to be investigating gas utilisation for gas from the Nurzhanov fields.

Wells are of a simple design, well depths are relatively shallow, flow rates are low, and the fields operate at the low surface pressures and temperatures that are associated with shallow mature reservoirs reliant on waterflood and artificial lift for continued production.

Some production problems were related by personnel in the field, particularly in the UzenMunaiGas area, the nature of which are well understood and not particularly unusual in oil fields of the types visited. These relate to the wax-bearing crude oil and scale-forming salts in produced water, which create downhole failures and blockages in tubing strings and surface equipment, and the use of Caspian Sea Marine Water in the Uzen and Karamandybas field waterfloods, which increases both scale-formation and the corrosivity of the produced fluids.

Wax problems are routinely addressed through a variety of long-standing methods, from hot-water / hot-oil treatments, steam-cleaning of tubing and wax scrapers, to heating of oil for pipeline transport (in the winter) and insulation of pipelines. Scale and corrosion are addressed through the use of chemical inhibitors.

Produced liquids are typically susceptible to formation of water in oil emulsions, and these are dealt with in the dewatering process through the use of emulsion breakers.

The following Table illustrates the range of operating parameters for the fields visited:

SELECTED OPERATING PARAMETERS

Parameter	EmbaMunaiGas	UzenMunaiGas
Well Depth	300 - 2,400 m	800 - 2,400 m
Liquid Flow Rate per Well	15 to 400 blpd	10 to 1,800 blpd
Water Cut	0 to 99 percent	18 to 81 percent
Stocktank Oil API Gravity	22 to 45°API	35 to 37°API
Paraffin Wax Content	trace to 2 percent	17 to 18 percent
Gas/Oil Ratio	20 to 1,200 scf/stb	100 to 380 scf/stb
CO ₂ content in produced gas	trace to 1.6 mole percent	0.4 to 0.8 mole percent
H ₂ S content	Trace to 1.6 mole percent in produced gas	200 to 400 ppm found in produced water due to Sulphate Reducing Bacteria
Corrosivity of Produced Fluids	Reported relatively low	Typical of waterfloods using oxygenated sea water
Scale Forming Propensity	Some reported	Several scale species arising from injection water (Caspian Marine Seawater) and formation water
Flowing Tubing Head Pressure	As low as possible for artificial lift, typically less than 100 psig	
Flowing Tubing Head Temperature	Low - commensurate with shallow wells and low flow rates	
Water Injection Rate per Well	100 to 1,600 bwpd	100 to 6,000 bwpd
Water Injection Pressure	typically 500 psig	typically 1,500 psig

6.1.3 Organisation

GCA visited the NGDU central office responsible for each field that was visited. The NGDU organisational structure includes the following groups, which provide technical and administrative support to the local organisation in each field:

- Production and Technology Branch (based at Balgimbayev)
- Power Supply and Mechanical Engineering
- Geology
- Capital Construction
- Labor, Safety and Environmental Protection
- Planning and Economics
- Accounting
- Logistics
- Social Department

This organisation generally describes the necessary technical and administrative support functions that would typically be provided in a large Western oil and gas production company at area or regional level. As is standard practice in the FSU, the "Geology" function is charged with all sub-surface technical support, including both geoscience and reservoir engineering functions.

Each field and facility is supported by a well-staffed operating organization that reports back to the NGDU level. It is understood from interviews with senior operating personnel that the field operating units are largely self-contained with full capability to operate and maintain the fields they are charged with, including direct access to company, affiliate, or

government-owned services including well workover services, analysis and testing laboratories, and reservoir engineering consultancy services (provided by "institutes").

Investment decisions, such as infill drilling programmes, are made at the corporate level, but are monitored and managed at the field level.

A common organizational structure is provided at the field level, as follows:

- Underground Maintenance Team - Responsible for reservoir management, including monitoring reservoir performance, specifying well intervention activities such as workovers, and monitoring the performance of artificial lift systems. This team monitors and manages field development programmes that are approved at the corporate level, such as infill drilling. The underground maintenance team is lead by a Chief Geologist.
- Well Survey Team - Responsible for well testing and monitoring, including flow measurement, oil and water analysis, pressures, temperatures and fluid levels in wells on artificial lift (via "echometer" or similar means).
- Production Team - Responsible for operation of all surface production facilities.
- Water Injection Team - Responsible for operation of all surface injection facilities.
- Mechanical Repair Team - Responsible for operation of the local workshops, and performance of both planned and unplanned maintenance of surface facilities.

A manager (i.e. production superintendent) is assigned to each field and to each large or multi-field production / processing facility (i.e. plant superintendent).

Large fields and facilities have dedicated camps with offices, accommodation, workshops, stores, etc. Smaller fields have local offices and accommodation for daytime staffing. Personnel typically work on a week-on / week-off basis.

6.1.4 Wells

Completions

The well completions used in both the UzenMunaiGas and EmbaMunaiGas areas are typical and appropriate for the producing rates, produced fluids and artificial lift requirements of the fields. Wells have been drilled using a simple, vertical design from individual well sites.



ZhaikMunaiGas NGDU Gran Field Screw Pump Oil Well

Tubing and casing sizes are relatively standardized, which is good practice in the geographically widespread KMG EP operations with many wells and similar operating characteristics. Tubing size is generally 2 7/8 inches, though 3 1/2 inches and larger tubing is used in wells with higher than average productivity. Production casing typically varies from 5 3/4 inches to 6 5/8 inches.

Wells in both the UzenMunaiGas and EmbaMunaiGas areas are single completions. Packers are generally not used except to prevent cross-flow between reservoirs. This is consistent with the artificial lift methods applied in the fields.

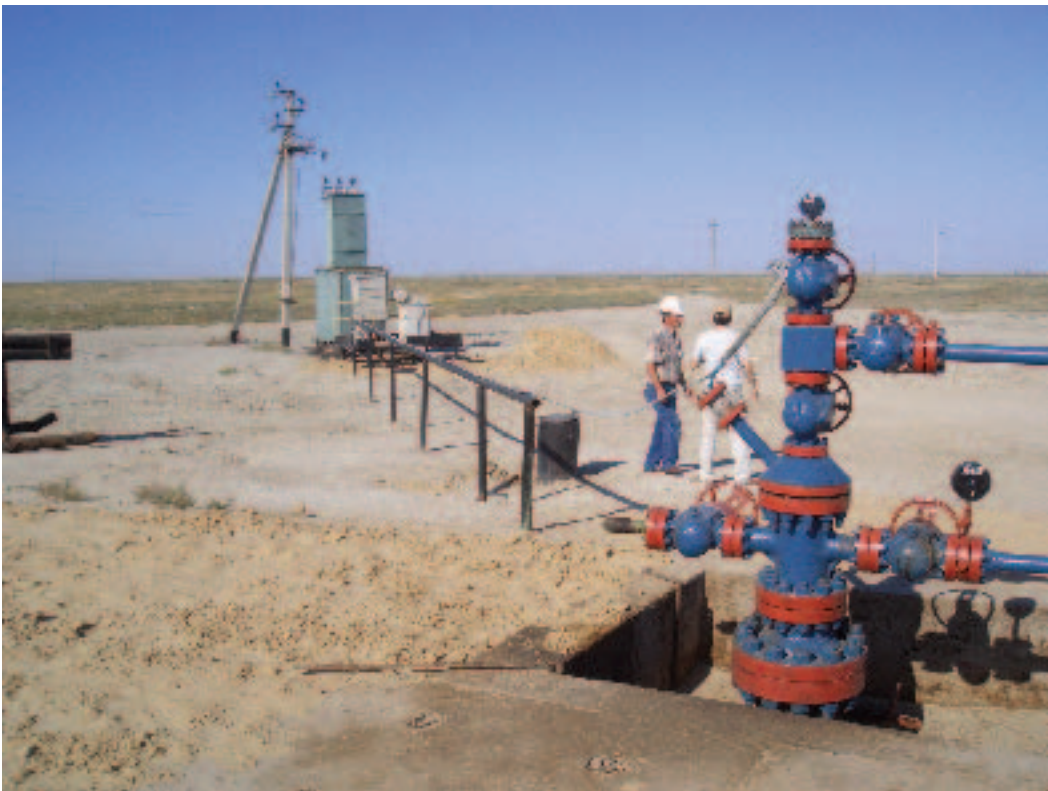
Artificial Lift

The majority of wells in both UzenMunaiGas and EmbaMunaiGas are on artificial lift. The predominant artificial lift method is sucker-rod (beam) pumping. Beam pumping systems are the most popular and usually the least expensive system for handling produced water, and they are appropriate in fields with operating characteristics like those observed in Uzen and Emba (i.e. relatively shallow, low production rate wells with some wax and scale problems).

KMG EP is also installing progressing cavity ("screw") pumps and electric submersible pumps (ESPs) in some fields. The screw pumps are being tried in selected wells to achieve better efficiency than rod pumps, and to increase the period between rod-pulling jobs. ESPs are being installed where well inflow performance offers an opportunity to achieve substantially increased flow rates.



DossorMunaiGas NGDU Botakhan Field Sucker-Rod (Beam) Pump Oil Well



ProrvaMunaiGas NDGU Nurzhanov Field ESP Oil Well and Power Supply

6.1.5 Facilities

The production facilities visited in both UzenMunaiGas and EmbaMunaiGas are relatively simple and standardized. This is appropriate in fields of the maturity and type visited.

Many fields have measurement stations called "Sputniks" which gather production from a number of wells and are equipped to test and measure production from individual wells. Production is then commingled and routed to a facility for processing.

In EmbaMunaiGas, two types of processing facilities are typically provided. Smaller fields and remote gathering units are equipped with "pre-treatment" facilities that typically include inlet bulk and test separation of oil, water and gas. Pre-treatment reduces the content of water in crude oil to 5% or less. Larger fields and multi-field facilities are equipped with "Treatment and Primary Processing" equipment. This includes multiple stages of oil and water separation that remove water and salt from the oil down to "commercial" levels.



ZhaikMunaiGas NGDU Zhantalap Field First Stage Separator and Gas FWKO

In some of the smaller fields, those equipped with "pre-treatment" production facilities, produced water is routed to a "sedimentation tank" where suspended solids are removed via gravity settling before water is injected back into the reservoir. In the larger fields and multi-field facilities, produced water that is intended for injection back into the reservoir may be filtered to remove small-diameter suspended particles. This is done to avoid plugging the injection formation. In both cases the level of filtration would probably be best characterized as relatively coarse.



Uzen Field NGDU 3 Group Unit 65 Three Phase Separator

The facilities design architecture used in the large Karamandybas and Uzen fields is a variation from that in EmbaMunaiGas. Oil dewatering and water treatment is centralized in two large facilities. Final oil dewatering takes place in the Uzen Oil Terminal. Water treatment for injection, though not at levels of international best practice, is somewhat better than that found in EmbaMunaiGas. However, the injection water used, which comprises a mix of Caspian Seawater and produced water, requires a higher level of treatment than the produced water used in EmbaMunaiGas.

Gas that is not used for fuel is either flared (in EmbaMunaiGas) or routed to Uzen Gas Plant for processing and sale (UzenMunaiGas).

6.1.6 Field Management

Underground Maintenance

The responsibilities of the Underground Maintenance team appear to be conducted in an effective manner by closely co-ordinated functional groups. Well intervention activities are requested by the Chief Geologist and executed by service organizations (e.g. a workover services organization) that are affiliated with KMG EP.

Well Survey

Each production well is tested on a regular basis. Liquid and gas production rates are measured, normally on a daily basis, at group metering stations ("Sputniks"). Liquid samples are taken from each well in plastic bottles, typically 3 times per month, for laboratory analysis. The laboratory calculates and records water cut.

The Well Survey Team plans and supervises slickline work. Bottom-hole pressure and temperature surveys are taken on a regular basis. Dynamometers are used in rod pumped wells to analyze downhole problems, and echometers are used to determine liquid levels. It is NGDU policy to ensure that rod pumps are submerged 50 to 100 m below the dynamic liquid level. This is good practice.

Wellbore Management

A high water cut environment requires special emphasis on wellbore management, since the wellbore is the primary asset and most operating costs are directly associated with lifting the produced fluids to the surface. Economic operation requires the operator to reduce well failures (rod, tubing, and pump) since this significantly reduces operating costs and allows marginal wells to produce longer.

Operating personnel in both UzenMunaiGas and EmbaMunaiGas indicated that preventive maintenance workover jobs are regularly performed, in which rods, tubing and pump are pulled for examination and cleaning. This appears to be an effective means of preventing failures; very few beam pumps were observed to be inoperative due to wellbore failures. However, it is not a common practice in Western operations, due to the cost of workover jobs. Western operators tend to emphasize prevention of wellbore failures through corrosion inhibition programs, equipment selection (metallurgy), and operating practices to minimize mechanical wear.



MakatMunaiGas NGDU East Makat Field
Tubing and Rods Pulled for Repair and Maintenance

Waterflood Management

In the EmbaMunaiGas fields (except Nurzhanov), all produced water is re-injected as part of secondary-recovery waterfloods. In some fields (e.g. Zhantalap and East Makat) additional water is sourced from aquifers and injected as part of the waterflood to maintain voidage replacement. Other fields rely solely on produced water, which implies either the presence of a partial waterdrive, or partial voidage replacement. This is a reservoir management matter that was not addressed during the site visits.

The water treatment methods used in the EmbaMunaiGas fields would not meet Western standards for treatment of injection water, which would generally include both coarse and fine filtration of solids, oxygen removal, and chemical treatment for control of corrosion and bacteria.

In the Uzen and Karamandybas fields, waterfloods have been ongoing for some time using a combination of Caspian Sea marine water and produced water. Initially, and for many years, untreated water was used. A variety of scale-forming salts present in both the marine water and formation water, together with incompatibility of the marine water with formation water, resulted in relatively severe scale and corrosion problems that have been identified and are being addressed through a rehabilitation project that is partially complete.

It was not possible to discern from the site visits how significant the impairment of water injection has been due to inadequate water treatment. Further, the effectiveness of water injection is a reservoir management issue that cannot be assessed solely through a site visit. The extensive production history in the fields suggests that while the historical water treatment methods may not optimize the waterfloods, they are at least fit to achieve past and present levels of oil production. However, it is likely that reserves depend to a large extent on future improvements in waterflood process, and rehabilitation of water treatment facilities is a key element of that process.

Production Chemistry

Hot water/oil treatments and scrapers are used to remove wax that accumulates in the tubing strings in fields with high paraffin content in the oil. It was observed that tubing and rod-pulling jobs, both to repair rod pumps and to remove wax and scale from the tubing, are relatively frequent in some of the fields.

The fields are equipped as standard with gas-fired oil heaters to heat the oil in winter so that wax does not precipitate in production facilities and pipelines downstream of field facilities.

Where required, corrosion inhibitor and scale inhibitor is injected on a continuous basis at the inlet to production facilities.

Facility Maintenance

KMG EP operates a routine programme of both preventative and corrective maintenance. Maintenance plans are prepared each year and these include scheduled maintenance of mechanical equipment such as beam pumping units, pumps and compressors. The Mechanical Repair Team provides full-time corrective maintenance capability.

Prime movers on beam pumps are typically inspected once per quarter, and serviced as indicated by inspection findings. The drives and motors on screw pumps are serviced on a regular basis (lubrication and O-ring replacement). Downhole equipment (e.g. rod and screw pumps) is pulled and serviced on a regular schedule which depends on the operating characteristics of each field.

6.1.7 Production and Sales Monitoring

Crude Oil

Crude oil is delivered to KazTransOil (KTO) for sale. Metering of crude oil for sale is performed by KTO and was not observed in KMG EP facilities during the visit. The maximum allowable water content in crude oil for delivery to KTO is 0.5%. The maximum allowable salt content is 100 mg/l.

Gas

In the UzenMunaiGas operating area, some associated and non-associated gas is used in the field for fuel and small amounts are flared. Most of the gas is transported via pipeline to the Uzen Gas Plant for further processing and sale.

In the EmbaMunaiGas operating area, some associated gas is used in the field for fuel and the remainder is flared.

Produced gas is typically measured in the field (for reservoir management purposes) with orifice meters fitted with 2-pen recorders (pressure and differential pressure). This is good practice.

6.1.8 Safety

The wellhead equipment and flow control devices used in both the Emba and Uzen areas are appropriate for the low pressure operating environment. Flowing wells are equipped with a manual master valve. Flowlines are equipped with manual wing valves. Automatic well shut-in safety systems are not used.

One field, Nurzhanov, produces the poisonous gas H₂S in dangerous concentrations (up to 1.6 mole percent, or 16,000 parts per million). Inhalation of H₂S at this concentration will cause unconsciousness at once, with death in a few minutes. Operating personnel at Nurzhanov indicated awareness of the danger and stated that special procedures and equipment had been adopted to safeguard field operations.

Fire trucks are used to provide pump capability for firefighting. These are stationed at selected points within the layout of fields. Not all fields have immediate access to fire trucks. Mains water is not provided within the field or plant infrastructure.

Safety / accident statistics were not available for examination in the field. Field management personnel in selected locations were queried about accidents, and without exception stated that there had been no serious accidents in recent memory.

6.1.9 Infrastructure

Offices and Camps

The offices visited at all corporate levels - area, NGDU and field - were modern, comfortable, and equipped with appropriate computing and communications equipment. The camps visited provided a higher standard of accommodation than is often found in Western operations.

Roads

Main roads are typically asphalt construction. They are maintained by the government and are in fair to poor condition, being 'pot-holed' and buckled in many places. Facility and well access roads are maintained by the government and are in fair to poor condition. Access roads are typically dirt and can be quite rugged.

6.2 EmbaMunaiGas

GCA visited the EmbaMunaiGas area office at Atyrau prior to making site visits. The area-level organisational structure includes the following departments:

- Six NGDU Offices
- Workover Department
- Drilling and Well Completion Department
- Transportation Department (vehicles)

The site visits and discussions were confined to NGDU operations. The workover, drilling and transportation departments operating at area level were not visited. The Table below indicates the fields that were visited in each NGDU and the reason for visit selection:

FIELDS AND FACILITIES VISITED IN EMBAMUNAIGAS AREA

NGDU / Field	Basis for Selection to be Visited
NGDU ZhaikMunaiGas	There are 8 fields in the NGDU - 3 were visited.
Balgimbayev Oil Field and Multi-Field Production Facility	Central production facilities provide crude oil treatment and primary processing for all fields in the NGDU, prior to delivery of "commercial" oil to KazTransOil. Includes water handling, treatment and injection facilities.
Zhantalap Oil Field and Production Facility	One of the larger fields in the NGDU with production and injection wells and facilities typical of a larger field.
Gran Oil Field and Production Facility	One of the smaller fields in the NGDU with production and injection wells and facilities typical of a smaller field.
NGDU DossorMunaiGas	There are 11 fields in the NGDU - 4 were visited.
Karsak Oil Field and Multi-Field Production Facility	Central production facilities provide crude oil treatment and primary processing for 4 fields in the NGDU, prior to delivery of "commercial" oil to KazTransOil. Includes water handling, treatment and injection facilities.
Botokhan Oil Field and Production Facility	The largest field currently delivering crude oil to the Karsak facilities, with production and injection wells and facilities typical of the NGDU. Includes production facilities for treatment of crude oil to "commercial" oil specification, and water handling, treatment and injection facilities.
Sagiz Oil Field (Abandoned)	An abandoned oil field that provides evidence of methods employed by KMG EP to abandon fields.
NGDU KulsaryMunaiGas	There are 9 fields in the NGDU - 2 were visited.
Teren-Uzyuk Oil Field and Production Facility	A mature oil field located near the Caspian with representative sea protection from flooding. Includes production facilities for treatment of crude oil to "commercial" oil specification, and water handling, treatment and injection facilities.
Koshagyl Oil Field and Multi-Field Production Facility	Central production facilities receive crude oil from 4 mature high water cut fields and provide typical small-field crude oil treatment prior to delivery of "commercial" oil to KazTransOil.

NGDU / Field	Basis for Selection to be Visited
NGDU MakatMunaiGas	There are 3 fields in the NGDU - 1 was visited.
East Makat Oil Field and Production Facility	The largest oil field in the NGDU, currently producing over 80% of NGDU output. Includes production facilities for treatment of crude oil to "commercial" oil specification, and water handling, treatment and injection facilities.
NGDU ProrvaMunaiGas	There are 4 fields in the NGDU - 1 was visited.
Nurzhanov Oil Field	The largest oil field in the NGDU, currently producing about 70% of NGDU output.
Prorva Multi-Field Production Facility	Central production facilities provide crude oil treatment and primary processing for 4 fields in the NGDU, prior to delivery of "commercial" oil to KazTransOil. Includes full water handling, treatment and injection facilities.

6.3 UzenMunaiGas

GCA visited the UzenMunaiGas area office at Uzen prior to making site visits. UzenMunaiGas operates two oil fields, Uzen and Karamandybas, and 5 non-associated gas fields, Zhetybay South, Western Tenge, Tasbulat, Aktas and East Uzen. The area office is organized like EmbaMunaiGas, with NGDU offices and separate workover, drilling and well completion departments. The site visits and discussions were confined to NGDU operations.

GCA's inspections were focused mainly on the giant Uzen and Karamandybas Oil Fields. The fields are laterally contiguous and produce from the same reservoir. They have been distinguished as separate fields at an escarpment, which separates Uzen on a plateau from Karamandybas which is lower in elevation. The difference in elevation requires a practical division in field infrastructure and operation.

Uzen has about 3,300 wells and Karamandybas has 300. Ninety-five percent of the wells are operated on beam pump. There are some ESP and Screw-pump lifted wells and a very few wells on natural flow.

The two fields have been divided into "blocks". Each block is managed by an NGDU. Investment in the fields lagged during the Soviet era, and a World Bank funded Pilot Rehabilitation Project was started in Uzen Block 3A in year 2000. The purpose of this project was to establish the basis for renewal and modernization of the aging wells and facilities throughout the two fields. On the basis of this pilot project, KMG EP-financed rehabilitation has proceeded first in Uzen Blocks 2a and 3, and subsequently in Uzen Blocks 1, 1a and 2. UzenMunaiGas management advised that rehabilitation of Blocks 2a and 3 will finish by the end of 2005, and Blocks 1, 1a and 2 will be completed by the end of 2006. Financial commitment for further rehabilitation of Blocks 4 through 10, extending into Karamandybas field, has not yet been approved.

The following Table describes the division of the two fields into NGDUs and Blocks:

UZEN AND KARAMANDYBAS NGDU AND BLOCK STRUCTURE

NGDU	Field	Blocks	Rehabilitation Status
Pilot Project	Uzen	3a	Rehabilitated via pilot project
NGDU 1	Uzen	1, 1a, 2	In progress, completion end 2006
	Uzen	4, 4a and 5	Not committed
NGDU 2	Uzen	5a, 6, 6a and 7	Not committed
	Karamandybas	8, 9 and 10	Not committed
NGDU 3	Uzen	2a and 3	In progress, completion end 2005

The Karamandybas and Uzen fields produce from the same reservoir and have been operated in the same way. Both have been waterflooded with Caspian Marine Seawater (together with produced water), and this has created operational challenges because the seawater is not particularly compatible with formation water, leading to scaling problems. Further, the mix of Seawater and produced water that is injected requires careful treatment to avoid corrosion problems. In addition, the fields produce wax-bearing crude oil. The waxing and scaling propensities create downhole failures and blockages in tubing strings and surface equipment.

In addition to the Uzen and Karamandybas fields, GCA visited the Zhetybay South non-associated gas field, which currently produces over 70% of the gas delivered to the Uzen gas plant.

The Table below indicates the fields and sites that were visited with a comment on the basis for visit selection:

FIELDS AND FACILITIES VISITED IN UZENMUNAIGAS AREA

NGDU	Basis for Selection to be Visited
NGDU 2	
Karamandybas Oil Field Block 10	A typical non-rehabilitated block in the contiguous Uzen and Karamandybas oil fields
Group Unit 101	A typical non-rehabilitated gathering center
Pump Station 10	A typical non-rehabilitated water pump station
NGDU 3	
Uzen Oil Field Blocks 2a and 3	Blocks nearing completion of rehabilitation that are indicative of the overall field rehabilitation project
Group Unit 65	A typical rehabilitated gathering center
Collecting Point 4	A typical rehabilitated gathering center
NGDUs 1, 2 and 3	Uzen Field
Dewatering Plant	Each of the two fields has a central dewatering plant. The Uzen Field dewatering plant was visited.
Gas Production Unit	
Zhetybay South Gas Field	This is the largest non-associated gas field operated by UzenMunaiGas. It delivers over 70% of total inlet gas (both associated and non-associated) to the Uzen Gas Plant.
All NGDUs	
Uzen Oil Terminal	A common facility for all UzenMunaiGas NGDUs

Figure 16 shows the block structure and the location of the sites visited in the Uzen and Karamandybas fields.

7. MIDSTREAM/DOWNSTREAM ASSET REVIEW

The midstream/downstream assets owned by KMG EP comprise the Uzen gas processing facility. This was visited during August, 2005

7.1 Uzen Gas Processing Plant

7.1.1 History

The Uzen gas plant has a rated capacity of 53 Bcf p.a. and was constructed during the period 1973-78. Various compressors were revamped during the period 1978-86.

7.1.2 Overview of Process

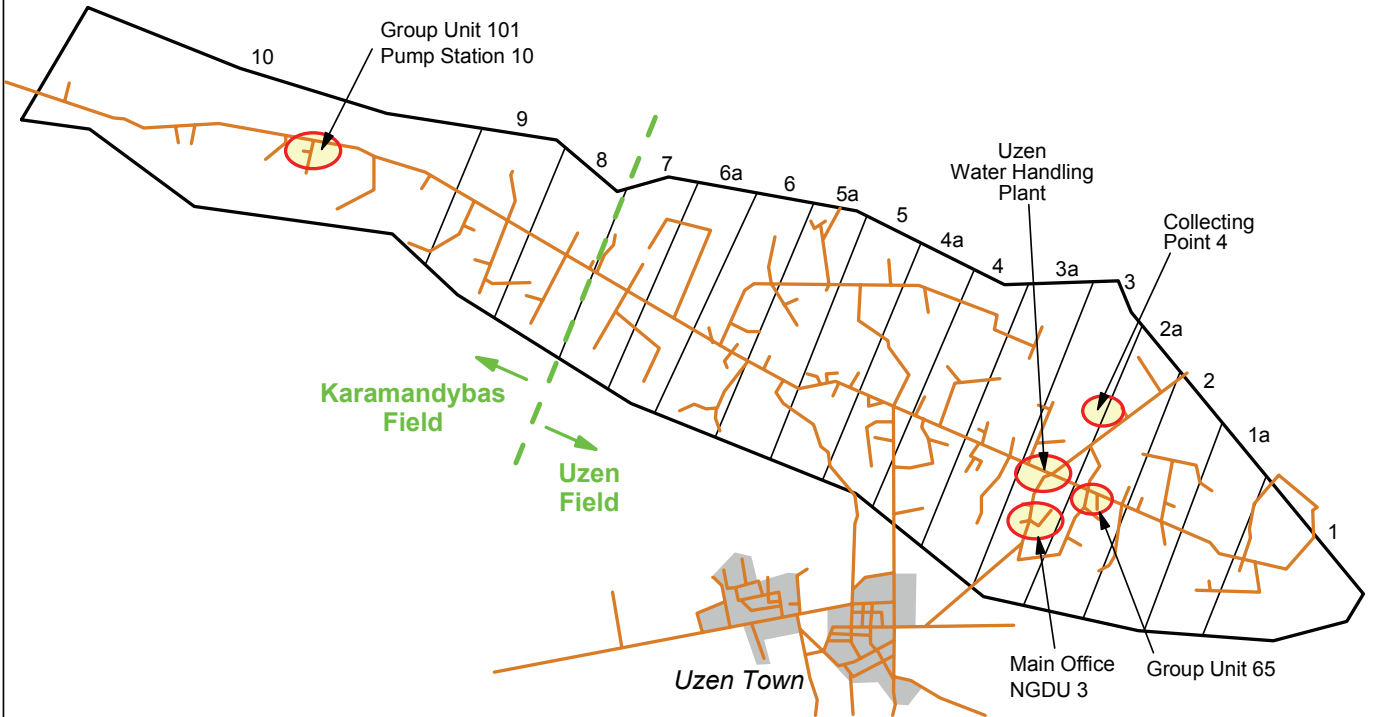
The plant removes CO₂ and H₂S in an initial purification stage after preliminary water removal has occurred at the field. A second stage of purification further reduces the H₂S and CO₂ content. The gas is then dried to a dew point of -80°C or lower. The gas is then progressively cooled using propane and ethane before a series of fractionation columns separate the various constituents of the gas - methane, ethane, propane, iso-butane, n butane, and pentane+ components.

At present ethane is diverted back into the methane stream due to the lack of local markets for the gas. The methane/ethane mixture is sold predominately to the local power plant. The remainder is consumed in the towns of Uzen and Aktau, and provides fuel for some utility and process functions in the gas plant.



Details of the markets for the remainder of the products are limited. However, the volumes of products other than methanol ethane are relatively small and should be easily absorbed into local markets. For all products the market demand is reported to exceed the output of the plant. Thus, the marketing of products is not expected to be of serious concern.

7.1.3 Current Operation


The plant takes both associated and non associated gas (approximately 25% associated and 75% non associated gas). The plant is fully operational although the throughput is lower than the rated capacity. This is due to gas production volumes rather than equipment limitations. The plant has a history of reliable operation. Inspection frequency and scope are in line with national Kazakh guidelines and corrosion monitoring activities appear well organised. Throughput during 2004 was just under 35 Bcf as given in the table below. Condensate is also processed with almost 30 MTe processed in 2004.



LEGEND

-  Areas Visited on Field Trip
-  Roads

Uzen and Karamandybas Fields

Proj. E1397.01 Sep 06 Checked:  Fig. 16

	2002	2003	2004	1Q2005
Gas feed, Bcf	38.2	35.6	34.5	7.4
Capacity Utilisation, %	72%	67%	65%	56%
Gas condensate, MBbl (MTe)	263 (32.92)	224 (27.97)	209 (26.14)	47 (5.88)

The specifications for dry gas are

- O₂ content < 1%
- Calorific value; minimum 853Btu/scf, maximum 1,106 - 1,463 Btu/scf
- Mercaptan sulphur content < 0.001 g/scf

Inspection of records showed that the compliance with these specifications was very high indicating a well operated plant. However, there appeared to be only minimal monitoring of the results - records were largely in the form of notebooks whereas a more formal recording of results may assist in identifying sub-optimal performance of the plant.

7.1.4 Maintenance

Maintenance procedures at the plant appear to be well managed and fit for purpose. The plant has considerable evidence of maintenance being performed, and newer equipment is seen mingled with older equipment, indicating an ongoing monitoring and replacement programme.

In summary, maintenance and corrosion prevention appear adequate and robust for the plants needs. Given the redundancy in the plant (due to spare capacity/limited gas availability) there does not appear to be any serious concerns regarding future availability of the plant. However, if the plant were to be run at closer to full capacity there may be a detrimental effect on availability as currently the plant has the luxury of significant spare capacity.

7.1.5 State of Equipment

The equipment at the Uzen plant was found to be in a largely satisfactory state. As noted above there was evidence on site of new equipment suggesting ongoing monitoring and replacement activity.

The plant is however, largely obsolete in design. A modern, equivalent capacity plant could be built in a fraction of the area using modern technology. Nevertheless, the current plant is fit for purpose and has performed as required. However, the plant's performance has been aided by the fact that there is considerable redundancy in the plant, allowing equipment to be removed from one area of the plant to another when required.

7.1.6 Safety

Safety standards and procedures are in line with Kazakh norms. However, safety standards are not as rigorous as Western standards. Some examples of this include the fact that smoking huts are in close proximity to process equipment. Leading safety performance firms may have site-wide smoking bans or may locate smoking premises in

more remote areas. PPE standards are also less stringent than in many Western facilities.

However, safety is recognised as an issue that needs to be proactively managed. The presence of safety posters in control rooms seeks to heighten awareness and indicate a commendable management interest in safety procedures.

7.1.7 Staffing

The plant employs over 550 people of which 131 are management. As for many Kazakh facilities, these numbers are very high compared with Western standards and industry best practice. By way of an example over 100 of the staff are shift operators. A similar capacity plant of a modern compact design (but without full separation of ethane, propane etc) can operate with less than 20 operators. Even allowing for extra staff to cover the fractionation operations the numbers employed at Uzen appear excessive.

7.1.8 Markets

The gas from the Uzen plant is largely sold to the local domestic market and power station. This type of market is typically quite secure given that switching to alternative gas suppliers is typically unviable (unless in a fully deregulated market with provision for Third Party Access to pipelines and processing facilities). Naturally markets are at some risk from fuel switching although this is not believed to be a major threat in the local market.

7.1.9 Future Plans

The future of the plant is largely dictated by circumstances outside of its direct control - specifically the output of associated and non associated gas from the supplying fields. Non associated gas, which comprises almost 80% of the plant's feed is in decline. Thus available gas to the plant will, in the absence of changes in strategy, be somewhat limited.

Thus, four main scenarios are believed to be viewed by KMG EP as potential future strategies for the facility. These are presented in no particular order.

- Attempt deeper drilling in existing non-associated fields in an attempt to stem the decline. This requires the granting of a further drilling Licence, per field, by the Kazakh government;
- Form an agreement with Chevron-Exxon for the processing of Tengiz gas and recovery of ethane;
- Become a general Caspian shelf gas processing facility, processing gas on behalf of third parties; and
- Continue to operate as currently with increasing reliance on associated gas volumes.

The plant has also embarked on efforts to obtain accreditation in international standards of quality management (ISO-9001-2000) environmental management (ISO — 14001-1996) and safety (OHSAS-18001) although none of these have been obtained to date.

7.1.10 Summary

The Uzen gas plant provides a fit for purpose and essentially reliable operation. The facilities design is outdated compared with modern facilities but is, essentially, performing its function well.

Safety and maintenance standards are inferior to industry best practices but are comparable with local norms. The reliability of the plant is no doubt aided by the considerable redundancy in the facilities and could be expected to decline if the plant were operated closer to its design basis. However, given the decline in gas production this does not appear to be a likely scenario

8. LICENCES AND CONTRACTS

The existing law in the Republic of Kazakhstan (Decree of the President of the Republic of Kazakhstan “On licensing” issued on 17th April, 1995, chapter 2 and Decree of the President of the Republic of Kazakhstan “On subsoil plots and subsoil plots usage” №2828 issued on 28 January, 1996, article 13) stipulates that in order to produce from an oil field the company must have the Oil Production Licence and the Contract on Oil Production. The Contracts and Licences applicable to KMG EP have been previously stated in this report.

The Licences and Contracts are issued by The Competent Body in the Government and define the field development concept, taxation regime and duration of commercial development. The Contract is prepared based on an existing Licence. As a rule, the Licences and the Contracts are issued for 25 years, but sometimes, in cases when the field contains more than 100 MMT of oil reserves or more than 1,000 MMm³ of gas reserves, the Licence may be granted for a period of 40 years. It is understood that, the Licence term, as well as the Contract term, may be prolonged on the basis of mutual agreement between The Competent Body and the company, provided application is made by the company no later than 12 months before the current Licence (Contract) expiry.

As both the Licences and the Contracts have the expiry dates which are often different, it is crucial to determine which document prevails and which cut-off date should be applied in Proved reserves forecast. According to the Decree of the President of the Republic of Kazakhstan “On oil” № 2350 issued on 28th June, 1995, article 16.2: “The contract must be in accordance with the Licence provisions. The provisions in the contract which are in contradiction with the Licence provisions are considered invalid”. In other words, the Licence has the priority over the Contract and, thus, the Licence expiry date has been used as the cut-off date for the Proved reserves estimation.

For Probable Reserves determination, it has been assumed that the Licence and Contract are renewed beyond the current expiry date until the end of 2045.

9. ECONOMICS

NPVs have been calculated at nominal discount rates of 7.5%, 10% and 12.5%, these being discount rates considered by GCA to be typical of those used in the petroleum industry for the appraisal of assets such as KMG EP's. GCA's assessment is based upon GCA's understanding of the fiscal and contractual terms governing the assets.

The value of physical assets, i.e. plant and equipment, has not been attributed separately, as their value has been implicitly included in the assessment of NPV as part of the petroleum property rights relating to the project.

The NPV of estimated after tax cash flows (as at 31st December, 2005) attributable to a net economic interest in UzenMunaiGas and EmbaMunaiGas, have been derived using the "Base Case" assumptions as described below. No adjustments have been made for cash balances, inventories, indebtedness or other balance sheet effects.

It should be clearly understood that the NPV of future revenue potential of a petroleum property such as those discussed above, does not necessarily represent the market value of that property, nor an interest in it. In assessing a likely market value, it may be necessary to take into account a number of additional factors including: reserve risk (i.e. that Proved and/or Probable reserves may not be realised); perceptions of economic and sovereign risk; potential upside, such as in this case exploitation of oil reserves beyond the Prove and Probable level; other benefits, encumbrances or charges that may pertain to a particular interest and the competitive state of the market at the time. GCA has not taken any such factors into account in deriving the NPVs presented herein.

- Fiscal Systems

Taxation of petroleum operations in the Republic of Kazakhstan is governed by a combination of laws, presidential decrees, and contracts. The Ministry of Energy and Mineral Resources supervise contracts for field development. UzenMunaiGas possesses production Licences and develops 6 fields; Uzen and Karamandybas (oil and gas), Zhetybai South, Tenge West, Aktas and Tasbulat (gas fields). Production Licences for the Uzen and Karamandybas oilfields were issued to UzenMunaiGas on 5th September, 1995 for a duration of 25 years. Both fields are located in the Karakiyansky area of the Mangistau region and have been under development since the mid-1960s (Uzen), and the early-1970s (Karamandybas). A Contract for development of the Uzen and Karamandybas fields was signed between UzenMunaiGas and the Ministry of Oil and Gas on 29th May, 1996. The duration of the Contract is the same as for the Licences, and can be extended if both sides agree to do so. The key elements of the five contracts assessed are summarised below:

SUMMARY OF FISCAL TERMS

Area	Uzen & Karamandybas	22 Fields	Tengiz	Kenbay	S.E Novobagatinskoye
Contract No.	40	211	413	37	61
Contract Issue Date	31-05-1996	13-08-1998	03-03-2000	16-01-1996	28-05-1997
Contract Expiry Date	29-05-2021	13-08-2018	03-03-2020	16-01-2021	28-05-2017
Licence Expiry Date	05-09-2020	01-12-2015	Various ⁽³⁾	08-02-2020	05-01-2016
Royalty	3%	3.5% - 6% ⁽¹⁾	2% - 6% ⁽²⁾	8%	6%
Porperty Tax - % book value	0.50%	1.00%	1.00%	0.50%	1.00%
Road Tax - % taxable revenue ⁽⁴⁾	0.50%	0.10%	0.00%	0.50%	0.50%
Corporation Tax - %	30%	30%	30%	30%	30%
Excess Profit Tax Rate ⁽⁵⁾	0%-50%	0% - 30%	0% - 30%	0% - 30%	0%-50%
Excess Profit Tax – Basis ⁽⁵⁾	Type 2	Type 1	Type 1	Type 3	Type 2

Notes:

1. Based on specified production thresholds achieved each year.
2. Based on cumulative production from contract area.
3. Several licenses expiring between 2010 and 2025.
4. Annual income as determined for tax purposes before any deductions.
5. Excess Profits Tax is payable on contract areas according to the following terms:

Type 1 Contract

1. Based on IRR of adjusted contract cash flow (Step scale).
2. Taxable Income = CT Taxable Income – CT Payable.

IRR	EPT Rate
< 20%	0%
20% - 22%	4%
22% - 24%	8%
24% - 26%	12%
26% - 28%	18%
28% - 30%	24%
> 30%	30%

Type 2 Contract

1. Based on IRR of adjusted contract cash flow (Incremental scale, with the maximum EPT rate applicable once attained).
2. Taxable Income = CT Taxable Income – CT Payable.
(Except Contract 40, where Taxable Income = CT Taxable Income – CT Payable – EPT from previous year). GCA is not taking into account any Withholding Tax on Dividends.

IRR	EPT Rate
< 20%	0%
20% - 25%	30%
> 25%	50%

Type 3 Contract

1. Based on the ratio of Taxable Income/Taxable Revenue (Incremental scale).
2. Taxable Income = CT Taxable Income – CT Payable.
3. Applied on incremental basis as Taxable Income/Taxable Revenue ratio increases

Ratio	EPT Rate
< 20%	0%
20% - 25%	10%
25% - 30%	20%
> 30%	30%

9.1 Upstream Assets

Cost Assumptions

GCA has based its assessment of forward capital and operating costs on the 2005 Budget and draft 2006 to 2010 Business Plan (received in January, 2006) for EmbaMunaiGas and UzenMunaiGas. Certain cost items (as discussed below) have been excluded. Also, GCA understands that the Business Plan has inflation included at the following annual rates:

2006	6.0%
2007	5.8%
2008 to 2010	5.5%

GCA has deflated the Business Plan costs at these same rates in order to arrive at costs in "real" terms. These have then been inflated at 3% per year from 2006 for the purposes of GCA's NPV analysis.

It is GCA's opinion that the capital costs included in the 2006 to 2010 Business Plan with respect to the drilling of new wells and of workovers are reasonable. In terms of operating costs, the company has provided details of the plans it intends to implement over the next 5 years in order to achieve a reduction in annual oil production costs of at least U.S.\$100 million over the same period. These cost saving plans principally relate to production operations including; optimising the field development plan and the management of the reservoir thereby reducing costs such as electricity for water injection pumps; replacing steel pipes with fibreglass; better well monitoring and use of electric downhole pumps to increase the periods between workovers; modernising gathering systems; and, optimising logistics. In GCA's view these are all areas where cost savings can be made and the overall cost reduction target for the period 2006 to 2010 should be achievable given a concerted effort to carry out these plans.

The gas fields and Uzen/Karamandybas associated gas have been evaluated separately from the oil. In this respect, the opex for the Gas Production and Gas Processing in the 2006 to 2010 Business Plan is excluded from the oil assessment.

Capital Costs

GCA has treated the drilling costs on a well by well basis, consistent with the drilling schedule that GCA has adopted for each field. GCA has also excluded Central Staff and any exploration related costs, as no benefits from the exploration programme have been included in the forecasts.

GCA had received from KMG EP in early 2005 a draft forecast of capital for EmbaMunaiGas facilities and construction on a field and NGDU basis. Whilst the values were not consistent with the 2005 capital Budget, GCA has used these capital cost estimates as a basis for allocating costs between the fields. This allocation has also been used as a basis for allocating the Business Plan costs for the period 2006 to 2010. For 2011 and beyond, GCA has reduced the capital cost (based on the adjusted Business Plan amount for 2010) by 15% p.a.

In the absence of a capital cost breakdown by field for UzenMunaiGas, GCA has allocated the costs in proportion to production.

The 2006 to 2010 Business Plan does not provide a breakdown of the capital costs by field or NGDU. GCA has used the 2005 Budget, which does provide a cost allocation, as a basis for future years. This is not ideal, because there is no assurance that future cost allocation will be the same as in 2005.

There is no capex in the 2006 to 2010 Business Plan associated with either Gas Production or Gas Processing.

Operating Costs

The 2005 Budget presents the operating costs broken down by field for EmbaMunaiGas, but the 2006 to 2010 Business Plan only gives the total operating costs by production affiliate.

GCA has excluded the following operating costs categories: Royalties, taxes and payments on the basis that they are generally calculated in the economic model. General and Administrative costs have also been excluded, and any other costs that do not relate directly to the upstream producing assets.

In the absence of an operating cost breakdown by field for UzenMunaiGas, GCA has allocated the costs in proportion to production.

For the Proved plus Probable case, for 2006 and beyond, the operating costs on a field basis is allocated in the same proportion as for 2005. For 2011 and beyond, the operating cost is estimated on the basis of an assumed 85% fixed cost and 15% variable, based on the adjusted Business Plan production and operating cost levels in 2010.

For the Proved case, the operating costs for 2006 and beyond is kept constant at the 2005 amount, as required under the SPE/WPC reserves definitions.

GCA understands that KMG EP will be transferring ownership of Uzen gas processing plant during 2006. In its economic analysis of the gas fields, GCA has assumed that the operating costs beyond 2006 will remain the same as the 2006 levels, and will be paid as a processing tariff.

Oil Pricing

The Brent oil price "marker crude" price forecast, on which realised and expected oil prices have been based and NPVs derived is outlined below.

Year	U.S./Bbl
2006	60.00
2007	50.00
2008	45.00
2009	40.00
2010 and thereafter	+2.5%

Crude oil produced by UzenMunaiGas and EmbaMunaiGas is sold in the international, CIS and domestic markets at markedly different prices. Based on limited price and sales volume information provided by KMG EP, the prices realised/expected from the sale of crude oil produced from each area were determined by applying the following market splits and constant price differentials that reflect the quality variation and location against the Brent marker prices above:

	Market	Share	Price Differential (U.S.\$/Bbl)	
	Export	Domestic	Export	Domestic
UzenMunaiGas	75.0%	25.0%	-11.13	-35.82
EmbaMunaiGas	75.0%	25.0%	-11.49	-35.24

Other assumptions under the Base Case and other cases are outlined below:

1. All cash flows are discounted on a mid-year basis to 1st January, 2006;
2. Costs are inflated at 2.5% per annum; and
3. A constant exchange rate of 130 Tenge per U.S.\$ has been assumed.

9.2 Net Present Values

Upstream Assets

The results of cash flow analysis for the Base Case are outlined below. All NPVs quoted are those attributable to KMG EP's 100% interest in the properties reviewed.

POST-TAX NET PRESENT VALUE AS AT 31st DECEMBER, 2005 U.S.\$MM

	Proved	Proved plus Probable
7.50%	2,478	5,485
10.00%	2,254	4,465
12.50%	2,069	3,759

The production profiles for gas at the Proved and the Proved plus Probable levels did not pass the economic limit test and thus there are no gas reserves at these levels. Accordingly, no value can be attributed to gas.

9.3 Sensitivity Analysis

GCA has examined the sensitivity of the following as representing the most sensitive parameters for these assets:

- a. oil prices;
- b. Operating cost; and
- c. Capital cost.

Sensitivity analysis was performed for the following cases

- o High Oil Price Scenario (+U.S.\$5/Bbl)
- o Low Oil Price Scenario (-U.S.\$5/Bbl)
- o Capital cost +/- 20%
- o Operating cost +/- 20%

9.3.1 Upstream Assets

SENSITIVITY RESULTS
NET PRESENT VALUES AS AT 31st DECEMBER, 2005
(U.S.\$ MM)

Proved Reserves							
U.S.\$MM	Base Case	High Oil Price	Low Oil Price	Capital cost +20%	Capital cost -20%	Operating cost +20%	Operating cost -20%
7.50%	2,478	3,298	1,658	2,365	2,591	2,156	2,799
10.00%	2,254	2,989	1,518	2,142	2,366	1,972	2,536
12.50%	2,069	2,735	1,403	1,958	2,180	1,819	2,318

Proved plus Probable Reserves							
U.S.\$MM	Base Case	High Oil Price	Low Oil Price	Capital cost +20%	Capital cost -20%	Operating cost +20%	Operating cost -20%
7.50%	5,485	6,953	4,010	5,353	5,617	5,080	5,888
10.00%	4,465	5,661	3,262	4,334	4,595	4,149	4,778
12.50%	3,759	4,768	2,745	3,631	3,886	3,502	4,015

10. QUALIFICATIONS

GCA is an independent international energy advisory group of 43 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis.

The report is based on information compiled by professional staff members who are full time employees of GCA.

Staff who participated in the compilation of this report includes Mr. William B. Cline, Mr. B.C. Rhodes, Mr T. Goodearl, Mr M. G. Bilderbeck, Miss Z. Reeve and Mr P. Kislyakov. All hold at least a bachelor's degree in geoscience, petroleum engineering or related discipline. Mr. Cline is a Senior Partner and Principal of GCA, with over 45 years of industry experience. He is a Chartered Engineer in the U.K. and Registered Professional Engineer in the State of Texas, U.S.A. He is also a Member of the Institute of Gas Engineers, the Society of Petroleum Engineers and the American Association of Petroleum Geologists. Mr. Rhodes holds a B.Sc.(Hons) Geology, is a member of the Energy Institute, the Petroleum Exploration Society of Great Britain, the Society of Petroleum Engineers and the European Association of Geoscientists and Engineers, and has more than 30 years industry experience. Mr T Goodearl holds a BSc. (Hons) in Chemical Engineering and a MSc. in Petroleum Engineering and has over 34 years of experience. He is a member of the Society of Petroleum Engineers and the Energy Institute. Mr Bilderbeck has 27 years of international experience, holds a B.Sc. in Petroleum Engineering and an MBA, is a member of the Society of Petroleum Engineers and is a Registered Professional Engineer in the State of Oklahoma, U.S.A. Miss Z. Reeve holds an M.Eng in Chemical Engineering and has 8 years of experience in the oil industry. She is a Member of the Institute of Chemical Engineers, the Society of Petroleum Engineers and the Energy Institute. Mr P. Kislyakov holds an MSc in Petroleum Production Engineering and has 9 years of experience, and he is a member of the Society of Petroleum Engineers.

BASIS OF OPINION

This assessment has been conducted within the context of GCA's understanding of the effects of petroleum legislation, taxation, and other regulations that currently apply to these properties. However, GCA is not in a position to attest to property title, financial interest relationships or encumbrances thereon for any part of the appraised properties.

It should be understood that any determination of reserve volumes and corresponding NPVs, particularly involving petroleum developments, may be subject to significant variations over short periods of time as new information becomes available and perceptions change.

Yours faithfully

GAFFNEY, CLINE & ASSOCIATES



William B. Cline
Senior Partner

APPENDIX I

Glossary

GLOSSARY

List of key abbreviations used in this report.

°API	Degrees API (American Petroleum Institute)
B	Billion (10 ⁹)
Bbl	Barrels
BBbl	Billion Barrels
Bcf	Billion cubic feet
Bcfd	Billion cubic feet per day
Bcm	Billion cubic metres
bcpd	Barrels of condensate per day
blpd	Barrels of liquids per day
bpd	Barrels per day
boe	Barrels of oil equivalent @ xxx mcf/bbl
bopd	Barrels oil per day
BS&W	Bottom sediment and water
Btu	British Thermal Units
bwpd	Barrels water per day
CO ₂	Carbon Dioxide
CAPEX	Capital Expenditure
cm	centimetres
CT	Corporation Tax
Deg C	Degrees Celsius
DST	Drill Stem Test
E&A	Exploration & Appraisal
EMV	Expected Monetary Value
EUR	Estimated Ultimate Recovery
ft ³	Cubic feet
Fx	Foreign Exchange Rate
G&A	General and Administrative costs
g/cc	grams per cubic centimetre
GIIP	Gas initially in place
GOR	Gas Oil Ratio
H ₂ S	Hydrogen Sulphide
kl	Kilolitres
km	Kilometers
km ²	Square kilometres
LNG	Liquefied Natural Gas
LoF	Life of Field
LPG	Liquefied Petroleum Gas
m	Metres
mm	Millimetres
m ³	Cubic metres
m ³ d	Cubic metres per day
mg/l	milligrammes per litre
Mcfd	Thousand standard cubic feet per day
Mm ³	Thousand Cubic metres
Mm ³ d	Thousand Cubic metres per day
mD	Permeability in millidarcies
M	Thousand
MM	Million
MMcfd	Million standard cubic feet per day
MT	Thousand tonnes

GLOSSARY (Cont'd.)

mya	Million years ago
NGL	Natural Gas Liquids
N ₂	Nitrogen
NO ₂	Nitrogen
NPV	Net Present Value
OCM	Operating Committee Meeting
OPEX	Operating Expenditure
p.a.	Per annum
psi	Pounds per square inch
psig	Pounds per square inch gauge
PVT	Pressure volume temperature
RFT	Repeat Formation Tester
scf	Standard Cubic Feet
scfd	Standard Cubic Feet per day
SL	Straight line (for depreciation)
ss	Subsea
stb	Stock tank barrel
STOIIP	Stock tank oil initially in place
T	Tonnes
Te	Tonnes equivalent
TCM	Technical Committee Meeting
TOC	Total Organic Carbon
Tpd	Tonnes per day
TVDSS	True Vertical Depth Subsea
WI	Working Interest
1H05	First 6 months of 2005
2D	Two dimensional
3D	Three dimensional
%	Percentage
U.S.\$	United States Dollar

APPENDIX II
Petroleum Reserves and Resources Definitions

PETROLEUM RESERVES DEFINITIONS
SOCIETY OF PETROLEUM ENGINEERS (SPE)
AND
WORLD PETROLEUM CONGRESSES (WPC)

DEFINITIONS

Reserves are those quantities of petroleum¹ which are anticipated to be commercially recovered from known accumulations from a given date forward. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability.

The intent of the SPE and WPC in approving additional classifications beyond proved reserves is to facilitate consistency among professionals using such terms. In presenting these definitions, neither organization is recommending public disclosure of reserves classified as unproved. Public disclosure of the quantities classified as unproved reserves is left to the discretion of the countries or companies involved.

Estimation of reserves is done under conditions of uncertainty. The method of estimation is called deterministic if a single best estimate of reserves is made based on known geological, engineering, and economic data. The method of estimation is called probabilistic when the known geological, engineering, and economic data are used to generate a range of estimates and their associated probabilities. Identifying reserves as proved, probable, and possible has been the most frequent classification method and gives an indication of the probability of recovery. Because of potential differences in uncertainty, caution should be exercised when aggregating reserves of different classifications.

Reserves estimates will generally be revised as additional geologic or engineering data becomes available or as economic conditions change. Reserves do not include quantities of petroleum being held in inventory, and may be reduced for usage or processing losses if required for financial reporting.

Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

¹ **PETROLEUM:** For the purpose of these definitions, the term petroleum refers to naturally occurring liquids and gases which are predominately comprised of hydrocarbon compounds. Petroleum may also contain non-hydrocarbon compounds in which sulfur, oxygen, and/or nitrogen atoms are combined with carbon and hydrogen. Common examples of non-hydrocarbons found in petroleum are nitrogen, carbon dioxide and hydrogen sulfide.

PROVED RESERVES

Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations. Proved reserves can be categorized as developed or undeveloped.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Establishment of current economic conditions should include relevant historical petroleum prices and associated costs and may involve an averaging period that is consistent with the purpose of the reserve estimate, appropriate contract obligations, corporate procedures, and government regulations involved in reporting these reserves.

In general, reserves are considered proved if the commercial producibility of the reservoir is supported by actual production or formation tests. In this context, the term proved refers to the actual quantities of petroleum reserves and not just the productivity of the well or reservoir. In certain cases, proved reserves may be assigned on the basis of well logs and/or core analysis that indicate the subject reservoir is hydrocarbon bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

The area of the reservoir considered as proved includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) the undrilled portions of the reservoir that can reasonably be judged as commercially productive on the basis of available geological and engineering data. In the absence of data on fluid contacts, the lowest known occurrence of hydrocarbons controls the proved limit unless otherwise indicated by definitive geological, engineering or performance data.

Reserves may be classified as proved if facilities to process and transport those reserves to market are operational at the time of the estimate or there is a reasonable expectation that such facilities will be installed. Reserves in undeveloped locations may be classified as proved undeveloped provided (1) the locations are direct offsets to wells that have indicated commercial production in the objective formation, (2) it is reasonably certain such locations are within the known proved productive limits of the objective formation, (3) the locations conform to existing well spacing regulations where applicable, and (4) it is reasonably certain the locations will be developed. Reserves from other locations are categorized as proved undeveloped only where interpretations of geological and engineering data from wells indicate with reasonable certainty that the objective formation is laterally continuous and contains commercially recoverable petroleum at locations beyond direct offsets.

Reserves which are to be produced through the application of established improved recovery methods are included in the proved classification when (1) successful testing by a pilot project or favorable response of an installed program in the same or an analogous reservoir with similar rock and fluid properties provides support for the analysis on which the project was based, and, (2) it is reasonably certain that the project will proceed. Reserves to be recovered by improved recovery methods that have yet to be established through commercially successful applications are included in the proved classification only (1) after a favorable production response from the subject reservoir from either (a) a representative pilot or (b) an installed program where the

response provides support for the analysis on which the project is based and (2) it is reasonably certain the project will proceed.

UNPROVED RESERVES

Unproved reserves are based on geologic and/or engineering data similar to that used in estimates of proved reserves; but technical, contractual, economic, or regulatory uncertainties preclude such reserves being classified as proved. Unproved reserves may be further classified as probable reserves and possible reserves.

Unproved reserves may be estimated assuming future economic conditions different from those prevailing at the time of the estimate. The effect of possible future improvements in economic conditions and technological developments can be expressed by allocating appropriate quantities of reserves to the probable and possible classifications.

PROBABLE RESERVES

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

In general, probable reserves may include (1) reserves anticipated to be proved by normal step-out drilling where sub-surface control is inadequate to classify these reserves as proved, (2) reserves in formations that appear to be productive based on well log characteristics but lack core data or definitive tests and which are not analogous to producing or proved reservoirs in the area, (3) incremental reserves attributable to infill drilling that could have been classified as proved if closer statutory spacing had been approved at the time of the estimate, (4) reserves attributable to improved recovery methods that have been established by repeated commercially successful applications when (a) a project or pilot is planned but not in operation and (b) rock, fluid, and reservoir characteristics appear favorable for commercial application, (5) reserves in an area of the formation that appears to be separated from the proved area by faulting and the geologic interpretation indicates the subject area is structurally higher than the proved area, (6) reserves attributable to a future workover, treatment, re-treatment, change of equipment,

For other mechanical procedures, where such procedure has not been proved successful in wells which exhibit similar behavior in analogous reservoirs, and (7) incremental reserves in proved reservoirs where an alternative interpretation of performance or volumetric data indicates more reserves than can be classified as proved.

POSSIBLE RESERVES

Possible reserves are those unproved reserves which analysis of geological and engineering data suggests are less likely to be recoverable than probable reserves. In this context, when probabilistic methods are used, there should be at least a 10% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable plus possible reserves.

In general, possible reserves may include (1) reserves which, based on geological interpretations, could possibly exist beyond areas classified as probable, (2) reserves in formations that appear to be petroleum bearing based on log and core analysis but may not be productive at commercial rates, (3) incremental reserves attributed to infill drilling that are subject to technical uncertainty, (4) reserves attributed to improved recovery methods when (a) a project or pilot is planned but not in operation and (b) rock, fluid and reservoir characteristics are such

that a reasonable doubt exists that the project will be commercial, and (5) reserves in an area of the formation that appears to be separated from the proved area by faulting and geological interpretation indicates the subject area is structurally lower than the proved area.

RESERVE STATUS CATEGORIES

Reserve status categories define the development and producing status of wells and reservoirs.

Developed: Developed reserves are expected to be recovered from existing wells including reserves behind pipe. Improved recovery reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor. Developed reserves may be sub-categorized as producing or non-producing.

Producing: Reserves subcategorized as producing are expected to be recovered from completion intervals which are open and producing at the time of the estimate. Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Non-producing: Reserves subcategorized as non-producing include shut-in and behind-pipe reserves. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells, which will required additional completion work or future recompletion prior to the start of production.

Undeveloped Reserves: Undeveloped reserves are expected to be recovered: (1) from new wells on undrilled acreage, (2) from deepening existing wells to a different reservoir, or (3) where a relatively large expenditure is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

Approved by the Board of Directors, Society of Petroleum Engineers (SPE), Inc., and the Executive Board, World Petroleum Congresses (WPC), March 1997.

PETROLEUM RESOURCES CLASSIFICATION AND DEFINITIONS

SOCIETY OF PETROLEUM ENGINEERS (SPE) WORLD PETROLEUM CONGRESSES (WPC) AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)

In March 1997, the Society of Petroleum Engineers (SPE) and the World Petroleum Congresses (WPC) approved a set of petroleum* reserves definitions which represented a major step forward in their mutual desire to improve the level of consistency in reserves estimation and reporting on a worldwide basis. As a further development, the SPE and WPC recognized the potential benefits to be obtained by supplementing those definitions to cover the entire resource base, including those quantities of petroleum contained in accumulations that are currently sub-commercial or that have yet to be discovered. These other resources represent potential future additions to reserves and are therefore important to both countries and companies for planning and portfolio management purposes. In addition, the American Association of Petroleum Geologists (AAPG) participated in the development of these definitions and joined SPE and WPC as a sponsoring organization.

In 1987, the WPC published its report "Classification and Nomenclature Systems for Petroleum and Petroleum Reserves", which included definitions for all categories of resources. The WPC report, together with definitions by other industry organizations and recognition of current industry practice, provided the basis for the system outlined here.

Nothing in the following resource definitions should be construed as modifying the existing definitions for petroleum reserves as approved by the SPE/WPC in March 1997.

As with unproved (i.e. probable and possible) reserves, the intent of the SPE and WPC in approving additional classifications beyond proved reserves is to facilitate consistency among professionals using such terms. In presenting these definitions, neither organization is recommending public disclosure of quantities classified as resources. Such disclosure is left to the discretion of the countries or companies involved.

Estimates derived under these definitions rely on the integrity, skill, and judgement of the evaluator and are affected by the geological complexity, stage of exploration or development, degree of depletion of the reservoirs, and amount of available data. Use of the definitions should sharpen the distinction between various classifications and provide more consistent resources reporting.

DEFINITIONS

The resource classification system is summarized in Figure 1 and the relevant definitions are given below. Elsewhere, resources have been defined as including all quantities of petroleum which are estimated to be initially-in-place; however, some users consider only the estimated recoverable portion to constitute a resource. In these definitions, the quantities estimated to be initially-in-place are defined as Total Petroleum-initially-in-place, Discovered Petroleum-initially-in-place and Undiscovered Petroleum-initially-in-place, and the recoverable portions are defined separately as Reserves, Contingent Resources and Prospective Resources. In any event, it should be understood that reserves constitute a subset of resources, being those quantities that are discovered (i.e. in known accumulations), recoverable, commercial and remaining.

* For the purpose of these definitions, the term "petroleum" refers to naturally occurring liquids and gases that are predominantly comprised of hydrocarbon compounds. Petroleum may also contain nonhydrocarbon compounds in which sulfur, oxygen, and/or nitrogen atoms are combined with carbon and hydrogen. Common examples of nonhydrocarbons found in petroleum are nitrogen, carbon dioxide, and hydrogen sulfide.

TOTAL PETROLEUM-INITIALLY-IN-PLACE

Total Petroleum-initially-in-place is that quantity of petroleum which is estimated to exist originally in naturally occurring accumulations. Total Petroleum-initially-in-place is, therefore, that quantity of petroleum which is estimated, on a given date, to be contained in known accumulations, plus those quantities already produced therefrom, plus those estimated quantities in accumulations yet to be discovered. Total Petroleum-initially-in-place may be subdivided into Discovered Petroleum-initially-in-place and Undiscovered Petroleum-initially-in-place, with Discovered Petroleum-initially-in-place being limited to known accumulations.

It is recognized that all Petroleum-initially-in-place quantities may constitute potentially recoverable resources since the estimation of the proportion which may be recoverable can be subject to significant uncertainty and will change with variations in commercial circumstances, technological developments and data availability. A portion of those quantities classified as Unrecoverable may become recoverable resources in the future as commercial circumstances change, technological developments occur, or additional data are acquired.

DISCOVERED PETROLEUM-INITIALLY-IN-PLACE

Discovered Petroleum-initially-in-place is that quantity of petroleum which is estimated, on a given date, to be contained in known accumulations, plus those quantities already produced therefrom. Discovered Petroleum-initially-in-place may be subdivided into Commercial and Sub-commercial categories, with the estimated potentially recoverable portion being classified as Reserves and Contingent Resources respectively, as defined below.

RESERVES

Reserves are defined as those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. Reference should be made to the full SPE/WPC Petroleum Reserves Definitions for the complete definitions and guidelines.

Estimated recoverable quantities from known accumulations which do not fulfil the requirement of commerciality should be classified as Contingent Resources, as defined below. The definition of commerciality for an accumulation will vary according to local conditions and circumstances and is left to the discretion of the country or company concerned. However, reserves must still be categorized according to the specific criteria of the SPE/WPC definitions and therefore proved reserves will be limited to those quantities that are commercial under current economic conditions, while probable and possible reserves may be based on future economic conditions. In general, quantities should not be classified as reserves unless there is an expectation that the accumulation will be developed and placed on production within a reasonable timeframe.

In certain circumstances, reserves may be assigned even though development may not occur for some time. An example of this would be where fields are dedicated to a long-term supply contract and will only be developed as and when they are required to satisfy that contract.

CONTINGENT RESOURCES

Contingent Resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.

It is recognized that some ambiguity may exist between the definitions of contingent resources and unproved reserves. This is a reflection of variations in current industry practice. It is recommended that if the degree of commitment is not such that the accumulation is expected to be developed and placed on production within a reasonable timeframe, the estimated recoverable volumes for the accumulation be classified as contingent resources.

Contingent Resources may include, for example, accumulations for which there is currently no viable market, or where commercial recovery is dependent on the development of new technology, or where evaluation of the accumulation is still at an early stage.

UNDISCOVERED PETROLEUM-INITIALLY-IN-PLACE

Undiscovered Petroleum-initially-in-place is that quantity of petroleum which is estimated, on a given date, to be contained in accumulations yet to be discovered. The estimated potentially recoverable portion of Undiscovered Petroleum-initially-in-place is classified as Prospective Resources, as defined below.

PROSPECTIVE RESOURCES

Prospective Resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.

ESTIMATED ULTIMATE RECOVERY

Estimated Ultimate Recovery (EUR) is not a resource category as such, but a term which may be applied to an individual accumulation of any status/maturity (discovered or undiscovered). Estimated Ultimate Recovery is defined as those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from an accumulation, plus those quantities already produced therefrom.

AGGREGATION

Petroleum quantities classified as Reserves, Contingent Resources or Prospective Resources should not be aggregated with each other without due consideration of the significant differences in the criteria associated with their classification. In particular, there may be a significant risk that accumulations containing Contingent Resources or Prospective Resources will not achieve commercial production.

RANGE OF UNCERTAINTY

The Range of Uncertainty, as shown in Figure 1, reflects a reasonable range of estimated potentially recoverable volumes for an individual accumulation. Any estimation of resource quantities for an accumulation is subject to both technical and commercial uncertainties, and should, in general, be quoted as a range. In the case of reserves, and where appropriate, this range of uncertainty can be reflected in estimates for Proved Reserves (1P), Proved plus

Probable Reserves (2P) and Proved plus Probable plus Possible Reserves (3P) scenarios. For other resource categories, the terms Low Estimate, Best Estimate and High Estimate are recommended.

The term “Best Estimate” is used here as a generic expression for the estimate considered to be the closest to the quantity that will actually be recovered from the accumulation between the date of the estimate and the time of abandonment. If probabilistic methods are used, this term would generally be a measure of central tendency of the uncertainty distribution (most likely/mode, median/P50 or mean). The terms “Low Estimate” and “High Estimate” should provide a reasonable assessment of the range of uncertainty in the Best Estimate.

For undiscovered accumulations (Prospective Resources) the range will, in general, be substantially greater than the ranges for discovered accumulations. In all cases, however, the actual range will be dependent on the amount and quality of data (both technical and commercial) which is available for that accumulation. As more data become available for a specific accumulation (e.g. additional wells, reservoir performance data) the range of uncertainty in EUR for that accumulation should be reduced.

RESOURCES CLASSIFICATION SYSTEM

Graphical Representation

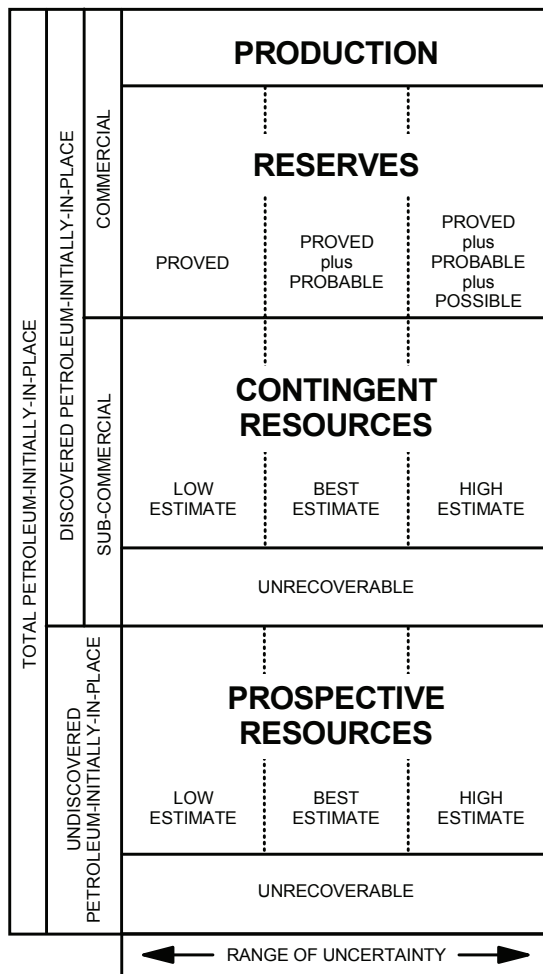
Figure 1 is a graphical representation of the definitions. The horizontal axis represents the range of uncertainty in the estimated potentially recoverable volume for an accumulation, whereas the vertical axis represents the level of status/maturity of the accumulation. Many organizations choose to further sub-divide each resource category using the vertical axis to classify accumulations on the basis of the commercial decisions required to move an accumulation towards production.

As indicated in Figure 1, the Low, Best and High Estimates of potentially recoverable volumes should reflect some comparability with the reserves categories of Proved, Proved plus Probable and Proved plus Probable plus Possible, respectively. While there may be a significant risk that sub-commercial or undiscovered accumulations will not achieve commercial production, it is useful to consider the range of potentially recoverable volumes independently of such a risk.

If probabilistic methods are used, these estimated quantities should be based on methodologies analogous to those applicable to the definitions of reserves; therefore, in general, there should be at least a 90% probability that, assuming the accumulation is developed, the quantities actually recovered will equal or exceed the Low Estimate. In addition, an equivalent probability value of 10% should, in general, be used for the High Estimate. Where deterministic methods are used, a similar analogy to the reserves definitions should be followed.

As one possible example, consider an accumulation that is currently not commercial due solely to the lack of a market. The estimated recoverable volumes are classified as Contingent Resources, with Low, Best and High estimates. Where a market is subsequently developed, and in the absence of any new technical data, the accumulation moves up into the Reserves category and the Proved Reserves estimate would be expected to approximate the previous Low Estimate.

FIGURE 1 - RESOURCES CLASSIFICATION SYSTEM



Not to scale

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Management of Joint Stock Company Exploration Production KazMunaiGas

We have audited the accompanying consolidated balance sheets of Joint Stock Company Exploration Production KazMunaiGas and its subsidiaries (the “Group”) as at December 31, 2005, 2004 and 2003, and the related consolidated statements of income, cash flows and changes in equity for the years then ended. These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as at December 31, 2005, 2004 and 2003, and the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young Kazakhstan LLP

Almaty
June 2, 2006

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
CONSOLIDATED BALANCE SHEETS

Tenge thousands

	Notes	As at December 31,		
		2005	2004	2003
ASSETS				
Non-current assets				
Property, plant and equipment	7	243,131,834	257,958,200	223,984,629
Financial assets	8	53,963,138	8,198,366	261,418
Other assets	9	8,665,381	23,762,804	6,664,601
		<u>305,760,353</u>	<u>289,919,370</u>	<u>230,910,648</u>
Current assets				
Inventories	10	15,409,658	20,848,151	16,453,723
Taxes prepaid and VAT recoverable		22,121,101	4,484,643	6,168,667
Prepaid and deferred expenses		6,993,525	5,027,135	5,358,874
Trade and other receivables	8	45,918,226	19,826,746	13,487,247
Other financial assets	8	19,993,257	26,520,000	6,006,984
Cash and cash equivalents	8	20,187,588	14,127,579	9,310,184
		<u>130,623,355</u>	<u>90,834,254</u>	<u>56,785,679</u>
Total assets		<u>436,383,708</u>	<u>380,753,624</u>	<u>287,696,327</u>
EQUITY				
Share capital	11	11,792,208	11,761,130	11,761,130
Other reserves		—	1,315,825	—
Retained earnings		161,860,819	154,162,438	142,406,287
Equity holders of the Company		173,653,027	167,239,393	154,167,417
Minority interest		79,536	1,494,303	1,391,740
Total equity		<u>173,732,563</u>	<u>168,733,696</u>	<u>155,559,157</u>
LIABILITIES				
Non-current liabilities				
Borrowings	13	54,028,740	50,758,435	8,145,588
Deferred tax	18	14,197,680	18,485,814	17,537,946
Provisions	14	49,701,648	48,805,791	47,582,248
		<u>117,928,068</u>	<u>118,050,040</u>	<u>73,265,782</u>
Current liabilities				
Borrowings	13	21,121,175	18,100,418	10,160,262
Income taxes payable		46,994,090	20,390,400	11,108,227
Trade and other payables	6	51,167,595	34,646,110	30,096,811
Provisions	14	25,440,217	20,832,960	7,506,088
		<u>144,723,077</u>	<u>93,969,888</u>	<u>58,871,388</u>
Total liabilities		<u>262,651,145</u>	<u>212,019,928</u>	<u>132,137,170</u>
Total liabilities and equity		<u>436,383,708</u>	<u>380,753,624</u>	<u>287,696,327</u>

The notes on pages F-7 to F-27 are an integral part of these consolidated financial statements.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
CONSOLIDATED STATEMENTS OF INCOME

Tenge thousands

	Notes	For the year ended December 31,		
		2005	2004	2003
CONTINUING OPERATIONS				
Revenue	15	346,429,445	237,103,218	177,757,373
Operating expenses	16	(204,575,552)	(162,276,362)	(136,586,864)
Profit from operations		141,853,893	74,826,856	41,170,509
Finance income (expense)	17	1,094,568	(3,436,830)	(2,228,285)
Profit before tax and minority interest		142,948,461	71,390,026	38,942,224
Income tax expense	18	(99,192,639)	(58,209,157)	(31,513,204)
Profit for the year from continuing operations		43,755,822	13,180,869	7,429,020
DISCONTINUED OPERATIONS				
Profit for the year from discontinued operations	3	1,521,130	283,718	74,211
Profit for the year		45,276,952	13,464,587	7,503,231
Attributable to:				
Equity holders of the Company		45,074,642	13,426,853	7,493,361
Minority interest		202,310	37,734	9,870
		45,276,952	13,464,587	7,503,231
EARNINGS PER SHARE				
Attributable to equity holders of the Company	12			
From continuing operations—basic and diluted		0.93	0.28	0.16
From discontinued operations—basic and diluted		0.03	0.01	0.00

The notes on pages F-7 to F-27 are an integral part of these consolidated financial statements.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
CONSOLIDATED STATEMENTS OF CASH FLOWS

Tenge thousands

	Notes	For the year ended December 31,		
		2005	2004	2003
Cash flows from operating activities				
Cash receipts from customers		333,283,661	263,575,257	201,293,826
Cash paid to suppliers and employees		(181,300,015)	(166,205,944)	(120,242,253)
Income tax paid		(76,929,923)	(36,875,099)	(35,840,039)
Net cash generated from operating activities		<u>75,053,723</u>	<u>60,494,214</u>	<u>45,211,534</u>
Cash flows from investing activities				
Purchases of property, plant and equipment (PPE)	7	(61,916,479)	(50,525,604)	(28,948,826)
Proceeds from sale of PPE		2,755,953	192,062	1,515,635
Purchases of intangible assets		(650,170)	(23,853)	(79,173)
Purchases of held-to-maturity financial assets	8	(25,696,389)	(28,288,259)	(6,238,676)
Loans granted to related parties	19	(30,304,487)	—	—
Loan repayments received from related parties	19	17,000,000	—	—
Investments in associates	9	(1,810,335)	(4,585,000)	—
Disposal of subsidiaries, net of cash disposed	3	(2,978,059)	451,227	285,655
Interest received		4,103,536	440,882	—
Net cash used in investing activities		<u>(99,496,430)</u>	<u>(82,338,545)</u>	<u>(33,465,385)</u>
Cash flows from financing activities				
Issue of shares	11	31,078	—	—
Proceeds from borrowings	13	71,002,146	32,714,103	877,085
Repayment of borrowings	13	(30,407,622)	(2,269,803)	(3,840,544)
Dividends paid to Company's shareholders	11	(3,408,598)	(2,404,513)	(1,613,195)
Other distributions to owners	19	(2,115,615)	—	—
Interest paid		(5,019,287)	(878,838)	(503,888)
Net cash from (used in) financing activities		<u>30,082,102</u>	<u>27,160,949</u>	<u>(5,080,542)</u>
Net change in cash and cash equivalents		5,639,395	5,316,618	6,665,607
Cash and cash equivalents at beginning of the year	8	14,127,579	9,310,184	2,783,589
Exchange gains (losses) on cash and cash equivalents		420,614	(499,223)	(139,012)
Cash and cash equivalents at end of the year	8	<u>20,187,588</u>	<u>14,127,579</u>	<u>9,310,184</u>

The notes on pages F-7 to F-27 are an integral part of these consolidated financial statements.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Tenge thousands

	Attributable to equity holders of the Company				Total equity
	Share capital	Other reserves	Retained earnings	Minority interest	
As at January 1, 2003	11,761,130	—	136,937,835	1,373,925	150,072,890
Changes in ownership in subsidiaries	—	—	—	7,945	7,945
Profit for the year	—	—	7,493,361	9,870	7,503,231
Dividends (Note 11)	—	—	(2,024,909)	—	(2,024,909)
As at December 31, 2003	11,761,130	—	142,406,287	1,391,740	155,559,157
Gain on loan from Parent Company (Note 19)	—	—	1,008,692	154,736	1,163,428
Revaluation of assets, net of tax effects	—	1,315,825	—	196,776	1,512,601
Changes in ownership in subsidiaries	—	—	16,065	(286,683)	(270,618)
Profit for the year	—	—	13,426,853	37,734	13,464,587
Dividends (Note 11)	—	—	(2,695,459)	—	(2,695,459)
As at December 31, 2004	11,761,130	1,315,825	154,162,438	1,494,303	168,733,696
Issue of shares (Note 11)	31,078	—	—	—	31,078
Changes in ownership in subsidiaries (Note 3)	—	(1,315,825)	(31,253,594)	(1,617,077)	(34,186,496)
Profit for the year	—	—	45,074,642	202,310	45,276,952
Dividends (Note 11)	—	—	(3,499,715)	—	(3,499,715)
Other distributions to owners (Note 19)	—	—	(2,622,952)	—	(2,622,952)
As at December 31, 2005	11,792,208	—	161,860,819	79,536	173,732,563

The notes on pages F-7 to F-27 are an integral part of these consolidated financial statements.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Tenge thousands unless otherwise stated

1. Organization and principal activities

Joint Stock Company Exploration Production KazMunaiGas (the “Company”) is engaged in the acquisition, exploration, development, production and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company’s direct majority shareholder is National Company KazMunaiGas Joint Stock Company (“NC KMG” or the “Parent Company”), which represents the state’s interests in the Kazakh oil and gas industry and which holds 97.87% of the Company’s voting shares. NC KMG, in turn, is 100%-owned by the government of the Republic of Kazakhstan (the “Government”).

The Company was formed in March 2004 through a merger of the state-owned exploration and production companies held by NC KMG (Note 2). On December 29, 2004, the Company acquired an 86.7% interest in Atyrau Refinery LLP (“the refinery”) from NC KMG and subsequently increased its interest to 99.1% before selling the refinery back to an entity controlled by NC KMG on December 29, 2005 (Note 3).

The Company conducts its principal operations through the UMG and EMG production divisions. These consolidated financial statements reflect the financial position and results of operations of those divisions, the refinery and certain other controlling and non-controlling interests in predominantly non-core entities. Such other interests represented approximately 7% of the Company’s net assets at December 31, 2005 (2004: 11%, 2003: 4%). Following the disposal of the refinery and other non-core assets in 2005, the Company plans to dispose of the remaining non-core businesses by the end of 2007.

These consolidated financial statements were authorised for issue by the Company’s Chief Executive Officer, Chief Financial Officer and Group Financial Controller on June 2, 2006.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) based on statutory financial statements that were adjusted for the purpose of fair presentation in accordance with IFRS. The principal adjustments relate to property, plant and equipment, abandonment liability and deferred income taxes.

In the absence of specific IFRS guidance for oil and gas producing companies, the Company has developed accounting policies in accordance with other generally accepted accounting principles for oil and gas producing companies insofar as they do not conflict with IFRS principles.

The consolidated financial statements have been prepared under the historical cost convention. At the Company’s date of transition to IFRS at January 1, 2003, the Company measured property, plant and equipment at fair value which was determined primarily with reference to depreciated replacement cost.

The transfer of the state-owned exploration and production companies held by NC KMG and the refinery to the Company in 2004 represented a reorganisation of enterprises under common control and, accordingly, was accounted for at predecessor book values in a manner similar to a pooling of interests. The financial statements have therefore been presented as if these common control transactions occurred from the beginning of the earliest period presented, i.e. January 1, 2003. The share capital of the contributed enterprises prior to the respective transaction dates in 2004 is presented as additional paid in capital. Earnings per share for periods prior to the common control merger are based on the weighted average of the shares outstanding at the date of the merger because the share exchange with the holders of shares in the state-owned exploration and production companies did not result in a corresponding changes in resources.

The Company’s functional currency is the Kazakhstan Tenge because most of the Company’s operating expenses are incurred and settled in Tenge.

Use of estimates. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

2. Basis of preparation (Continued)

statements and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates relate to the fair values of property, plant and equipment, estimates of oil and gas reserves which are used to deplete those assets, asset retirement obligations, deferred taxes, contingent liabilities and the recoverability of inventories and accounts receivable. Actual results could differ from those estimates.

Exchange rates, restrictions and controls. The official rate of the Kazakhstan Tenge to the US Dollar (“US\$”) at 31 December 2005, 2004 and 2003 was 133.77, 130.00 and 144.22 Tenge to US\$ 1.00 respectively. The Tenge has historically been falling against the US\$ due to inflation in Kazakhstan and other factors. However, the Tenge depreciated by 2.9% in 2005 after appreciating 9.86% and 7.31% against the US\$ in 2004 and 2003. The official consumer price index inflation rates for Kazakhstan were 7.6%, 6.7% and 6.4% in 2005, 2004 and 2003, respectively. There are no exchange restrictions or controls relating to conversion of Tenge into other currencies or other currencies into Tenge. At present, the Tenge is not a convertible currency outside of Kazakhstan. Any translation of Tenge amounts to US\$ or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Changes in accounting policies. In December 2003, the IASB released 15 revised International Accounting Standards and withdrew one IAS standard. In 2004, the IASB published five new standards, two revisions and two amendments to existing standards. In addition, the IFRIC issued six new interpretations in 2004. Significant changes relevant to the Company are discussed below.

The revisions to IAS 1, *Presentation of Financial Statements*, include several amended presentation requirements. Most significantly for the Company, the revised standard requires that minority interest be presented within equity. The Company has retrospectively reflected the revised presentation standard for equity in the consolidated statements of changes in shareholders’ equity.

IAS 24, *Related Party Disclosures*, as revised, requires the disclosure of compensation of key management personnel and clarifies that such personnel may include non-executive directors. Other revised and amended standards adopted by the Company in these financial statements are as follows: IAS 2, *Inventories*; IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; IAS 10, *Events after the Balance Sheet Date*; IAS 16, *Property, Plant and Equipment*; IAS 17, *Leases*; IAS 19, *Employee Benefits*; IAS 21, *The Effects of Changes in Foreign Exchange Rates*; IAS 27, *Consolidated and Separate Financial Statements*; IAS 28, *Investments in Associates*; IAS 32, *Financial Instruments: Disclosure and Presentation*; IAS 33, *Earnings per Share*; IAS 39, *Financial Instruments: Recognition and Measurement* (amendment, transition and initial recognition of financial assets and financial liabilities); IAS 36, *Impairment of Assets* and IAS 38, *Intangible Assets*. The adoption of these revised and amended standards has not had a material effect on the Company’s financial position, statements of income or cash flows.

Other new standards and interpretations are as follows: IFRS 2, *Share-based Payment*; IFRS 3, *Business Combinations*; IFRS 4, *Insurance Contracts*; IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*; IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*; IFRIC 2, *Members’ Shares in Co-operative Entities and Similar Instruments*; IFRIC 6, *Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment* and IFRIC Amendment to SIC-12, *Scope of SIC-12 Consolidation-Special Purpose Entities*. The Company adopted all of the relevant new, revised and amended standards and the new IFRIC interpretations from their respective effective dates. The adoption of these standards did not have a material effect on the Company’s financial position, statements of income or cash flows.

The following guidance becomes effective in 2006 and 2007: IAS 1 amendment (capital disclosures); IAS 19 amendment (actuarial gains and losses, group plans and disclosures); IAS 39 amendment (cash flow hedge accounting of forecast inter-group transactions, the fair value option); IAS 39 and IFRS 4 amendment (financial guarantee contracts); IFRS 6, *Exploration for and Evaluation of Mineral Resources*; IFRS 7, *Financial Instruments: Disclosures*; IFRIC 4, *Determining whether an Arrangement*

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

2. Basis of preparation (Continued)

contains a Lease; IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. The Company will adopt all of the relevant new, revised and amended standards and the new IFRIC interpretations from their respective effective dates. Management does not expect the adoption of these standards to have a material effect on the Company's financial position, statements of income or cash flows.

3. Discontinued operations

On December 29, 2005 the Company disposed of the refinery within the NC KMG Group for 3.5 billion Tenge after acquiring the refinery in a par value share exchange with the Parent Company (Note 2 and Note 11). In 2005 the Company increased its interest from 86.7% to 99.1% through cash contributions of approximately 25 billion Tenge. The disposal resulted in a decrease in shareholders equity of 34.2 billion Tenge. The effects of the disposal were recorded in equity because the counterparty to this transaction is controlled by the principal equity holder. The disposal also resulted in decreases in the following balance sheet items: non-current assets (primarily property, plant and equipment) 58.7 billion Tenge, current assets 17.7 billion Tenge, borrowings 32.5 billion Tenge and other liabilities 6.1 billion Tenge.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue	8,854,241	5,646,105	3,192,337
Expenses	(5,350,959)	(4,060,113)	(2,082,470)
Profit before tax of discontinued operations	3,503,282	1,585,992	1,109,867
Tax	<u>(1,982,152)</u>	<u>(1,302,274)</u>	<u>(1,035,656)</u>
Profit after tax of discontinued operations	<u>1,521,130</u>	<u>283,718</u>	<u>74,211</u>
Operating cash flows	160,194	(7,077,357)	(3,921,807)
Investing cash flows	(13,401,139)	(9,193,617)	(883,604)
Financing cash flows	<u>(809,995)</u>	<u>4,960,250</u>	<u>(537,348)</u>
Total cash flows of discontinued operations	<u>(14,050,940)</u>	<u>(11,310,724)</u>	<u>(5,342,759)</u>

Historically the Company has purchased tolling services from the refinery to meet its local market obligation (Note 19, Note 20 and Note 21). Tolling expenses amounted to around 5 billion Tenge in each of the years presented and have been eliminated in these financial statements with all other inter-company transactions. In late 2005 the Company began selling crude oil directly to the refinery. Those sales amounted to around 6.5 billion Tenge and were also eliminated in consolidation. Going forward at least through 2010 the Company expects to increase crude oil sales to the refinery to around 2.2 million metric tons ("tons") per year at terms of cost plus 3% and reduce to an insignificant amount the purchase of tolling services. The Company's accounting policies with respect to determining the amounts of profit from continuing and discontinued operations are described in Note 6.

4. Significant non-cash transactions

During 2005 the Company settled in crude oil 13,676,456 thousand Tenge due under the terms of a financing agreement (2004 and 2003: nil).

The Company received 11,586,446 thousand Tenge of loan proceeds during 2005 in the form of goods and services that were settled by the ultimate lender directly with the suppliers (2004: 21,882,920 thousand Tenge, 2003: nil).

During 2005 the Company offset corporate income tax payable of 1,394,000 thousand Tenge with VAT recoverable (2004: 1,698,668 and 2003: 1,540,909 thousand Tenge).

These non-cash transactions are excluded from the consolidated statement of cash flows.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

5. Summary of significant accounting policies

Property, plant and equipment. Property, plant and equipment is stated at deemed cost at the date of transition to IFRS (hereafter “cost”) less accumulated depreciation, depletion and impairment, except for the refinery assets which are stated at revalued amounts. The Company follows the successful efforts method of accounting for its oil and gas properties and equipment, as described below. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads. Property, plant and equipment other than oil and gas assets principally comprise buildings and machinery and equipment which are depreciated on a straight-line basis over useful lives of 8-50 years and 5-15 years respectively. Borrowing costs are not capitalised but expensed as incurred.

Oil and gas assets. License, property acquisition costs and costs of exploratory wells are capitalised as unproved properties pending determination of whether the wells found proved reserves. Unproved properties are not amortised until proved successful. Once a project is sanctioned for development, the carrying values of license and property acquisition costs and exploration and appraisal costs are transferred to production assets within tangible assets. Costs of unsuccessful exploratory wells and associated license and property acquisition costs are expensed upon determination that the well does not justify commercial development. Development costs are those costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. All development costs together with related plant and equipment and site restoration and abandonment assets are capitalised as proved properties. Proved properties are depreciated by field on a unit-of-production basis using the total estimated proved developed reserves of the field over the shorter of the contract or license periods. Costs to operate and maintain wells and field equipment are expensed as incurred. Proved oil and gas reserves are estimated quantities of commercially viable hydrocarbons which existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs. The Company estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE) and World Petroleum Congresses (WPC).

Impairment of assets. When there is an indication that an asset may be impaired and there is no reliable basis for determining fair value less costs to sell, the asset is measured at its estimated recoverable amount based on the asset’s value in use determined using future cash flows discounted using Kazakhstan government risk free rates.

Held to maturity investments. The Company classifies its cash deposits and bonds as held-to-maturity investments because management has the positive intention and ability to hold these instruments to maturity.

Inventories. Inventories are stated at the lower of cost and net realisable value on a first-in first-out (“FIFO”) basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil and refined products is the cost of production, including the appropriate proportion of depreciation and overheads based on normal capacity. Net realisable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to completion and disposal. Materials and supplies inventories are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

Trade and other receivables. Trade and other receivables generally have 30-90 day terms and are carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company will not be able to collect the original amount of an invoice. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is not recoverable.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

5. Summary of significant accounting policies (Continued)

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

Cash and cash equivalents. Cash and cash equivalents comprise cash on hand, cash deposits held with banks and investments which are readily convertible to known amounts of cash, are subject to insignificant risk of change in value and have an original maturity of three months or less.

Borrowings. Borrowings received or provided are recognised initially at cost, which is the fair value of the consideration received or provided, net of transaction costs incurred, if any. Such borrowings are subsequently measured at amortised cost and, for borrowings provided, net of any impairment losses.

Revenue recognition. The Company sells crude oil under short-term agreements priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. Title typically passes and revenues are recognised when crude oil is physically placed onboard a vessel or offloaded from the vessel, transferred into pipe or other delivery mechanism depending on the contractually agreed terms. The Company's crude oil sale contracts generally specify maximum quantities of crude oil to be delivered over a certain period. Crude oil shipped but not yet delivered to the customer is recorded as inventory in the balance sheet. Revenues on sales of oil products are recognised when transfer of ownership occurs and title is passed, either at the point of delivery or the point of receipt, depending on contractual conditions.

Income taxes. Excess profit tax (EPT) is treated as an income tax and forms part of income tax expense. In accordance with the subsoil agreements, the Company accrues and pays EPT at rates ranging from 30% to 50% when the internal rate of return exceeds 20%. The internal rate of return is calculated based on the cash flows from each subsoil agreement, adjusted for the national inflation rate. Deferred tax is calculated with respect to both corporate income tax (CIT) and EPT. Deferred EPT is calculated on temporary differences for assets allocated to contracts for subsoil use at the expected rate of EPT to be paid under the contract.

Reportable segments. The Company's principal operations are in the upstream oil and gas business in the Republic of Kazakhstan. Management evaluates performance and makes strategic decisions based upon a review of profitability for the Company as a whole. At year end 2005 the Company's activities are considered by management to comprise one geographic segment and one business segment because the risks and rewards inherent in the various fields, contracts and operating divisions do not materially differ.

6. Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future and judgments about facts, circumstances and the substance of transactions. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Also described below are certain judgments made by management in the process of applying the Company's accounting policies which, apart from those involving estimations, can significantly affect the amounts recognised in the financial statements.

Oil and gas reserves. Oil and gas reserves are a material factor in the Company's computation of depreciation, depletion and amortization ("DD&A") which represents 12% of total operating expenses. The Company estimates its reserves of oil and gas in accordance with the methodology of SPE and WPC, which differs from the basis of determining reserves required by the United States Securities and Exchange Commission ("SEC"). In estimating its reserves under SPE and WPC methodology, the Company uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

6. Critical accounting estimates and judgments (Continued)

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

Asset retirement obligations. Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognised. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. If the Company's asset retirement obligation included the costs of abandoning all productive wells at the end of the license period and recultivating the related sites, the total asset retirement obligation would increase by approximately 9.5 billion Tenge. The Company calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. Changes in the obligation are reassessed at each balance sheet date. Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 11% of the provision at December 31, 2005 relates to final closure costs. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate. The long-term inflation and discount rates used to determine the balance sheet obligation at December 31, 2005 were 5.0% and 7.9% respectively (2004: 5.0% and 8.8%,

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

6. Critical accounting estimates and judgments (Continued)

2003: 5.0% and 9.6%). Movements in the provision for asset retirement obligations are disclosed in Note 14.

Valuation of property, plant and equipment. For the purpose of transition to IFRS the Company appointed an independent appraiser to determine the fair value of property, plant and equipment as at January 1, 2003 which was determined primarily with reference to depreciated replacement cost. Management believes that the valuation result appropriately reflects the economic condition of the Company's property, plant and equipment at that time.

Environmental remediation. The Company also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalised or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed. Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan. Pursuant to a memorandum of understanding ("MOU") signed with the Ministry of the Environment in July 2005, the Company agreed to take responsibility for remediation of certain soil contamination and oil waste disposal which resulted from oil extraction dating back to the commencement of production. For accounting purposes the Company has recorded the obligation at the earliest period presented due to obligations under legislation existing prior to signing the MOU. The scope and timing of the remediation plan is expected to be finalised and formally agreed with the Government by the end of 2006 (Note 20). Accordingly, the liability has not been discounted. Because the original terms of the liability have not yet been established and management reasonably expects to execute the remediation plan over a period of up to ten years, the Company has classified this obligation as non-current except for the portion of costs expected to be incurred in 2006. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Further uncertainties related to environmental remediation obligations are detailed in Note 20. Movements in the provision for environmental remediation obligations are disclosed in Note 14.

Taxation. In assessing tax risks, management considers to be probable obligations the known areas of non-compliance which the Company would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Company's subsoil agreements, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for tax risks disclosed in Note 14 relates mainly to the Company's application of Kazakhstan transfer pricing legislation to export sales of crude oil during the years 2001 to 2005. In addition to amounts provided in these financial statements, at December 31, 2005 the Company had a possible tax obligation of approximately 7 to 8 billion Tenge related to excess profits tax compliance. Further uncertainties related to taxation are detailed in Note 20.

Historical obligation. Included in trade and other payables is an accrual of 8.4 billion Tenge (2004: 8.2 billion, 2003: 9.1 billion) related to obligations of the Company under one of the subsoil agreements to reimburse the Government for exploration costs incurred prior to the beginning of the current license agreements. The Company was to conclude a separate agreement with the Government with respect to such reimbursement within sixty days of the signing the subsoil use contract in 1998. As at December 31, 2005 no such agreement had been concluded. The amount of the accrual has been determined based on calculations prepared by regulatory authorities in 2003 which relate to about half of the contract fields. The remaining part of the accrual was estimated by management based on historical exploratory well data. The accrual is classified as current at December 31, 2003, 2004 and 2005 respectively because at each of those

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

6. Critical accounting estimates and judgments (Continued)

dates the Company did not have the unconditional right to defer such obligation for at least 12 months. Because the obligation is denominated in US dollars the carrying value is adjusted each period for foreign exchange movements.

Discontinued operations. The Company's presentation of discontinued operations involved considerable judgment due to the fact that IFRS does not prescribe how to determine the amount of profit or loss from discontinued operations and, in particular, does not address the issue of continuing cash flows or other types of continuing involvement following the disposal of a component. Since following the disposal of the refinery the Company will continue domestic market activities, management has allocated to continuing operations the estimated cost to the refinery of providing the tolling services in 2003, 2004 and 2005 (about 5 billion Tenge in each year) and the estimated revenues of the refinery related to the further sale of the crude oil sold by the Company in 2005 (about 6.5 billion Tenge). In each case the adjustments were determined with reference to the amounts of the underlying inter-company transactions which are further described in Note 3. Management believes such adjustments were necessary for a fair presentation of the continuing and discontinued operations of the Company.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

7. Property, plant and equipment

	<u>Oil-and-gas properties</u>	<u>Other assets</u>	<u>Construction work-in-progress</u>	<u>Total</u>
At 1 January 2003				
Net book amount	154,869,976	46,978,133	10,516,771	212,364,880
Year ended 31 December 2003				
Opening net book amount	154,869,976	46,978,133	10,516,771	212,364,880
Additions	7,179,013	5,726,385	18,840,835	31,746,233
Disposals	(505,660)	(1,233,995)	(232,328)	(1,971,983)
Transfers from capital work-in-progress	16,147,923	515,200	(16,663,123)	—
Depreciation charge	(13,362,914)	(4,423,988)	—	(17,786,902)
Impairment	—	(367,599)	—	(367,599)
Closing net book amount	164,328,338	47,194,136	12,462,155	223,984,629
At 31 December 2003				
Cost	177,629,229	51,300,566	12,462,155	241,391,950
Accumulated depreciation	(13,300,891)	(4,106,430)	—	(17,407,321)
Net book amount	164,328,338	47,194,136	12,462,155	223,984,629
Year ended 31 December 2004				
Opening net book amount	164,328,338	47,194,136	12,462,155	223,984,629
Additions	9,603,105	9,090,526	45,735,596	64,429,227
Disposals	(3,232,751)	(4,512,748)	(42,952)	(7,788,451)
Transfers from capital work-in-progress	18,180,651	4,629,981	(22,810,632)	—
Revaluation surplus	—	1,858,922	—	1,858,922
Depreciation charge	(17,088,003)	(4,241,613)	—	(21,329,616)
Impairment	—	(3,000,894)	(195,617)	(3,196,511)
Closing net book amount	171,791,340	51,018,310	35,148,550	257,958,200
At 31 December 2004				
Cost	201,883,749	57,105,071	35,148,550	294,137,370
Accumulated depreciation	(30,092,409)	(6,086,761)	—	(36,179,170)
Net book amount	171,791,340	51,018,310	35,148,550	257,958,200
Year ended 31 December 2005				
Opening net book amount	171,791,340	51,018,310	35,148,550	257,958,200
Additions	10,975,517	10,766,359	60,065,268	81,807,144
Disposals	(3,003,271)	(17,153,627)	(51,852,444)	(72,009,342)
Transfers from capital work-in-progress	26,314,228	7,160,857	(33,475,085)	—
Depreciation charge	(18,332,498)	(6,224,762)	—	(24,557,260)
Impairment	—	(66,908)	—	(66,908)
Closing net book amount	187,745,316	45,500,229	9,886,289	243,131,834
At 31 December 2005				
Cost	235,613,254	54,966,841	9,886,289	300,466,384
Accumulated depreciation	(47,867,938)	(9,466,612)	—	(57,334,550)
Net book amount	187,745,316	45,500,229	9,886,289	243,131,834

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

8. Financial assets

Deposits and other financial assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
US dollar-denominated deposits	47,488,350	6,500,000	—
Other	6,474,788	1,698,366	261,418
Total non-current	53,963,138	8,198,366	261,418
US dollar-denominated deposits	6,688,500	26,520,000	2,376,673
Loans receivable (Note 19)	12,639,487	—	—
Other	665,270	—	3,630,311
Total current	19,993,257	26,520,000	6,006,984
	<u>73,956,395</u>	<u>34,718,366</u>	<u>6,268,402</u>

The weighted average interest rate on US dollar-denominated deposits in 2005 was 6.6% (2004: 7.6%, 2003: 7.3%). In 2005 and 2004 other non-current financial assets primarily comprise US dollar-denominated bonds with weighted average interest rates of 5% and 3.3% respectively. In 2003 other current financial assets comprise Tenge-denominated deposits with a weighted average interest rate of 7.6%. Loans receivable are mainly US dollar-denominated. The remaining balances are Tenge-denominated.

Trade and other receivables

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Trade receivables	38,752,145	22,613,311	15,670,338
Allowance for doubtful receivables	(895,784)	(3,485,045)	(3,333,302)
Other	8,061,865	698,480	1,150,211
	<u>45,918,226</u>	<u>19,826,746</u>	<u>13,487,247</u>

Between 75% and 90% of total trade and other receivables are US dollar-dominated in each of the years presented. The remaining balances are Tenge-denominated.

Cash and cash equivalents

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Term deposits with Kazakhstani banks	9,815,804	6,592,743	—
Cash in bank and in hand	10,371,784	7,534,836	9,310,184
	<u>20,187,588</u>	<u>14,127,579</u>	<u>9,310,184</u>

The weighted average interest rate on term deposits in 2005 was 4.8% (2004: 3.6%). About 70% of total cash and cash equivalents at year end 2005 are US dollar-denominated (about 40% for 2004 and 2003). The remaining balances are Tenge-denominated.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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9. Other assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Intangible assets	1,340,657	972,885	732,365
Investments in associates	4,516,696	5,937,035	991,267
Advances	765,598	5,771,894	1,154,586
VAT receivable	—	10,275,938	3,477,718
Other	2,042,430	805,052	308,665
	<u>8,665,381</u>	<u>23,762,804</u>	<u>6,664,601</u>

In 2004 the Company purchased a 50% interest in Atoll JSC for approximately 5 billion Tenge. In 2005 the Company sold a 35% interest in Atoll to the other shareholder for 3.4 billion Tenge. The financial statements of Atoll principally comprise property, plant and equipment under reconstruction. Management uses the equity method to account for its remaining 15% interest because the Company continues to exercise significant influence through representation on the Board of Directors.

10. Inventories

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Materials	11,060,833	15,818,583	14,134,079
Crude oil and refined products	4,348,825	5,029,568	2,319,644
	<u>15,409,658</u>	<u>20,848,151</u>	<u>16,453,723</u>

Inventory write downs of 1,087,325 thousand Tenge were recognised as expense in 2005 (2004: 101,377 thousand Tenge, 2003: 136,909 thousand Tenge).

11. Share capital

	<u>Number of shares outstanding</u>	<u>Common shares</u>	<u>Preferred shares</u>	<u>Additional paid-in capital</u>	<u>Total share capital</u>
As at January 1, 2003	—	—	—	11,761,130	11,761,130
As at December 31, 2003	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,761,130</u>	<u>11,761,130</u>
Issue of shares	47,044,519	10,731,705	1,029,425	(11,761,130)	—
As at December 31, 2004	<u>47,044,519</u>	<u>10,731,705</u>	<u>1,029,425</u>	<u>—</u>	<u>11,761,130</u>
Issue of shares	124,312	31,078	—	—	31,078
As at December 31, 2005	<u>47,168,831</u>	<u>10,762,783</u>	<u>1,029,425</u>	<u>—</u>	<u>11,792,208</u>

Share capital. The total number of authorised ordinary shares is 70,220,935 (2004: 43,051,132, 2003: nil) with a par value of 250 Tenge per share. 43,051,132 ordinary shares are authorised, issued and outstanding (2004: 42,926,820 shares, 2003: nil). The total number of authorised preferred shares is 4,136,107 (2004: 4,136,107, 2003: nil) with a par value of 250 Tenge per share. 4,117,699 preferred shares are authorised, issued and outstanding (2004: 4,117,699, 2003: nil).

The common control merger in March 2004 was transacted through an exchange of 41,342,667 shares with shareholders of the predecessor entities. On December 29, 2004, the Group acquired an 86.7% interest in Atyrau Refinery from the Parent Company by issuing 5,701,852 shares. Prior to the date of the common control merger these amounts are presented in additional paid-in-capital.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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11. Share capital (Continued)

In 2005 the Company issued common shares to minority shareholders to comply with statutory requirements following the share exchange with the refinery's majority shareholder in 2004.

Preferred stock. Preferred stockholders are entitled to participate equally in dividends with the holders of common stock and in any case are entitled to an annual cumulative dividend of 10% of the par value of the preferred stock or 25 Tenge per share. Preference shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preference shareholders, decisions on reorganisation or liquidation of the Company and if dividends on preference shares are not paid within three months after a specified payment date.

Dividends. In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognised as distributions to equity holders during the period amounted to 74.20 Tenge (2004: 57.30 Tenge per share, 2003: 43.04 Tenge per share) for both ordinary and preference shares.

12. Earnings per share

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Weighted avg. number of all shares outstanding	47,150,748	47,044,519	47,044,519
Continuing operations			
Profit attributable to equity holders of the Company	43,755,822	13,180,869	7,429,020
Basic and diluted earnings per share (Tenge thousands)	0.93	0.28	0.16
Discontinued operations			
Profit attributable to equity holders of the Company	1,318,820	245,984	64,341
Basic and diluted earnings per share (Tenge thousands)	<u>0.03</u>	<u>0.01</u>	<u>0.00</u>

The above presentation includes both ordinary and preference shares because preference shareholders have cumulative participating rights which result in identical earnings per share for both classes of shares. The weighted average shares outstanding as at December 31, 2004 has been used for prior periods presented (Note 2).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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13. Borrowings

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Fixed interest rate borrowings	69,309,083	24,476,807	3,011,093
Weighted average interest rates	6.32%	4.47%	8.22%
Variable interest rate borrowings	5,840,832	44,382,046	15,294,757
Weighted average interest rates	6.33%	5.07%	4.86%
Total long-term borrowings	<u>75,149,915</u>	<u>68,858,853</u>	<u>18,305,850</u>
Tenge-denominated borrowings	859,377	5,284,293	1,409,865
US dollar-denominated borrowings	74,290,538	46,093,381	16,895,985
Other currency-denominated borrowings	—	17,481,179	—
Total long-term borrowings	<u>75,149,915</u>	<u>68,858,853</u>	<u>18,305,850</u>
Current portion	21,121,175	18,100,418	10,160,262
Maturity between 1 and 2 years	19,082,221	12,074,755	1,415,417
Maturity between 2 and 5 years	34,451,834	31,600,352	4,258,865
Maturity over 5 years	494,685	7,083,328	2,471,306
Total long-term borrowings	<u>75,149,915</u>	<u>68,858,853</u>	<u>18,305,850</u>

Most of the Company's borrowings (2005: 66,598,200 thousand Tenge, 2004: 26,000,000 thousand Tenge, 2003: nil) relate to a pre-export financing arrangement which requires settlement in crude oil.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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14. Provisions

	Environmental remediation	Taxes	Asset retirement obligation	Other	Total
At 1 January 2003	33,028,060	1,869,403	13,869,223	626,210	49,392,896
Additional provisions	—	4,197,567	243,490	405,038	4,846,095
Unused amounts reversed	—	—	(30,636)	—	(30,636)
Unwinding of discount	—	—	1,336,993	—	1,336,993
Changes in estimate	—	—	612,640	—	612,640
Used during the year	—	—	(884,009)	(185,643)	(1,069,652)
Current portion	—	6,066,970	1,248,559	190,559	7,506,088
Non-current portion	33,028,060	—	13,899,142	655,046	47,582,248
At 31 December 2003	33,028,060	6,066,970	15,147,701	845,605	55,088,336
Additional provisions	—	12,577,976	274,368	1,004,830	13,857,174
Unused amounts reversed	—	—	(39,751)	—	(39,751)
Unwinding of discount	—	—	1,332,998	—	1,332,998
Changes in estimate	—	—	737,534	—	737,534
Used during the year	—	—	(1,146,981)	(190,559)	(1,337,540)
Current portion	1,331,100	18,644,946	667,401	189,513	20,832,960
Non-current portion	31,696,960	—	15,638,468	1,470,363	48,805,791
At 31 December 2004	33,028,060	18,644,946	16,305,869	1,659,876	69,638,751
Additional provisions	—	4,874,542	351,046	1,072,412	6,298,000
Unused amounts reversed	—	—	(29,772)	—	(29,772)
Unwinding of discount	—	—	1,293,055	—	1,293,055
Changes in estimate	(663,230)	—	995,322	—	332,092
Used during the year	(1,331,100)	—	(869,172)	(189,989)	(2,390,261)
Current portion	821,577	23,519,488	900,163	198,989	25,440,217
Non-current portion	30,212,153	—	17,146,185	2,343,310	49,701,648
At 31 December 2005	31,033,730	23,519,488	18,046,348	2,542,299	75,141,865

A description of these provisions, including critical estimates and judgments, is included in Note 6.

15. Revenue

	2005	2004	2003
Export (Note 19):			
Crude oil	300,030,298	203,059,607	146,167,659
Refined products	651,491	6,791,761	3,347,074
Domestic (Note 19):			
Crude oil	6,930,889	94,638	3,153,951
Refined products	32,812,045	18,487,681	19,641,750
Gas products	4,082,068	3,886,963	2,905,790
Other sales and services	1,922,654	4,782,568	2,541,149
	346,429,445	237,103,218	177,757,373

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16. Operating expenses

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Transportation (Note 19)	37,647,849	37,562,638	34,947,198
Employee benefits	37,116,032	27,391,069	20,014,387
Depreciation, depletion and amortisation	24,362,896	21,099,460	17,736,031
Materials	21,658,853	13,519,834	12,157,515
Repair, maintenance and other services	16,845,303	13,910,249	6,870,125
Fines and penalties (Note 20)	15,484,134	6,687,529	1,717,173
Royalties	15,180,580	10,663,765	6,902,033
Management fees and sales commissions (Note 19)	11,976,634	15,449,283	17,604,303
Taxes other than on income	7,103,491	6,081,130	4,792,099
Energy	5,824,741	5,816,881	5,548,549
Other	11,375,039	4,094,524	8,297,451
	<u>204,575,552</u>	<u>162,276,362</u>	<u>136,586,864</u>

17. Finance income (expense)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Financial income	6,221,012	1,045,815	101,431
Financial expense	(5,402,485)	(3,359,880)	(4,354,614)
Foreign exchange gains (losses)	276,041	(1,122,765)	2,024,898
	<u>1,094,568</u>	<u>(3,436,830)</u>	<u>(2,228,285)</u>

18. Income taxes

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Corporate income tax	55,407,550	33,994,534	18,271,342
Excess profit tax	47,411,026	23,822,252	8,472,111
Current income tax	<u>102,818,576</u>	<u>57,816,786</u>	<u>26,743,453</u>
Corporate income tax	(1,983,507)	(31,619)	(1,685,841)
Excess profit tax	(1,642,430)	423,990	6,455,592
Deferred income tax	<u>(3,625,937)</u>	<u>392,371</u>	<u>4,769,751</u>
Income tax expense	<u>99,192,639</u>	<u>58,209,157</u>	<u>31,513,204</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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18. Income taxes (Continued)

A reconciliation of income tax expense applicable to profit from continuing operations before income tax at the statutory income tax rate to current income tax expense was as follows for the years ended December 31:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Profit before tax and minority interest	142,948,461	71,390,026	38,942,224
Statutory tax rate	30%	30%	30%
	<u>42,884,538</u>	<u>21,417,008</u>	<u>11,682,667</u>
Excess profit tax	45,768,596	24,246,242	14,927,703
Income not subject to tax	(504,054)	(1,025,239)	(562,060)
Expenses not deductible for tax purposes	11,043,559	13,571,146	5,464,894
Income tax expense	<u>99,192,639</u>	<u>58,209,157</u>	<u>31,513,204</u>

As at December 31 the movements in the deferred tax liability relating to CIT and EPT were as follows:

	<u>Fixed assets</u>	<u>Provisions</u>	<u>Other</u>	<u>Total</u>
At 1 January 2003	16,377,793	(2,202,722)	(1,406,876)	12,768,195
Income statement effect	9,029,416	(1,136,830)	(3,122,835)	4,769,751
At 31 December 2003	25,407,209	(3,339,552)	(4,529,711)	17,537,946
Income statement effect	3,538,064	631,594	(3,777,287)	392,371
Tax charged to equity	555,497	—	—	555,497
At 31 December 2004	29,500,770	(2,707,958)	(8,306,998)	18,485,814
Income statement effect	(4,965,164)	70,825	1,268,402	(3,625,937)
Acquisitions and disposals	(662,197)	—	—	(662,197)
At 31 December 2005	23,873,409	(2,637,132)	(7,038,596)	14,197,680

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19. Related party transactions

The category “entities under common control” comprises entities of the Parent Company group. The category “other state-controlled companies” includes entities other than those of the Parent Company group.

	2005	2004	2003
Sales of goods and services (Note 15)			
Entities under common control	260,592,495	199,774,652	113,338,671
Parent Company	—	—	—
Other state-controlled enterprises	286,373	428,544	327,321
Associates	8,965	174,256	26,738
Purchases of goods and services (Note 16)			
Entities under common control	32,570,132	39,962,404	39,430,748
Parent Company	11,244,000	11,256,000	11,224,980
Other state-controlled enterprises	689,881	1,270,620	208,025
Associates	1,007,035	1,653,692	377,066
Trade and other receivables (Note 8)			
Entities under common control	36,199,861	19,346,165	16,066,649
Parent Company	180,772	149,254	149,254
Other state-controlled enterprises	519,757	490,237	486,088
Associates	667,877	—	199,235
Trade payables			
Entities under common control	881,439	2,462,437	1,579,454
Parent Company	408,124	1,007,712	3,487,787
Other state-controlled enterprises	247,041	61,933	153,184
Associates	129,324	108,883	10,397
Loans receivable (Note 8)			
Entities under common control	3,639,487	—	—
Parent Company	9,000,000	—	—
Other state-controlled enterprises	—	—	—
Associates	—	9,000	—
Loans payable (Note 13)			
Entities under common control	—	509,305	137,701
Parent Company	5,840,833	38,316,526	11,847,664
Other state-controlled enterprises	—	—	—
Associates	—	—	—
Key management compensation			
Salaries and other short-term benefits	133,483	227,311	98,364
Termination benefits	—	—	—
Post employment benefits	—	—	—
Other long-term benefits	—	—	—
Share-based payments	—	—	—

Sales and receivables. Sales to related parties comprise mainly export and domestic sales of crude oil and oil product to KMG group entities. Export sales to related parties represented 4,693,968 tons of crude oil in 2005 (2004: 5,611,717 tons, 2003: 3,732,085 tons). The sales of crude oil are priced by reference to Platt’s index quotations and adjusted for freight, insurance and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately \$360 in 2005 (2004: \$230, 2003: \$160). In addition, the Company supplies oil and oil products to the local market at the directive of the

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19. Related party transactions (Continued)

Kazakhstan government, the controlling shareholder of the Parent Company. These supplies to the domestic market represented 2,733,409 tons of crude oil production in 2005 (2004: 2,105,886 tons, 2003: 1,822,253 tons). Prices for the local market sales are determined by agreement with the agent distributors. For deliveries to the local market in 2005 the Company received an average price per produced crude oil ton of around \$100 (2004: \$80, 2003: \$100). Trade and other receivables from related parties principally comprise amounts related to export sales transactions. At December 31, 2005 the Company had commitments under a government directive to deliver 2.2 million tons of crude oil to local markets in 2006.

Purchase and payables. Management fees to the Parent Company amounted to 11,244,000 thousand Tenge in 2005 (2004: 11,256,000 thousand Tenge, 2003: 11,224,980 thousand Tenge). Agency commissions for crude oil sales amounted to 732,634 thousand Tenge in 2005 (2004: 4,193,283 thousand Tenge, 2003: 6,379,323 thousand Tenge). Transportation services for 7,554,859 tons of crude oil in 2005 (2004: 7,764,454, 2003: 7,219,228) were purchased from a KMG group entity and amounted to 28,965,459 thousand Tenge in 2005 (2004: 31,453,591 thousand Tenge, 2003: 31,960,651 thousand Tenge).

Loans and guarantees. Loans from related parties mainly comprise three loans obtained by the refinery from the Parent Company. The most significant of the loans had a carrying value of nil at year end 2005 (2004: 21,882,920 thousand Tenge, 2003: nil) with interest of 4.14% per annum on the Yen-denominated principal and Libor plus 4.5% per annum on the US dollar-denominated principal. Also, two interest-free loans of 2,059,073 and 2,306,793 thousand Tenge were received by the refinery from the Parent Company in 1999 and 2004. The difference between these nominal values and the discounted amounts has been recorded in equity. In 2005 the Company disposed of the refinery and, accordingly, these loans.

In addition, in 1996 a predecessor entity of the Company received from the Parent Company a facility of 109,000 thousand US dollars for the rehabilitation of the Uzen oil field. Amounts drawn in 2005 totaled 2,633 thousand US dollars (2004: 2,453 thousand US dollars, 2003: 5,146 thousand US dollars). The Company pays semi-annual installments of 4,542 thousand US dollars through 2013 and a commitment charge of 0.75% per annum on the principal amount of the unutilised facility. This loan is secured by certain non-current assets of the Company (Note 20).

The Parent Company guarantees repayment of the Company's principal financing obligation.

Loans receivable from related parties comprise short-term interest-free loans.

Other distributions to owners. In 2005 the Company made a capital contribution of 2,622,952 thousand Tenge on behalf of the Parent Company to an entity under common control.

20. Contingencies

Operating environment. The Kazakh economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of an economy in transition. These characteristics have in the past included higher than normal historical inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Kazakhstan. The Company's operations and financial position will continue to be affected by Kazakh political developments including the application of existing and future legislation and tax regulations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Kazakhstan.

Local market obligation. The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements (Note 19). While the price for such additional supplies of crude oil is regulated, this price may be materially below international market prices and may even be set at the cost of production. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export

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20. Contingencies (Continued)

market, which may materially and adversely affect the Company's business, prospects, financial condition and results of operations.

Taxation. Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at 20% per annum. As a result, penalties and interest can amount to multiples of any unreported taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2005. As at December 31, 2005 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained, except as provided for or otherwise disclosed in these financial statements (Notes 6 and 14).

Environment. The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. At year end 2005 the Company accrued fines of 11.4 billion Tenge for exceeding permitted norms at certain production sites. The Government has linked the fines to the delayed submission by the Company of a remediation plan in accordance with the terms of a Memorandum of Understanding ("MOU") signed with the Company in mid-2005. Until the terms of the MOU are amended to extend the deadline specified therein, there can be no assurances that additional fines will not be assessed. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Other than those contingencies discussed here and obligations disclosed in Note 14, under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Company's financial position, statement of income or cash flows.

Legal proceedings. During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. There are no current legal proceedings or claims outstanding which management believes could have a material effect on the Company's financial position, statement of income or cash flows and which have not been accrued or disclosed in these financial statements.

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

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

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

20. Contingencies (Continued)

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

<u>Field</u>	<u>Contract</u>	<u>Expiry date</u>
Uzen (8 fields)	No. 40	2020
Emba (1 field)	No. 37	2021
Emba (1 field)	No. 61	2016
Emba (23 fields)	No. 211	2015
Emba (15 fields)	No. 413	2015

Management believes that the Company will be successful in its attempts to extend its licenses beyond the initial expiration date under existing legislation where such extension is in the economic interest of the Company.

Guarantees, pledges and covenants. At 31 December 2005 the Company had collateralised non-current assets related to loans received in the amount of approximately 23 billion Tenge (2004: nil, 2003: nil). Also, some of the Company's financing agreements require compliance with certain financial ratios and other terms. Non-compliance with such terms could result in long-term debt becoming callable by the creditor. At the end of each period presented management believes that the Company was in full compliance with all terms of such agreements.

21. Commitments

Oilfield licenses and contracts. Some of the Company's oilfield contracts specify a minimum level of expenditures through the end of the license period. The total future obligation under those agreements amounted to about 39 billion Tenge at December 31, 2005. Each of the oilfield contracts also requires the Company to agree with the local governments annual business plans which include capital and social infrastructure projects. Total obligations under these agreements and additional constructive obligations at December 31, 2005 amounted to about 48 billion Tenge.

Crude oil supply commitments. Under the provisions of a financing agreement the Company has committed to deliver 150,000 tons of crude oil per month to the lender until September 2009 for fair value consideration determined at the date of shipment. The Company has further obligations to supply oil and oil products to the local market under government directives (Note 19).

Purchase commitments. At December 31, 2005 the Company had an obligation to purchase three drilling rigs for approximately 1 billion Tenge.

22. Financial risk factors

Commodity price risk. The Company is exposed to commodity price risk, since oil prices are determined by the world market. The Company does not hedge this risk.

Interest rate risk. The Company's interest rate risk relates to interest receivable and payable on its cash deposits and borrowings. In December 2005 the Company began to hedge its variable rate debt instruments.

Foreign exchange risk. Most of the Company's cash inflows as well as accounts receivable balances are denominated in US dollars, while most all of the Company's purchases are denominated in Tenge. The Company does not use foreign exchange or forward contracts to manage its exposure to changes in foreign exchange rates.

Credit risk. Financial instruments that could subject the Company to credit risk principally comprise related party loans, accounts receivable and cash deposits. Most notably, at December 31, 2005 the Company had 68% (2004: 61%, 2003: 64%) of total trade accounts receivable from one customer, a related

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tenge thousands unless otherwise stated

22. Financial risk factors (Continued)

party (Note 19). While the Company may be subject to losses up to the contract value of the instruments in the event of non-performance by its counterparts, it does not expect such losses to occur.

Fair values. The fair value of financial instruments, consisting of cash, loans and receivables, and payables and obligations under debt instruments, approximate their carrying values. For trade receivables fair value is the nominal value less provision for uncollectible amounts. The fair value of financial liabilities and other financial assets for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

23. Subsequent events

In January 2006 the Company purchased from Aral Petroleum LLP a contract and a license for exploration, production and development activities in Kazakhstan for total cash consideration of 8.6 billion Tenge and a commitment to invest approximately 0.5 million US dollars in 2006, 5 million US dollars in 2007 and 3 million US dollars in 2008.

During 2006 the Tenge continued to strengthen against the US dollar (December 31, 2005: 133.77 Tenge to 1 US dollar; June 2, 2006: 121.26 Tenge to 1 US dollar).

Per shareholder decision on June 2, 2006 the Company is committed to provide to the Parent Company an interest-free loan in the amount of 26 billion Tenge to be repaid by December 31, 2006.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders and Management of Joint Stock Company Exploration Production KazMunaiGas

We have reviewed the accompanying condensed consolidated interim balance sheet of Joint Stock Company Exploration Production KazMunaiGas and its subsidiaries (the “Group”) as at 31 May 2006 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the five month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

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

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

Ernst & Young Kazakhstan LLP

16 August 2006
Almaty

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (UNAUDITED)

Tenge thousands

	Notes	31 May 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	7	245,605,660	243,131,834
Financial assets	9	2,228,613	53,963,138
Other assets	8	18,745,011	8,665,381
		<u>266,579,284</u>	<u>305,760,353</u>
Current assets			
Inventories		13,011,146	15,409,658
Taxes prepaid and VAT recoverable		14,625,636	22,121,101
Prepaid and deferred expenses		8,147,010	6,993,525
Trade and other receivables	9	34,061,638	45,918,226
Other financial assets	9	60,360,946	19,993,257
Cash and cash equivalents	9	30,326,888	20,187,588
		<u>160,533,264</u>	<u>130,623,355</u>
Total assets		<u>427,112,548</u>	<u>436,383,708</u>
EQUITY			
Share capital		11,792,208	11,792,208
Retained earnings		203,757,469	161,860,819
Equity holders of the Company		215,549,677	173,653,027
Minority interest		79,536	79,536
Total equity		<u>215,629,213</u>	<u>173,732,563</u>
LIABILITIES			
Non-current liabilities			
Borrowings	10	41,989,591	54,028,740
Deferred tax		15,382,209	14,197,680
Provisions	11	50,079,823	49,701,648
		<u>107,451,623</u>	<u>117,928,068</u>
Current liabilities			
Borrowings	10	19,129,206	21,121,175
Income taxes payable		24,772,184	46,994,090
Trade and other payables		34,685,039	51,167,595
Provisions	11	25,445,283	25,440,217
		<u>104,031,712</u>	<u>144,723,077</u>
Total liabilities		<u>211,483,335</u>	<u>262,651,145</u>
Total liabilities and equity		<u>427,112,548</u>	<u>436,383,708</u>

The notes on pages F-33 to F-43 are an integral part of this condensed consolidated interim financial information.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME (UNAUDITED)

Tenge thousands

	Notes	Five months ended 31 May	
		2006	2005
CONTINUING OPERATIONS			
Revenue	12	170,724,461	121,756,161
Operating expenses	13	(68,165,441)	(70,956,733)
Profit from operations		102,559,020	50,799,428
Finance (expense) income	14	(4,178,210)	509,732
Profit before tax and minority interest		98,380,810	51,309,160
Income tax expense	15	(57,009,517)	(32,195,396)
Profit for the period from continuing operations		41,371,293	19,113,764
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations	3	—	701,563
Profit for the period		41,371,293	19,815,327
Attributable to:			
Equity holders of the Company		41,371,293	19,721,658
Minority interest		—	93,669
		41,371,293	19,815,327
EARNINGS PER SHARE			
Attributable to equity holders of the Company			
From continuing operations—basic and diluted		0.88	0.41
From discontinued operations—basic and diluted		—	0.01

The notes on pages F-33 to F-43 are an integral part of this condensed consolidated interim financial information.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT (UNAUDITED)

Tenge thousands

	Notes	Five months ended 31 May	
		2006	2005
Cash flows from operating activities			
Cash receipts from customers		178,375,618	126,666,243
Cash paid to suppliers and employees		(77,236,941)	(76,263,396)
Income tax paid		(74,989,713)	(23,715,001)
Net cash generated from operating activities		<u>26,148,964</u>	<u>26,687,846</u>
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)	7	(15,572,081)	(18,579,091)
Proceeds from sale of PPE		673,125	1,079
Purchases of intangible assets	8	(8,649,433)	(35,847)
Purchases of held-to-maturity financial assets	9	(12,769)	(16,182,288)
Loans granted to related parties	16	—	(20,900,000)
Loan repayments received from related parties	16	7,000,000	—
Disposal of subsidiaries	3	3,575,824	948,859
Interest received		883,682	508,623
Net cash used in investing activities		<u>(12,101,652)</u>	<u>(54,238,665)</u>
Cash flows from financing activities			
Issue of shares		—	31,078
Proceeds from borrowings	10	254,131	65,309,520
Repayment of borrowings	10	(1,511,604)	(7,090,201)
Dividends paid to Company's shareholders		(34,433)	(233)
Interest paid		(1,798,546)	(857,144)
Net cash (used in) from financing activities		<u>(3,090,452)</u>	<u>57,393,020</u>
Net change in cash and cash equivalents		10,956,860	29,842,201
Cash and cash equivalents at beginning of the year	9	20,187,588	14,127,579
Exchange (losses) gains on cash and cash equivalents		(817,560)	289,231
Cash and cash equivalents at end of the period	9	<u>30,326,888</u>	<u>44,259,011</u>

The notes on pages F-33 to F-43 are an integral part of this condensed consolidated interim financial information.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Tenge thousands

	Attributable to equity holders of the Company				Total equity
	Share capital	Other reserves	Retained earnings	Minority interest	
As at 31 December 2004	11,761,130	1,315,825	154,162,438	1,494,303	168,733,696
Issue of shares	31,078	—	—	—	31,078
Other distribution to owners (Note 16)	—	—	(407,821)	—	(407,821)
Profit for the period	—	—	19,721,658	93,669	19,815,327
As at 31 May 2005	11,792,208	1,315,825	173,476,275	1,587,972	188,172,280
As at 31 December 2005	11,792,208	—	161,860,819	79,536	173,732,563
Contribution from owners (Note 16) . .	—	—	525,357	—	525,357
Profit for the period	—	—	41,371,293	—	41,371,293
As at 31 May 2006	11,792,208	—	203,757,469	79,536	215,629,213

The notes on pages F-33 to F-43 are an integral part of this condensed consolidated interim financial information.

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(UNAUDITED)

Tenge thousands unless otherwise stated

1. Organisation and principal activities

Joint Stock Company Exploration Production KazMunaiGas (the “Company”) is engaged in the acquisition, exploration, development, production and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company’s direct majority shareholder is National Company KazMunaiGas Joint Stock Company (“NC KMG” or the “Parent Company”), which represents the state’s interests in the Kazakh oil and gas industry and which holds 97.87% of the Company’s voting shares. Since June 2006 NC KMG is 100%-owned by Samruk State Holding Company which is 100% owned by the government of the Republic of Kazakhstan (the “Government”).

On 29 December 2004, the Company acquired an 86.7% interest in Atyrau Refinery LLP (“the refinery”) from NC KMG and subsequently increased its interest to 99.1% before selling the refinery back to an entity controlled by NC KMG on 29 December 2005 (Note 3).

This condensed consolidated interim financial information reflects the financial position and results of operations of the Company’s production divisions and certain other controlling and non-controlling interests in predominantly non-core entities. Such other interests represented approximately 6% of the Company’s net assets at 31 May 2006 (31 December 2005: approximately 7%). Following the disposal of the refinery and other non-core assets in 2005, the Company plans to dispose of the remaining non-core businesses by the end of 2007.

This condensed consolidated interim financial information was authorised for issue by the Company’s Chief Executive Officer, Chief Financial Officer and Group Financial Controller on 16 August 2006.

2. Basis of preparation

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting* (“IAS 34”) and should be read in conjunction with the Company’s annual financial statements for the year ended 31 December 2005.

Exchange rates. The official rate of the Kazakhstan Tenge to the US Dollar (“USD”) at 31 May 2006 and 31 December 2005 was 121.48 and 133.77 Tenge to USD 1.00, respectively. The official consumer price index inflation rate for Kazakhstan in the five months ended 31 May 2006 was 8.6% (five months 2005: 7.2%). Any translation of Tenge amounts to USD or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

3. Discontinued operations

On 29 December 2005 the Company disposed of the refinery within the NC KMG Group for 3.5 billion Tenge which was received in 2006. The effect of disposal on balance sheet items is disclosed in the financial statements of the Company for the year ended 31 December 2005. The effect of disposal on

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(UNAUDITED) (Continued)

Tenge thousands unless otherwise stated

3. Discontinued operations (Continued)

the Company's income statement and statement of cash flows for the five months ended 31 May 2005 was as follows:

Revenue	2,939,468
Expenses	(1,597,426)
Profit before tax of discontinued operations	1,342,042
Tax	(640,479)
Profit after tax of discontinued operations	<u>701,563</u>
Operating cash flows	(2,562,034)
Investing cash flows	(4,065,579)
Financing cash flows	(85,223)
Total cash flows of discontinued operations	<u>(6,712,836)</u>

Historically the Company purchased tolling services from the refinery in connection with its local market obligation (Note 17 and Note 18). However, in late 2005 the Company began meeting its local market commitments by selling crude oil to the refinery. Going forward, at least through 2010, the Company expects to increase crude oil sales to the refinery to around 2.2 million metric tons ("tons") per year, with the first 1.9 million tons at terms of cost plus 3% and the remaining sales of 0.3 million tons at prevailing market prices, and reduce to an insignificant amount the purchase of tolling services. The Company's accounting policies with respect to determining the amounts of profit from continuing and discontinued operations are described in Note 6 of the Company's annual financial statements for the year ended 31 December 2005.

4. Seasonality of operations

The Company's operating costs are subject to seasonal fluctuations, with higher expenses for materials and repair, maintenance and other services usually expected in the second half of the year than in the first six months. These fluctuations are mainly due to the requirement to conduct formal public tenders in accordance with state procurement laws.

5. Significant non-cash transactions

During the five months ended 31 May 2006 the Company settled in crude oil 7,035,338 thousand Tenge due under the terms of a financing agreement (five months 2005: 3,305,925 thousand Tenge).

During the five months ended 31 May 2005 the Company received 5,812,012 thousand Tenge of loan proceeds in the form of goods and services that were settled by the ultimate lender directly with the suppliers.

During the five months ended 31 May 2005 the Company offset income tax payable of 1,000,000 thousand Tenge with receivables for social tax and individual income tax.

These non-cash transactions are excluded from the consolidated statement of cash flows.

6. Accounting policies

Except as discussed below, the accounting policies applied in preparation of this condensed financial information are consistent with those applied in preparation of the annual financial statements for the year ended 31 December 2005.

New accounting developments. The following new standards, amendments to standards and interpretations are mandatory for the financial year ended 31 December 2006:

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(UNAUDITED) (Continued)

Tenge thousands unless otherwise stated

6. Accounting policies (Continued)

IAS 19 (Amendment), *Actuarial Gains and Losses, Group Plans and Disclosures*, effective for annual periods beginning on or after 1 January 2006, introduces an additional recognition option for actuarial gains and losses in post-employment defined benefit plans. The amendments to IAS 19 did not have a material impact on the Company's financial position or results of operations.

IAS 21 (Amendment), *Net Investment in a Foreign Operation*, effective for annual periods beginning on or after 1 January 2006, is not relevant to the Company's operations.

IAS 39 (Amendment), *The Fair Value Option*; IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*; IAS 39 and IFRS 4 (Amendment), *Financial Guarantee Contracts*, all effective for annual periods beginning on or after 1 January 2006, clarified the use of fair values, clarified that the definition of a financial hedge extends to certain intercompany transactions and clarified the accounting for insurance contracts. The amendments to IAS 39 and IFRS 4 did not have a material impact on the Company's financial position or results of operations.

IFRS 6, *Exploration for and Evaluation of Mineral Resources*, is effective for annual periods beginning on or after 1 January 2006. IFRS 6 permits the continued use of recognition and measurement practices for exploration and evaluation assets applied immediately before adopting the IFRS. IFRS 6 also provides specific guidance on impairment of exploration and evaluation assets. The adoption of IFRS 6 did not have a material impact on the Company's financial position or results of operations.

IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, is effective for annual periods beginning on or after 1 January 2006. The adoption of IFRIC 4 did not have a material impact on the Company's financial position or results of operations.

IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, is effective for annual periods beginning on or after 1 January 2006. The adoption of IFRIC 5 did not have a material impact on the Company's financial position or results of operations.

IFRIC 6, *Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*, is effective for annual periods beginning on or after 1 December 2005. The adoption of IFRIC 6 did not have a material impact on the Company's financial position or results of operations.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

IFRS 7, *Financial Instruments: Disclosures*, and a Complementary Amendment to IAS 1, *Presentation of Financial Statements—Capital Disclosures*, are effective for annual periods beginning on or after 1 January 2007. The adoption of IFRS 7 and the amendment to IAS 1 will result in additional disclosures, including sensitivity analysis for market risks and capital management disclosures.

IFRIC 7, *Applying the Restatement Approach under IAS 29*, is effective for annual periods beginning on or after 1 March 2006. This interpretation is not currently relevant to the Company's operations.

IFRIC 8, *Scope of IFRS 2*, is effective for annual periods beginning on or after 1 June 2006. Management does not expect the interpretation to have a material impact on the Company's financial position or results of operations.

IFRIC 9, *Reassessment of Embedded Derivatives*, is effective for annual periods beginning on our after 1 June 2006. Management does not expect the interpretation to have a material impact on the Company's financial position or results of operations.

7. Property, plant and equipment

Additions to property, plant and equipment for the five months ended 31 May 2006 amounted to 18,448,881 thousand Tenge and mainly comprise drilling of production wells in the amount of 5,460,518 thousand Tenge, construction of infrastructure in the amount of 4,651,522 thousand Tenge and

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(UNAUDITED) (Continued)

Tenge thousands unless otherwise stated

7. Property, plant and equipment (Continued)

purchases of machinery and equipment in the amount of 4,422,831 thousand Tenge. Disposals amounted to 2,989,818 thousand Tenge for five months ended 31 May 2006.

8. Other assets

	<u>31 May 2006</u>	<u>31 December 2005</u>
Intangible assets	9,066,718	1,340,657
Investments in associates	3,609,218	4,516,696
Advances	1,450,296	765,598
VAT receivable	3,029,317	—
Other	<u>1,589,462</u>	<u>2,042,430</u>
	<u>18,745,011</u>	<u>8,665,381</u>

Intangible assets include contract and license rights for exploration and production activities in Western Kazakhstan that the Company purchased from Aral Petroleum LLP in February 2006 for total cash consideration of 8.6 billion Tenge. The acquired exploration rights expire in February 2009.

9. Financial assets

Deposits and other financial assets

	<u>31 May 2006</u>	<u>31 December 2005</u>
US dollar-denominated deposits	—	47,488,350
Other	<u>2,228,613</u>	<u>6,474,788</u>
Total non-current	<u>2,228,613</u>	<u>53,963,138</u>
US dollar-denominated deposits	43,125,400	6,688,500
Tenge-denominated deposits	6,200,000	—
Loans receivable (Note 16)	5,638,693	12,639,487
Other	<u>5,396,853</u>	<u>665,270</u>
Total current	<u>60,360,946</u>	<u>19,993,257</u>
	<u>62,589,559</u>	<u>73,956,395</u>

The weighted average interest rate on US dollar-denominated deposits at 31 May 2006 was 6.8% (31 December 2005: 6.6%). The weighted average interest rate on Tenge-denominated deposits at 31 May 2006 was 7.8%. Other current financial assets primarily comprise US dollar-denominated bonds with a weighted average interest rate of 5%. Loans receivable are mainly US dollar-denominated. The remaining balances are Tenge-denominated.

Trade and other receivables

	<u>31 May 2006</u>	<u>31 December 2005</u>
Trade receivables	29,177,182	38,752,145
Allowance for doubtful receivables	(628,093)	(895,784)
Other	<u>5,512,549</u>	<u>8,061,865</u>
	<u>34,061,638</u>	<u>45,918,226</u>

JSC EXPLORATION AND PRODUCTION KAZMUNAIGAS
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(UNAUDITED) (Continued)

Tenge thousands unless otherwise stated

9. Financial assets (Continued)

US dollar-dominated receivables comprised 83% and 75% of total trade and other receivables at 31 May 2006 and 31 December 2005, respectively. The remaining balances are Tenge-denominated.

Cash and cash equivalents	<u>31 May 2006</u>	<u>31 December 2005</u>
Term deposits with Kazakhstani banks	24,050,000	9,815,804
Cash in bank and in hand	<u>6,276,888</u>	<u>10,371,784</u>
	<u>30,326,888</u>	<u>20,187,588</u>

The weighted average interest rate on term deposits at 31 May 2006 was 2.5% (31 December 2005: 4.8%). About 8% of total cash and cash equivalents at 31 May 2006 are US dollar-denominated (about 70% at 31 December 2005). The remaining balances are Tenge-denominated.

10. Borrowings

	<u>31 May 2006</u>	<u>31 December 2005</u>
Fixed interest rate borrowings	56,136,952	69,309,083
Weighted average interest rates	6.38%	6.32%
Variable interest rate borrowings	4,981,845	5,840,832
Weighted average interest rates	6.32%	6.33%
Total long-term borrowings	<u>61,118,797</u>	<u>75,149,915</u>
Tenge-denominated borrowings	850,536	859,377
US dollar-denominated borrowings	60,268,261	74,290,538
Total long-term borrowings	<u>61,118,797</u>	<u>75,149,915</u>
Current portion	19,129,206	21,121,175
Maturity between 1 and 2 years	17,141,624	19,082,221
Maturity between 2 and 5 years	24,144,484	34,451,834
Maturity over 5 years	<u>703,483</u>	<u>494,685</u>
Total long-term borrowings	<u>61,118,797</u>	<u>75,149,915</u>

The Company's long-term borrowings at 31 May 2006 include 53.7 billion Tenge related to a financing arrangement which requires settlement in crude oil (31 December 2005: 66.6 billion Tenge).

11. Provisions

	<u>Environmental remediation</u>	<u>Taxes</u>	<u>Asset retirement obligation</u>	<u>Other</u>	<u>Total</u>
At 31 December 2005	31,033,730	23,519,488	18,046,348	2,542,299	75,141,865
Additional provisions	—	1,769,726	135,018	446,838	2,351,582
Unused amounts reversed	—	—	(11,503)	—	(11,503)
Unwinding of discount	—	—	596,281	—	596,281
Changes in estimate	—	—	(460,141)	—	(460,141)
Used during the period	—	(1,792,663)	(263,795)	(36,520)	(2,092,978)
At 31 May 2006	<u>31,033,730</u>	<u>23,496,551</u>	<u>18,042,208</u>	<u>2,952,617</u>	<u>75,525,106</u>

A description of these provisions, including critical estimates and judgments, is disclosed in Note 6 of the Company's annual financial statements for the year ended 31 December 2005.

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12. Revenue

	Five months ended 31 May	
	2006	2005
Export (Note 16):		
Crude oil	150,286,721	104,690,882
Refined products	—	651,491
Domestic (Note 3 and Note 16):		
Crude oil	13,059,758	—
Refined products	4,146,619	13,681,276
Gas products	1,571,511	1,408,663
Other sales and services	1,659,852	1,323,849
	<u>170,724,461</u>	<u>121,756,161</u>

13. Operating expenses

	Five months ended 31 May	
	2006	2005
Transportation (Note 16)	16,799,017	16,416,459
Employee benefits	14,809,567	14,854,029
Depreciation, depletion and amortization	12,338,360	8,676,284
Repairs, maintenance and other services	7,217,116	4,081,456
Royalties	6,205,485	5,423,922
Materials	5,985,090	7,690,885
Management fees and sales commissions (Note 16)	3,158,851	4,961,571
Social infrastructure projects (Note 18)	3,150,337	511,001
Energy	2,524,995	2,167,203
Taxes other than on income	2,143,707	1,883,515
Fines and penalties	1,381,207	1,491,162
Release of environmental fine (Note 17)	(11,427,955)	—
Other	3,879,664	2,799,246
	<u>68,165,441</u>	<u>70,956,733</u>

14. Finance (expense) income

	Five months ended 31 May	
	2006	2005
Financial income	2,671,101	1,938,228
Financial expense	(3,595,371)	(2,155,861)
Foreign exchange (losses) gains	(3,253,940)	727,365
	<u>(4,178,210)</u>	<u>509,732</u>

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15. Income taxes

	<u>Five months ended 31 May</u>	
	<u>2006</u>	<u>2005</u>
Corporate income tax	31,510,998	18,430,258
Excess profit tax	24,408,186	15,275,945
Current income tax	<u>55,919,184</u>	<u>33,706,203</u>
Corporate income tax	631,108	(826,461)
Excess profit tax	459,225	(684,346)
Deferred income tax	<u>1,090,333</u>	<u>(1,510,807)</u>
Income tax expense	<u>57,009,517</u>	<u>32,195,396</u>

A reconciliation of income tax expense applicable to profit from continuing operations before income tax at the statutory income tax rate to current income tax expense is as follows:

	<u>Five months ended 31 May</u>	
	<u>2006</u>	<u>2005</u>
Profit before tax and minority interest	98,380,810	51,309,160
Statutory tax rate	30%	30%
	<u>29,514,243</u>	<u>15,392,748</u>
Excess profit tax	24,867,411	14,591,599
Income not subject to tax	(3,641,516)	(427,183)
Expenses not deductible for tax purposes	6,269,379	2,638,232
Income tax expense	<u>57,009,517</u>	<u>32,195,396</u>

16. Related party transactions

The category “entities under common control” comprises entities of the Parent Company group. The category “other state-controlled companies” includes entities other than those of the Parent Company

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16. Related party transactions (Continued)

group. Sales and purchases with related parties during the five months ended 31 May 2006 and 2005 and the balances with related parties at 31 May 2006 and 31 December 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Sales of goods and services (Note 12)		
Entities under common control	129,150,211	90,965,993
Parent Company	—	—
Other state-controlled enterprises	307,492	464,316
Associates	<u>3,815</u>	<u>13,763</u>
Purchases of goods and services (Note 13)		
Entities under common control	14,796,047	13,290,078
Parent Company	3,022,780	4,816,035
Other state-controlled enterprises	1,949,808	1,664,635
Associates	<u>196,037</u>	<u>562,112</u>
Trade and other receivables (Note 9)		
Entities under common control	23,281,627	36,199,861
Parent Company	896,803	180,772
Other state-controlled enterprises	18,256	519,757
Associates	<u>668,658</u>	<u>667,877</u>
Trade payables		
Entities under common control	1,651,872	881,439
Parent Company	3,326,674	408,124
Other state-controlled enterprises	74,725	247,041
Associates	<u>123,573</u>	<u>129,324</u>
Loans receivable (Note 9)		
Entities under common control	3,638,693	3,639,487
Parent Company	2,000,000	9,000,000
Other state-controlled enterprises	—	—
Associates	<u>—</u>	<u>—</u>
Loans payable (Note 10)		
Entities under common control	—	—
Parent Company	4,981,845	5,840,833
Other state-controlled enterprises	—	—
Associates	<u>—</u>	<u>—</u>
Key management compensation		
Salaries and other short-term benefits		
Termination benefits	312,112	62,472
Post employment benefits	—	—
Other long-term benefits	—	—
Share-based payments	<u>—</u>	<u>—</u>

Sales and receivables. Sales to related parties comprise mainly export and domestic sales of crude oil and oil product to KMG group entities. Export sales to related parties represented 2,075,914 tons of crude oil in five months ended 31 May 2006 (five months ended 31 May 2005: 1,935,533 tons). The export sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately \$430 in the first five months of 2006 (first five months of 2005: \$310). In addition, the Company supplies oil and oil products to the local market at the direction of the Kazakhstan government, the controlling shareholder of the Parent Company. These supplies to the domestic market represented

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16. Related party transactions (Continued)

1,084,495 tons of crude oil production in the first five months of 2006 (first five months of 2005: 1,062,723 tons). Prices for the local market sales are determined by agreement with the agent distributors which are controlled by the Parent Company. For deliveries to the local market in the first five months of 2006 the Company received an average price per produced crude oil ton of around \$120 (first five months of 2005: \$100). Trade and other receivables from related parties principally comprise amounts related to export sales transactions. At 31 May 2006 the Company had remaining commitments to deliver 1.1 million tons of crude oil to local markets during 2006.

Purchase and payables. Management fees to the Parent Company amounted to 2,916,667 thousand Tenge in the first five months of 2006 (first five months of 2005: 4,685,000 thousand Tenge). The decrease in management fees resulted from changes in contractual terms negotiated with the Parent Company. Transportation services for 3,269,495 tons of crude oil in the first five months of 2006 (first five months 2005: 3,130,723) were purchased from a KMG group entity and amounted to 13,184,741 thousand Tenge in the first five months of 2006 (first five months of 2005: 11,838,059 thousand Tenge).

Loans receivable. In the first five months of 2005 the Company made an interest-free loan to the Parent Company in the amount of 20,900,000 thousand Tenge. The difference between the nominal value and the discounted amount of the loan has been recorded in equity.

Contribution from owners. In the first five months of 2006 the Company received a non-cash capital contribution of 525,357 thousand Tenge from an entity controlled by the Parent Company which has been recorded in equity.

17. Contingencies

Operating environment. The Kazakh economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of an economy in transition. These characteristics have in the past included higher than normal historical inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Kazakhstan. The Company's operations and financial position will continue to be affected by Kazakh political developments including the application of existing and future legislation and tax regulations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Kazakhstan.

Local market obligation. The Company supplies a certain portion of its crude oil production to meet domestic market needs at prices agreed with NC KMG. On a per ton basis, these sales generate substantially less revenue than crude oil sold on the export market. In addition, the Government approves access to pipelines and defines quotas for supplies to the local market and exports. The Government may require additional crude oil to be delivered over and above the quantities currently supplied by the Company and such supplies will take precedence over market sales.

Taxation. Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. The effective penalty interest rate as at 31 May 2006 was 21.25% per annum. As a result, penalties and interest can amount to multiples of any unreported taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 May 2006. In addition to amounts provided in these financial statements, at 31 May 2006 the Company had a possible tax obligation of approximately 15 billion Tenge (31 December 2005: 7 to 8 billion Tenge)

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17. Contingencies (Continued)

related to excess profits tax compliance. As at 31 May 2006 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained, except as provided for or otherwise disclosed in these financial statements.

Environment and legal proceedings. The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. At year end 2005 the Company accrued fines of 11.4 billion Tenge for a claim of the Mangistau department of the Ministry of Environmental Protection relating to the COTS Pit. The COTS Pit was formed by the discharge of oil, mud waste and a water-oil mixture as a result of previous oil production operations and due to an emergency event in the oil transport system in 1974. On 7 July 2006 the Specialised Inter-District Economic Court of the city of Astana ("SIDECA") decided the case in favor of the Company and fully dismissed the claim. On 20 July 2006, the Mangistau department of the MEP filed an appeal of the above court decision which was subsequently rejected by the Collegium on Civil Cases of the Astana City Court on 9 August 2006. The effect of the Collegium's rejection of the appeal is that the 7 July decision comes into force. The Mangistau MEP can still ask the Supreme Court to reconsider the case as a whole and has until 9 August 2007 to do so. Following the favorable outcome of the SIDECA proceedings and the appeal court decision, management has released the accrual of 11.4 billion Tenge as at 31 May 2006. Notwithstanding these developments, there can be no assurances that additional fines will not be assessed. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Other than those contingencies discussed here and environmental obligations described in Note 11, under current legislation and terms of existing agreements and contracts, management believes that there are no probable or possible environmental liabilities, nor are there any other legal proceedings or claims outstanding, which could have a material adverse affect on the Company's financial position, statement of income or cash flows.

Oilfield licenses. The Company is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation. The Company's management believes that any issues of non-compliance existing at the balance sheet date will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, statement of income or cash flows. Licenses are issued by the Ministry of Energy and Mineral Resources of Kazakhstan and the Company pays royalties and excess profits tax to explore and produce oil and gas from these fields. Management believes that the Company will be successful in its attempts to extend its licenses beyond the initial expiration date under existing legislation where such extension is in the economic interest of the Company.

Guarantees, pledges and covenants. At 31 May 2006 the Company had collateralised non-current assets related to loans received in the amount of approximately 25 billion Tenge (31 December 2005: approximately 23 billion Tenge). Also, some of the Company's financing agreements require compliance with certain financial ratios and other terms. Non-compliance with such terms could result in long-term debt becoming callable by the creditor. At the end of each period presented management believes that the Company was in full compliance with all terms of such agreements.

18. Commitments

Oilfield licenses and contracts. Some of the Company's oilfield contracts specify a minimum level of expenditures through the end of the license period. The total future obligation under those agreements amounted to about 37 billion Tenge at 31 May 2006 (31 December 2005: about 39 billion Tenge). Some of the oilfield contracts also require the Company to agree with the local governments annual business plans

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18. Commitments (Continued)

which include capital and social infrastructure projects. Total obligations under these agreements and additional constructive obligations at 31 May 2006 amounted to about 30 billion Tenge (31 December 2005: about 48 billion Tenge). Social infrastructure projects of 3,150,337 thousand Tenge were expensed in the first five months of 2006 (first five months 2005: 511,001). These projects, under the Company's Asset Optimisation Programme, will be transferred to local governments.

Crude oil supply commitments. Under the provisions of a financing agreement the Company has committed to deliver 150,000 tons of crude oil per month to the lender until September 2009 for fair value consideration determined at the date of shipment. The Company has further obligations to supply oil to the local market (Note 3 and Note 17).

19. Subsequent events

On 10 July 2006, the Company's finance subsidiary, Munaishy Finance B.V., issued US\$800 million principal amount of 6.5% fixed rate senior notes due 2009 and loaned the proceeds of the issue to NC KMG at interest of 6.6% per annum net of withholding tax for the same period as the notes. NC KMG has used these funds to acquire an interest in KazGerMunai. Pursuant to the terms and conditions of the notes, the Company has agreed to maintain certain financial ratios and comply with certain nonfinancial covenants. On 10 July the Company also provided an interest-free loan to NC KMG of 24.4 billion Tenge to fund this acquisition and has entered into an option arrangement which gives it the right to acquire the KazGerMunai interest from NC KMG. If the Company does not exercise the option, both loans are repayable. The exercise of the option is subject to the satisfaction of a number of conditions, including posting of a circular to shareholders and receipt of approval by independent shareholders. In addition, the exercise price in respect of such option will be at a fair value to be agreed at the date of exercise.

On 24 July 2006 the Company finalised an agreement to draw down an additional 50 million US dollars under an existing financing facility, reduce the fixed portion of the interest term from 1.75% to 1.10% per annum and release of the existing NC KMG guarantee.

As part of the legal process to issue shares and Global Depositary Receipts ("GDRs") for the Company's anticipated Initial Public Offering, on 28 July 2006 the Company offered ordinary shareholders the right to purchase 27,169,803 shares at 250 Tenge per share in accordance with existing proportional interests. It is expected that NC KMG will participate to the extent of 3,543,887 shares and the remaining shares offered to the Parent will be reserved for the Initial Public Offering. Management believes it is likely that minority shareholders will participate to the full extent of their proportional interest, or 579,715 shares.

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