CIRCULAR DATED 15 MARCH 2007

THIS DOCUMENT AND ITS ENCLOSURES ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom, or from another appropriately authorised independent financial adviser if you are in a territory outside the United Kingdom.

If you sell or have sold or otherwise transferred all of your Ordinary Shares or GDRs, please forward this document and the accompanying documents to the purchaser or transferee or the stockbroker, bank or other agent through whom the sale or transfer is/was effected for onward transmission to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares or GDRs, you should retain this document and the accompanying documents.

For a discussion of certain risk factors which should be taken into account when considering whether to vote in favour of the Resolution to be proposed at the Extraordinary General Meeting referred to below, see Part II — ''Risk Factors''.

Capitalised terms have the meanings ascribed to them in the section of this document headed ''Definitions''. References to times in this document are to Astana Time unless otherwise stated.

JSC KazMunaiGas Exploration Production

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

Proposed Acquisition of 50% participatory interest in JV Kazgermunai LLP Circular and Notice of Extraordinary General Meeting

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The Proposed Acquisition is conditional, amongst other things, upon the approval of Shareholders and GDR Holders at the Extraordinary General Meeting referred to below. Your attention is drawn to the letter from the Directors of JSC KazMunaiGas Exploration Production (''KMG EP'') on pages 7 to 10 of this document, which contains a recommendation by KMG EP's Board of Directors that you vote in favour of the Resolution to be proposed at the Extraordinary General Meeting. You should read this document in its entirety, not rely solely on summarised information and consider whether to vote in favour of the Resolution in light of the information contained in, and incorporated by reference into, this document.

Notice of an Extraordinary General Meeting (the ''EGM'') of KMG EP, to be held at Building 2, Street 1, Left Bank, 010000, Astana, Republic of Kazakhstan at 10:00 a.m. (Astana Time) on 12 April 2007. Instructions for the shareholders are set out at the end of this document. Instructions for the holders (the ''GDR Holders'') of Global Despositary Receipts (''GDRs'') will be provided by Bank of New York, as Depositary (the ''Depositary'').

Only the Shareholders and GDR Holders included in the list of shareholders having the right to vote at the EGM, to be prepared as of 6 March 2007, shall have the right to vote at the EGM of KMG EP. In addition, only the GDR Holders and Shareholders with shares in nominee holding whose identity has been disclosed to and recorded in the record system of the central depositary of the Republic of Kazakhstan shall be included to the list of shareholders having the right to vote at the EGM. In order to be entitled to vote, Shareholders and/or GDR Holders (or their duly authorised representatives) must also be registered for participation in the meeting prior to opening of the EGM on 12 April 2007.

Owners on record on 6 March 2007 of GDRs of KMG EP will be notified by the Depositary of the Extraordinary General Meeting of KMG EP and their entitlement to instruct the Depositary as to the exercise of the voting rights pertaining to their GDRs. Such GDR Holders are entitled to request, upon completion of voting instructions that will be distributed to all GDR Holders, that the Depositary, upon receipt of completed voting instructions on or before 12:00 p.m. on 2 April 2007, vote in relation to their GDRs and in accordance with such instructions.

This document does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security. The Proposed Acquisition is being made exclusively by means of, and subject to, the terms and conditions set out in the Sale and Purchase Agreement as summarised in Part VI — ''Principal Terms of the Proposed Acquisition''.

Nothing in this document is an offer of securities for sale or a solicitation of an offer to purchase securities in the United States or in any other jurisdiction. This document has not been approved by the UK Listing Authority.

Certain information in relation to KMG EP has been incorporated by reference into this document. You should refer to ''Presentation of Information — Relevant Documentation'' of this document.

No statement in this document is intended as a profit forecast and no statement in this document should be interpreted to mean that earnings per Ordinary Share or GDR for the current or future financial years would necessarily match or exceed the historical published earnings per Ordinary Share or GDR.

CONTENTS

Presentation of Information

Presentation of information on Kazgermunai

This document contains certain information relating to Kazgermunai, including the information contained in Part I — ''Letter from the Directors'', Part II — ''Risk Factors'', Part III — ''Information on Kazgermunai'', Part V — ''Information on the Expected Impact of the Proposed Acquisition on the Assets, Liabilities and Earnings of the Enlarged Group'' and Part VII — ''Additional Information''.

Presentation of information on the Enlarged Group

Unless the context otherwise requires, references in this document to the ''Enlarged Group'' are to KMG EP and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings as constituted immediately following completion of the Proposed Acquisition and, therefore, such references include KMG EP as enlarged by the 50% participatory interest in Kazgermunai. Completion of the Proposed Acquisition is subject to a number of conditions which are described in detail in Part I — ''Letter from the Directors'' and Part VI — ''Principal Terms of the Proposed Acquisition''.

Presentation of Kazgermunai's reserves and production data

Unless otherwise stated the oil and gas reserves and production data relating to Kazgermunai contained in this document is data for the gross (100%) reserves and production of Kazgermunai and not the net (50%) figure representing KMG EP's proposed acquisition of a 50% participatory interest in Kazgermunai.

Cautionary note to US Shareholders and GDR Holders

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 of Kazgermunai within this document have been estimated by Gaffney, Cline & Associates (''GCA''), an international oil and gas consultant, 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, there are certain terms in this document used in referring to Kazgermunai'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 Kazgermunai were subject to reporting requirements under the US Exchange Act. Shareholders and GDR Holders should read the Competent Person's Report on Kazgermunai's reserves, included in this document at Part IV — ''Competent Person's Report'', for more information on Kazgermunai's reserves and the reserves definitions used by Kazgermunai.

Cautionary note regarding forward-looking statements

This document and the information incorporated by reference into this document include 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 the terms ''believes'', ''estimates'', ''anticipates'', ''expects'', ''intends'', ''plans'', ''goal'', ''target'', ''aim'', ''may'', ''might'', ''will'', ''would'', ''could'' or ''should'' or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and the information incorporated by reference into this document and include statements regarding intentions, beliefs or current expectations concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth and strategies of KMG EP and the Enlarged Group and the industries in which they operate.

This document also contains forward-looking statements regarding the Proposed Acquisition, including statements regarding and relating to the expected completion, and the expected timing of completion, of the Proposed Acquisition.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond KMG EP's ability to control or predict. Forward-looking statements are not guarantees of future performance. KMG EP and the Enlarged Group's actual results of operations, financial condition, liquidity, dividend policy and development of the industries in which they operate may differ materially from the impression created by the forward-looking statements contained in this document. Further actual developments in relation to the Proposed Acquisition and the expected completion, and timing of completion, of the Proposed Acquisition may differ materially from those contemplated by forward-looking statements depending on certain factors which include, but are not limited to, the risks that Shareholders and GDR Holders may not vote in favour of the Resolution, that KMG EP will not be able to obtain the required approvals or clearances from regulatory and other agencies and bodies on a timely basis or at all, that the other conditions of the Proposed Acquisition may not be satisfied on a timely basis or at all, that KMG EP may not realise the anticipated benefits from the Proposed Acquisition and that KMG EP may incur and/or experience unanticipated costs and/or delays and/or difficulties relating to the Proposed Acquisition. In addition, even if the results of operations, financial condition, liquidity and dividend policy of KMG EP and the Enlarged Group (as the case may be), and the development of the industries in which they operate, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Important factors that may cause actual results to differ materially from KMG EP's expectations are contained in cautionary statements included or incorporated by reference in this document and include, amongst others, the following:

- price fluctuations for crude oil, gas and refined products;
- the availability or cost of transportation routes;
- changes in governmental regulation, including regulatory changes affecting the availability of permits, and governmental actions that may affect operations or the KMG EP's planned expansion;
- ability to integrate new businesses (including Kazgermunai);
- changes in economic or political conditions in Kazakhstan;
- other unplanned events or accidents affecting either KMG EP's or Kazgermunai's operations or facilities, including equipment failures, labour disputes and processing limitations;
- incidents or conditions affecting the export of crude oil and gas; and
- reservoir performance, drilling results and implementation of KMG EP's oil expansion plans.

You are advised to read this document, including the information incorporated by reference. in its entirety, and in particular Part I — ''Letter from the Directors'' and Part II — ''Risk Factors'', for a further discussion of the factors that could affect KMG EP and the Enlarged Group's future performance and the industries in which they operate. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

Save as required by law or by any appropriate regulatory authority, KMG EP does not intend, and does not assume any obligation, to update any industry information or forward-looking statements set out in this document.

Presentation of financial information

Kazgermunai's financial statements for the year ended 31 December 2005 (which includes financial information for the two years ended 31 December 2004 and 2005) set out in this document are presented in US dollars and have been prepared in accordance with the accounting policies stipulated in the Foundation Agreement for Kazgermunai which differ significantly from International Financial Reporting Standards (''IFRS''). Accordingly, transactions in currencies other than Tenge for KMG EP and US dollars for Kazgermunai are translated into Tenge and US dollars, respectively, at the exchange rates prevailing on the applicable transaction dates.

These financial statements were the subject of an unqualified audit opinion from Kazgermunai's independent auditors who, without qualifying their opinion, drew attention to Note 16 to the financial statements and the fact that no provisions for relevant tax claims had been made.

As presented in this document, ''EBITDA'' means earnings before interest income, interest expense, income tax expense, depreciation of fixed assets and amortisation of intangible assets. EBITDA is a supplemental measure of both KMG EP's and Kazgermunai'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 both KMG EP's and Kazgermunai's liquidity or as a measure of cash available to either company to invest in the growth of its business.

EBITDA is presented because KMG EP understands that 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.

It also presents EBITDA as a supplemental measure of a 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 Kazgermunai's results of operations. As a measure of performance, EBITDA presents limitations for several reasons including the following:

- it does not reflect Kazgermunai's capital expenditures or future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, Kazgermunai's working capital needs;
- it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on Kazgermunai'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; and
- other companies in Kazgermunai's industry may calculate these measures differently, limiting its usefulness as a comparative measure.

Currencies

In 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$'', ''US dollars'' or ''USD'' are to the lawful currency of the United States of America.

In addition, and solely for convenience, this document contains translations of relevant currencies to US dollars and Tenge. These translations should not be construed as representations that the relevant currency could be converted into US dollars or Tenge at the rate used or at any other rate.

Rounding

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.

Relevant Documentation

Where information on KMG EP has been incorporated by reference in this document, such information is on display. See Part VII — ''Additional Information''. Such information may also be obtained from KMG EP's website, www.eng.kmgep.kz, or www.kmgep.kz.

Exchange Rate Information

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:

Year Ended 31 December	Period End	Average (1)	High	Low
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	127.00	126.09	133.85	117.25

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

As at 12 March 2007, being the last practicable date prior to the publication of this document, the exchange rate between the Tenge and the US dollar was KZT123.17 per US$1.00.

The purchase price of the Proposed Acquisition will be paid in Tenge. Where the purchase price is shown in US dollars in this document, an exchange rate between the Tenge and the US dollar of KZT124.21 per US$1.00 is used, being the relevant exchange rate as at 1 March 2007.

Expected Timetable of Principal Events

The following is the expected timetable of principal events in relation to the Proposed Acquisition:

6 March 2007	Date of EGM published in Kazakhstan in Kazakhstanskaya Pravda and Egemen Kazakhstan
6 March 2007	Record date for the list of Shareholders and GDR Holders entitled to vote at the EGM
15 March 2007	Circular together with notice convening EGM made available to Shareholders by KMG EP and sent to GDR Holders by the Depositary
12 April 2007	Prior to the EGM, powers of attorney and other documents confirming authority shall be presented by the representatives of Kazakhstan Shareholders for voting at the EGM
12 April 2007	EGM of KMG EP

GDR Holders should refer to the instructions provided by the Depositary with regard to the dates by which completed voting instructions must be returned.

References to times in this document are to Astana Time unless otherwise stated.

The Proposed Acquisition is conditional upon, amongst other things, the receipt of certain regulatory and other approvals and it is expected that the Proposed Acquisition will be completed in the first half of 2007.

PART I

Letter from the Directors

JSC KAZMUNAIGAS EXPLORATION PRODUCTION

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Askar K. Balzhanov
Yerzhan A. Zhangaulov
Evgeny K. Ogay
Assia Syrgabekova
Christopher Mackenzie*
Paul Manduca*
Edward T. Walshe*

†Director of NC KMG
*Independent Non-Executive Directors

Date 15 March 2007

To Shareholders and GDR Holders

Proposed acquisition of 50 per cent participatory interest in JV Kazgermunai LLP (''Kazgermunai'') from NC KMG (''Proposed Acquisition'')

1. Introduction

On 5 March 2007, KMG EP announced that it had reached an agreement with its parent company NC KMG to acquire NC KMG's 50 per cent. stake in JV Kazgermunai LLP (''Kazgermunai''). Kazgermunai is a joint venture between NC KMG and PetroKazakhstan Kumkol Resources JSC (''PetroKazakhstan''). Kazgermunai operates the Akshabulak, Nuraly and Aksai oil fields located near the city of Kyzylorda in Kazakhstan.

The purchase price for the 50% stake in Kazgermunai will be equal to KZT133.3 billion (approximately US$1,073 million) less 50% of any cash distributions made by Kazgermunai to its shareholders between signing and completion of the transaction. The transaction will be financed by KMG EP from available funds. It is expected that shortly after the completion of the Proposed Acquisition NC KMG will repay the US$800 million loan made to it by a subsidiary of KMG EP. The obligation of NC KMG to repay the loan is not dependent in any way on the completion of the Proposed Acquisition.

The Independent Non-Executive Directors of KMG EP, Christopher Mackenzie, Paul Manduca and Edward T. Walshe, have voted unanimously to approve the Proposed Acquisition. Other directors of KMG EP are affiliates of NC KMG and, in accordance with Kazakh law and KMG EP's Charter, do not have the right to vote at the Board of Directors meeting to approve the Proposed Acquisition. In reaching their decision to approve the Proposed Acquisition, the Independent Non-Executive Directors have relied upon, amongst other matters, information, analyses, valuations and confirmations provided by the management of the Company, information and confirmations provided by the management of Kazgermunai, the Competent Person's Report, the opinion from Credit Suisse Securities (Europe) Limited that, subject to customary assumptions, the consideration to be paid by KMG EP in respect of the Proposed Acquisition is fair to KMG EP from a financial point of view and other advice.

The Proposed Acquisition now requires shareholder approval. Shareholders and GDR Holders are invited to vote on the Proposed Acquisition at the Extraordinary General Meeting of KMG EP at Building 2, Street 1, Left Bank, 010000, Astana, Republic of Kazakhstan on 12 April 2007 at 10:00 a.m. A copy of the notice of the Extraordinary General Meeting is set out at the end of this document. Given that the seller, NC KMG, is the majority owner of KMG EP, NC KMG and its subsidiaries and affiliates will abstain from voting on the Resolution at the extraordinary general meeting.

The purpose of this document is to provide you with details of the Proposed Acquisition, to explain why the Board considers the Proposed Acquisition to be in the best interest of KMG EP and its shareholders, and to ask you to vote in favour of the Resolution to be proposed at the EGM.

2. Information on Kazgermunai

Kazgermunai was formed in 1993 as a joint venture company in order to attract investment into the Republic of Kazakhstan from Germany. Under Kazgermunai's Foundation Agreement, it was granted exclusive rights and licences for exploration and production at the Akshabulak, Nuraly and Aksai fields for a period of 30 years, ending in 2024. Kazgermunai's two current joint venture owners are NC KMG and PetroKazakhstan. NC KMG acquired its stake in Kazgermunai in July 2006 from Erdoil-Erdgaz Gommern GmbH (''EEG''), RWE-DEA Aktiengeselschaft fur Mineraloil und Hemi (''RWE-DEA'') and International Finance Corporation (''IFC'') for a consideration of US$1 billion in cash.

Kazgermunai produces crude oil and gas and also carries out limited exploration activities within its own fields. In 2006, Kazgermunai's oil production was 2.9 million tonnes (22.0 million barrels) of crude oil, a 54% increase over the 2005 production of 1.9 million tonnes (14.2 million barrels). As at 30 September 2006, Kazgermunai's proved plus probable oil reserves were 40.7 million tonnes (309.8 million barrels), and proved plus probable reserves of gas were 4,679 million cubic metres based on the Competent Person's Report, which was prepared in accordance with the Society of Petroleum Engineers (''SPE'') and the World Petroleum Congresses (''WPC'') methodology (see Part II — ''Risk Factors'' and Part IV — ''Competent Person's Report'' for more details).

Financial information for Kazgermunai for the periods ending 31 December 2005 and 31 December 2004 is included in the appendix to this document.

3. Reasons for the Proposed Acquisition

Kazgermunai is a large, low-cost producing asset with good access for the transportation infrastructure and an attractive tax regime:

- Kazgermunai is the 8th largest crude oil producer in Kazakhstan;
- Kazgermunai produces light and sweet crude oil, with low production expenses per barrel of oil produced;
- the fields of Kazgermunai are relatively young compared to the fields of KMG EP — production started in 1996 and there is potential to maintain production for the next few years;
- existing infrastructure enables access for much of Kazgermunai's crude oil to the export markets, including China;
- the Foundation Agreement, governing the operations of Kazgermunai, provides for an attractive tax regime;
- Kazgermunai has a strong balance sheet with a considerable cash balance at the end of 2006. Any dividend paid to current Kazgermunai shareholders will reduce the consideration payable by KMG EP in respect of the Proposed Acquisition.

The Directors believe that the Proposed Acquisition would bring significant benefits to KMG EP and its shareholders:

- The Proposed Acquisition will allow KMG EP access to one of the few potentially-available large producers in Kazakhstan at an attractive price, delivering on KMG EP's announced strategy of becoming a leading Kazakh oil and gas player and a consolidator in the region;
- By acquiring Kazgermunai, KMG EP would expand its reserves base and increase production. KMG EP would become the second largest oil producing company in Kazakhstan, including Kazgermunai's production on a pro-forma basis;
- The Proposed Acquisition would create another core geographic area for KMG EP's operations in Kazakhstan and provide an opportunity to further diversify its business risks;

- The Proposed Acquisition is expected to be earnings accretive from the first full year of the acquisition;
- The Proposed Acquisition is expected to generate attractive returns for KMG EP.

The Directors are aware of the potential risks related to the Proposed Acquisition, for a description of which Shareholders and GDR Holders should read carefully Part II — ''Risk Factors'' below. However, the Directors believe that the benefits of this transaction should outweigh the risks, are persuaded by the strong logic of the Proposed Acquisition and believe that the Enlarged Group is well positioned to continue delivering value to its Shareholders and GDR Holders.

4. Terms of the Proposed Acquisition

The terms of the Proposed Acquisition are set out in the Sale and Purchase Agreement between KMG EP and NC KMG dated 2 March 2007.

KMG EP is to acquire a 50% stake in Kazgermunai for a cash consideration of KZT133.3 billion (approximately US$1,073 million) less 50% of any cash distributions made by Kazgermunai to its shareholders between signing and completion of the transaction.

The Proposed Acquisition is conditional upon:

- the approval of the majority of Shareholders and GDR Holders not affiliated with NC KMG at the Extraordinary General Meeting;
- the approval of the majority of independent non-executive directors, which has been duly obtained;
- waivers from PetroKazakhstan, Kazgermunai and the Republic of Kazakhstan with respect to their pre-emptive and priority rights to purchase the Participating Interest;
- consents from PetroKazakhstan, the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan, the Committee for the Protection of Competition of the Ministry of Industry and Trade of the Republic of Kazakhstan and the Antimonopoly Agency and appropriate confirmation or documentation with regard to state procurement; and
- the fulfilment of certain covenants, agreements and conditions and the accuracy of certain representations and warranties.

The Company is entitled to terminate the Sale and Purchase Agreement prior to completion if (i) completion has not occurred within 90 days of the Sale and Purchase Agreement being executed, (ii) there is a drop in the world oil price below US$45 per barrel on any five successive trading days or (iii) by mutual agreement between the parties.

A summary of the principal terms and conditions of the Proposed Acquisition is set out in Part VI — ''Principal Terms of the Proposed Acquisition'' of this document. The key risks identified by the Company in connection with the Proposed Acquisition are set out in Part II — ''Risk Factors'' below.

5. Funding

The acquisition consideration for Kazgermunai will be financed through existing financial resources.

6. Dividend Policy

KMG EP intends to maintain its current dividend policy after the completion of the Proposed Acquisition. KMG EP has set a dividend policy 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. Kazgermunai's current dividend policy to pay out 100% of distributable cash is also expected to be maintained in the foreseeable future.

7. Operation and Treatment of the Enlarged Group

It is expected that Kazgermunai will continue to operate as a separate joint venture entity owned 50% by KMG EP (assuming that the Proposed Acquisition occurs) and 50% by PetroKazakhstan. It is not expected to share management structures or marketing or other operations with KMG EP. No cost savings or economies of scale have been projected in evaluating the benefits of the Proposed Acquisition.

KMG EP does not expect to fully consolidate the Proposed Acquisition within KMG EP's accounts and intends to treat the Proposed Acquisition as an equity investment for financial reporting purposes.

8. EGM

A notice convening an extraordinary general meeting of KMG EP to be held at Building 2, Street 1, Left Bank, 010000, Astana, Republic of Kazakhstan at 10:00 a.m. on 12 April 2007 is set out at the end of this document. Pursuant to Law of the Republic of Kazakhstan ''On Joint Stock Companies'' dated 13 May 2003, the notice convening an extraordinary general meeting of KMG EP has been published in Kazakhstan in Kazakhstanskaya Pravda and Egemen Kazakhstan on 6 March 2007. The purpose of the Extraordinary General Meeting is to seek the approval of the Shareholders and GDR Holders of the Company of the Resolution set out in the EGM Notice. The Resolution will propose to approve the Proposed Acquisition. The agenda for the EGM includes other matters set out in the EGM Notice.

Neither NC KMG nor its subsidiaries or affiliates will vote on the Resolution.

9. Actions to be Taken

Only the holders of GDRs and Shareholders with shares in nominee holding whose identity has been disclosed to and recorded in the record system of the central depositary of the Republic of Kazakhstan shall be entitled to vote on the Resolution at the EGM of KMG EP to be held at 10:00 a.m. on 12 April 2007. Shareholders and GDR Holders (or their duly authorised representatives) must also be registered for participation in the meeting, prior to the opening of the EGM on 12 April 2007.

GDR Holders are entitled to instruct the Depositary as to the exercise of the voting rights pertaining to their GDRs by completing the voting instructions provided separately by the Depositary. The Depositary, upon receipt of completed voting instructions on or before 12:00 p.m. 2 April 2007, shall vote as proxy in relation to the GDRs and in accordance with instructions provided.

Shareholders are able to vote in person or through a duly authorised representative. A representative of a corporate shareholder must be authorised to vote by the company's corporate documents or powers of attorney and a power of attorney issued by a Kazakh company must be stamped and signed by a duly authorised person. A power of attorney issued by an individual shareholder must be notarised. If the corporate documents or powers of attorney are not originally in Russian or Kazakh, a notarised translation will be required. Copies of foreign company documents, powers of attorney issued and translations made outside of Kazakhstan must be notarised and legalised/apostilled. The documents confirming the authority of the representative of any Shareholder must be presented to KMG EP on or before 12 April 2007 prior to the Extraordinary General Meeting.

10. Recommendation

The Directors consider that the Proposed Acquisition is in the best interests of KMG EP and its Shareholders as a whole. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolution, as the Independent Non-Executive Directors intend to do in respect of their own beneficial shareholdings and holdings of GDRs held at the time of the EGM, amounting to 3,442 Ordinary Shares in aggregate at the date of this document, representing approximately 0.005 per cent. of KMG EP's current issued ordinary share capital. On 2 March 2007, the Directors received an opinion from Credit Suisse Securities (Europe) Limited in relation to the Proposed Acquisition that, subject to customary assumptions, the consideration to be paid by KMG EP in the Proposed Acquisition is fair to KMG EP from a financial point of view. The Directors have also relied upon, amongst other matters, information, analyses, valuations and confirmations provided by the management of the Company, information and confirmations provided by the management of Kazgermunai, the Competent Person's Report, and other advice.

Yours faithfully,

The Chairman on behalf of the Directors

PART II

Risk Factors

The Proposed Acquisition is subject to a number of risks. Accordingly, Shareholders and GDR Holders should consider carefully all of the information set out in this document, including, in particular, the risks described below, prior to making any decisions on whether or not to vote in favour of the Resolution. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently consider to be immaterial, may also have an adverse effect on KMG EP, Kazgermunai and/or the Enlarged Group.

KMG EP, Kazgermunai and/or the Enlarged Group's business, financial condition or results of operations could be materially and adversely affected by any of the risks described below. In such case, the market price of the Ordinary Shares may decline due to any of these risks.

Risk Factors Relating to KMG EP

Shareholders and GDR Holders should consider the Risk Factors set out in the Prospectus of KMG EP dated 29 September 2006.

Risk Factors Relating to Kazgermunai's Business

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

Crude oil sales are Kazgermunai's primary source of revenue and the price of crude oil is affected by a variety of factors beyond Kazgermunai's control. Kazgermunai'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. Kazgermunai'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 ones, in oil prices could adversely affect Kazgermunai's business, prospects, financial condition and results of operations.

Kazgermunai's profitability is determined in large part by the difference between the income received for crude oil Kazgermunai 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 Kazgermunai 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 Kazgermunai's overall production volumes could result in a reduction in net income, impair Kazgermunai's ability to make planned capital expenditures and to incur costs necessary for the development of Kazgermunai's fields and could materially adversely affect Kazgermunai's business, prospects, financial condition and results of operations.

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

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

Unless stated otherwise, the oil and gas reserves data contained in this document are taken from the Competent Person's Report which has been prepared in accordance with the standards established by the SPE/WPC. 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 Kazgermunai'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 Kazgermunai, and they assume, amongst other things, that the future development of Kazgermunai's oil fields and the future marketability of Kazgermunai's oil will be similar to past development and marketability. These assumptions may prove to be incorrect and Shareholders and GDR Holders should not place undue reliance on any forward-looking statements contained herein (including data taken from the Competent Person's Report) concerning Kazgermunai's reserves or production levels.

Kazgermunai may face unanticipated increases in costs.

The oil and gas business is a capital intensive industry. Kazgermunai's capital and operating expenses have increased, including as a result of its use of enhanced recovery methods as well as increases in capital expenditure and other costs. Kazgermunai'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 Kazgermunai's business, prospects, financial condition and results of operations. Kazgermunai may also need to incur various unanticipated costs, examples of which are those associated with personnel, procurement, internal control over financial reporting, social and environmental obligations and Government taxes and costs. An increase in any of these costs could materially and adversely affect Kazgermunai's business, prospects, financial condition or results of operations.

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

Kazgermunai's drilling activities may be unsuccessful and the actual costs incurred of drilling and operating wells and completing well workovers may exceed budget. Kazgermunai 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 Kazgermunai's business, prospects, financial condition and results of operations.

Kazgermunai'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 Kazgermunai's properties or surrounding areas and increase costs.

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

In 2006, as part of an agreement between the MEMR, several refineries and major oil producers operating in Kazakhstan, Kazgermunai agreed to supply 450 thousand tonnes (3.4 million barrels) of crude oil to the Shymkent Refinery. Included in this agreement was an additional obligation to supply certain minimum volumes of oil products to the domestic market. See Part III — "Information on Kazgermunai — Oil sales and marketing — Deliveries to the domestic market" for further information. While there is no current agreement in place, Kazgermunai expects that similar obligations as those in place in 2006 will be agreed for 2007. These deliveries are made at prices significantly below the export price for such oil products and should the MEMR require additional deliveries of crude oil or oil products in the future, these deliveries are also likely to be at a price lower than the export price Kazgermunai could otherwise obtain and may adversely affect Kazgermunai's results of operations.

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

Kazgermunai transports its oil through infrastructure owned or operated by third parties. Any reduction or cessation in the availability of these pipelines or railways, whether due to serious malfunctions, security issues, political developments or "acts of God", could force Kazgermunai to cease its exports and cause long-term damage to its production facilities. Furthermore, Kazgermunai does not currently have a fully developed plan for dealing with a full or partial cessation in the availability of pipelines or other transportation systems.

Oil production in Kazakhstan is increasing which means that access to export routes is increasingly competitive. Kazgermunai currently has a pipeline transportation contract in place with KazTransOil through to 2010, has entered into an agreement with Kazakhstan-China Pipeline LLP for oil transportation to Alashankou in 2007 and discussions are ongoing to ensure that all of its transportation routes are secured on a long-term basis. However, Kazgermunai cannot be certain that it will get access to any increase in the capacity of such pipelines and may not be able to increase or maintain its export volumes as a result. In addition, increased competition, either in the short or longer term, for pipeline capacity from other producers may affect Kazgermunai's ability to ship its oil through such pipelines. This inability may materially adversely affect Kazgermunai's business, prospects, financial condition or results of operations. Kazgermunai also cannot guarantee that the transportation tariffs as applicable to the Kazgermunai operations will not rise, and any such rise may materially adversely affect Kazgermunai's business, prospects, financial condition or results of operations.

In addition, Kazgermunai must apply for export approval from the MEMR with respect to the oil that it plans to export from Kazakhstan. Although the Foundation Agreement gives Kazgermunai the right to export all of its oil production, it is still necessary to obtain this approval from the MEMR. Should the MEMR not approve of the export of Kazgermunai's oil for whatever reason, Kazgermunai would be unable to obtain the highest price for its oil and this may materially adversely affect Kazgermunai's business, prospects, financial condition or results of operations.

Kazgermunai may be unable to comply with obligations under its licences and related hydrocarbon contracts, field development plans and land leases.

Kazgermunai'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 of Kazgermunai's licences and hydrocarbon contracts.

Kazgermunai has various obligations under its exploration and production licences, hydrocarbon contracts and field development plans, including to develop its fields in accordance with its licenses. Should the MEMR find Kazgermunai to be in breach any of its obligations, it may suspend, revoke or terminate Kazgermunai's licenses or require Kazgermunai to pay its obligations immediately. Any suspension, revocation or termination of any of Kazgermunai's licences or hydrocarbon contracts or the requirement of Kazgermunai to pay fines or fulfil past obligations under the licenses would have a material adverse effect on Kazgermunai's business, prospects, financial condition or results of operations.

Environmental liabilities relating to Kazgermunai.

Kazgermunai'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.

Compliance with environmental requirements, which are subject to change, may make it necessary for Kazgermunai, 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.

Gas flaring

Kazgermunai has been subject to fines and penalties due to flaring of associated gas at its fields over the permitted limits, may become subject to further fines and penalties in the future and may also be required to cease production due to excessive gas flaring which would negatively affect Kazgermunai's financial condition and results of operations. According to the 2005 amendments to the Law ''On oil'', except where special permission is given by the authorised state body to flare associated gas, the commercial development of an oil and gas deposit without an approved gas utilisation programme is prohibited. The MEMR requires that all oil and gas companies that flare gas develop and agree with the state commission a specific programme for gas utilisation that outlines the set of measures to be taken in order to reduce and eventually eliminate gas flaring by a date agreed between company and the MEMR. If companies do not have such a programme in place, any gas flaring may result in the MEMR requiring that they cease production entirely and/or payment of substantial fines and penalties. Kazgermunai's production in 2005 compared to 2004 decreased by approximately 13% from 2.1 to 1.9 million tonnes, primarily as a result of voluntary restrictions due to the excessive gas flaring at Kazgermunai's fields. This decrease in production negatively affected Kazgermunai's financial condition and results of operations. In November and December 2006, due to excessive gas flaring, Kazgermunai stopped production at its Nuraly oil field (production at Nuraly subsequently resumed in January 2007).

In 2005 the MEMR initiated court proceedings against Kazgermunai for compensation of damages in the amount of KZT3,475,955,700 as a result of Kazgermunai's gas flaring without a permit from January through to April 2005. On 13 October 2005 the Kyzylorda Specialised inter-region economical court decided that Kazgermunai caused damage to the State as a result of gas flaring. However, because there was no procedure for determination of damage caused by gas flaring approved by the Government (although the general rule for compensation of damages existed at that time), the court decided that the dispute could not be resolved ''until the corresponding regulation is adopted''. On 16 November 2005 the Collegium for Civil Cases of Kyzylorda oblast court rejected the appeal of the South-Kazakhstan territorial department of the Committee for Geology and Subsurface Use of the MEMR and upheld the court decision made on 13 October 2005. Following the adoption in August 2006 of such regulations, on 7 March 2007 MEMR reinitiated proceedings against Kazgermunai asking for compensation in the form of damages in the amount of KZT3,475,955,700. Kazagermunai intends to vigorously defend itself in court, but the outcome of the case is uncertain at the moment, and, if determined adversely to Kazgermunai, could negatively affect Kazgermunai's financial condition and results of operation.

In January 2006 Kazgernunai's Gas Utilisation Programme was approved by the MEMR. The programme envisaged a combination of using the existing gas processing facility and the injection of associated gas back into the field.

In November 2006 the new management of Kazgermunai concluded that the Gas Utilisation Programme approved by the MEMR was not satisfactory (see Part III — ''Information on Kazgermunai — Gas Production'' for further details) and has therefore developed a revised programme that it plans to agree with the MEMR and other relevant state authorities. As part of the revised programme, Kazgermunai intends to increase the capacity of the gas processing facilities at Akshabulak and supply large volumes of dry gas to Kyzylorda. The Akimat of Kyzylorda has agreed in principle to purchase gas from Kazgermunai beginning in 2008 (which will come from these facilities). Currently, only a small percentage of Kyzylorda's residents have the infrastructure necessary to utilise gas. Kazgermunai expects the Akimat of Kyzylorda to build the necessary infrastructure so that a greater percentage of its residents will be able to utilise gas. In order to transport gas, a gas pipeline connecting Akshabulak with the city of Kyzylorda has been built. The pipeline is not owned by Kazgermunai but it is the sole user of the pipeline and has contracts in place providing it with access to the pipeline until 2010.

Kazgermunai's current gas flaring permits expire on 1 October 2007 and Kazgermuai intends to apply for an extension of the permits until 1 March 2008 as well as an increase in the level of permitted gas flaring for the extended period. Kazgermunai may be required to limit or cease oil production in the future should gas flaring continue, including as a result of its revised Gas Utilisation Programme and/or the extension and increase to its current permits not being approved by the MEMR and other relevant state authorities, its strategy not proving successful as a result of Kyzylorda not building the necessary infrastructure or the demand to purchase gas not meeting the expected supply, facilities for the transportation of gas not being available or other factors. Should Kazgermunai's gas flaring permits expire and it fail to obtain an extension of its gas flaring permits and other related environmental permits and an increase in the level of permitted gas flaring for the extended period, this would negatively affect Kazgermunai's financial condition and results of operations.

Environmental discussion

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 CO_2. The effect of such ratification is still unclear, as the level of permissible CO_2 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 Kazgermunai's business involves incurring certain of these costs, increases in such costs could have a material adverse effect on the Enlarged Group's business, prospects, financial condition and results of operations.

Kazgermunai 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. 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 Kazgermunai will not be material. Moreover, future actions and fines imposed upon Kazgermunai by the environmental protection agencies in Kazakhstan or by the Government cannot be predicted and could have a material adverse effect on Kazgermunai's business, prospects, financial condition or results of operations. 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. Kazgermunai does not currently make any provision in its financial statements for potential environmental liabilities.

Although Kazgermunai 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 Kazgermunai to, amongst other things, civil liabilities and penalty fees and possibly temporary or permanent shutdown of Kazgermunai's operations. Kazgermunai 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 Kazgermunai's business, prospects, financial condition or results of operations.

Kazgermunai's financial information is not stated under internationally recognised accounting principles.

Kazgermunai's historical financial information for each of the two years ended 31 December 2004 and 2005 was prepared in accordance with the accounting policies specified in Kazgermunai's Foundation Agreement (''Foundation GAAP''), which are not based on any particular country's GAAP. KMG EP prepares its financial statements in accordance with IFRS. Significant differences exist between Foundation GAAP and IFRS which lead to reconciling adjustments between the two frameworks. Therefore, such information may change, including negatively, when it is compiled under IFRS in the future. Shareholders and GDR Holders should note these considerations when reviewing the financial information in Part V — ''Information on the Expected Impact of the Proposed Acquisition on the Assets , Liabilities and Earnings of the Enlarged Group'' and the Appendix — ''Kazgermunai Financial Information'' of this document.

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

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

If the value of the US dollar falls against the Tenge, then Kazgermunai 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 Kazgermunai's financial condition, results of operations and the value of dividends.

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 ''Presentation of Information — Exchange Rate Information''.

Kazgermunai may have obligations to fund social projects for the local community.

Kazgermunai is required under the terms of the Foundation Agreement to invest in social projects for the benefit of the local community. In 2005 Kazgermunai signed an agreement with the Akimat of Kyzylorda region settling its social project obligations under the Foundation Agreement in exchange for the payment of US$31 million to the Akimat. This amount was paid in full in 2005. While no social projects obligations remain outstanding, there is no guarantee that the Kazakhstan Government will not challenge Kazgermunai's 2005 settlement with the Akimat in court or require additional social expenditure in the future which may have a negative impact on Kazgermunai's profitability.

Kazgermunai's accounting systems and processes and internal controls are not equal to international standards.

Consistent with many local companies, Kazgermunai does not have in place accounting systems and processes and internal controls which are of the same standards as international publicly listed companies. In order to comply with Kazakh legal requirements which required companies such as Kazgermunai to adopt IFRS from January 2006, Kazgermunai is in the process of adopting IFRS accounting standards and may face additional costs from hiring additional accounting personnel and acquiring information technology in order to implement processes for IFRS accounting. In addition, a delayed migration of accounting systems or the inability of internal controls to help ensure the quality of information provided to KMG EP may increase the risk of misstatements or delays in its financial statements and information provided to KMG EP.

If the Government challenges Kazgermunai's tax payments or method of calculating taxes, this could have a material adverse effect on Kazgermunai's financial condition and results of operations.

Kazgermunai's main tax obligations are established pursuant to its Foundation Agreement and tax stabilisation clauses which specify Kazgermunai's tax obligations. Certain of these obligations were amended in 1997 by letter from the Kazakhstan State Tax Committee (the ''Tax Letter''). Although Kazgermunai has tax stabilisation clauses relating to its main tax obligations, the Kazakhstan tax authorities may, and from time to time do, challenge the methodology by which companies calculate taxes such as corporate income tax, royalties and VAT, including the possible tax implications arising from transfer pricing adjustments.

The methodology by which the taxes payable by Kazgermunai has been calculated in the past have been challenged by the Kazakhstan tax authorities resulting in Kazgermunai filing appeals against the tax authorities' claims in various courts. In accordance with its accounting policies Kazgermunai does not provide for any tax liabilities as a result of such claims. Please see ''Appendix — Kazgermunai Financial Information'' (in particular Note 16) for further information. The financial information presented in the Appendix was the subject of an unqualified audit opinion from Kazgermunai's independent auditors who, without qualifying their opinion, drew attention to Note 16 and the fact that no provisions for the relevant tax claims had been made. Currently, Kazgermunai has no appeals pending in relation to additional taxes including corporate income tax, royalties, VAT and other taxes claimed by the tax authorities, the outcome of which could negatively affect its profitability. However, there is no guarantee that the tax authorities will not file new claims based on tax audits and should Kazgermunai fail to successfully challenge any such claims in court and be required to pay these amounts, these payments would have a negative impact on its profitability.

In addition, should the Kazakhstan tax authorities dispute the manner in which Kazgermunai has calculated its taxes either through additional claims relating to past periods or future claims, or should they choose not to observe the Tax Letter, the amount claimed by such authorities and which Kazgermunai may have to pay, including as a result of penalties and fines, could be material and is not currently provided for in Kazgermunai's financial statements.

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

Kazgermunai believes that the current level of its insurance to be consistent with local Kazakhstan practice based on the cost of cover, the risks associated with its business and industry practice. Kazgermunai's insurance currently includes 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 KZT639.2 million (or KZT319.6 million per incident) and third party liability coverage (including employer's liability insurance, hazardous facilities and motor vehicles owners' insurance), but Kazgermunai does not carry business interruption, key-man, terrorism or sabotage insurance. However, Kazgermunai can give no assurance that the proceeds of insurance applicable to covered risks will be adequate to cover these losses or liabilities. Accordingly, Kazgermunai may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage.

Kazgermunai's employee costs may increase.

The majority of Kazgermunai's employees are unionized. The collective agreement between Kazgermunai and its employees was recently re-negotiated and expires in 2010. The average wages per employee of Kazgermunai are currently significantly less than the average wages per employee of KMG EP, and it is possible that as a result of the Proposed Acquisition, increasing demand for labor in Kazakhstan or other factors, the average wages per employee of Kazgermunai may increase in the future. Should the new collective agreement increase the average wages per employee or total employee expenses, or should the average wages per employee or total employee expenses of Kazgermunai increase in the future, Kazgermunai would face increased costs and thus have a negative impact on Kazgermunai's profitability.

Risk Factors Relating to Kazgermunai's Structure

Kazgermunai's Joint Venture structure limits KMG EP's control of Kazgermunai.

Kazgermunai is a joint venture which will be owned 50% by KMG EP (assuming the Proposed Acquisition occurs) and 50% by PetroKazakhstan, which is in turn indirectly owned 33% by NC KMG and 67% by PetroChina Company Limited (''PetroChina'') (together the ''JV Partners''). Under the terms of the Foundation Agreement, the JV Partners each have equal representation at Kazgermunai's annual general participant's meeting and each of the JV Partners nominates two candidates for the Supervisory Board. The annual general participant's meeting approves key decisions including Kazgermunai's production programs, annual budget and profit distribution. Unanimous approval is required for decisions to be approved. Thus, any inability by Kazgermunai's JV Partners to agree on these matters may adversely affect Kazgermunai's ability to operate and its results of operations.

Risk Factors Relating to Kazgermunai's Relationship with the Government

Kazgermunai'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 Kazgermunai.

Due to the fact that Kazgermunai's shares are owned directly or indirectly by a state-controlled entity, Kazgermunai will be subject to the State Procurement Law, which generally provides that it may only purchase ''goods, works and services'' worth more than 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 Kazgermunai's oil and gas consultants, environmental experts, financial and legal advisers and accountants, as well as other consultants, contractors and suppliers. Kazgermunai'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 Kazgermunai's assets are currently located in Kazakhstan and Kazgermunai 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 Kazgermunai's assets are currently located in Kazakhstan and Kazgermunai 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 Kazgermunai.

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. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significant risks involved.

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 have recently experienced significant political instability (including terrorism or internal conflicts), could seriously disrupt Kazgermunai's business, which would have a material and adverse effect on Kazgermunai's business, prospects, financial condition and results of operations.

Kazgermunai 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. 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, Kazgermunai 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 Kazgermunai's business, prospects, financial condition and results of operations or Kazgermunai's ability to operate its business in line with its strategy.

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 Enlarged 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 Kazgermunai'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 Kazgermunai's business. The ongoing rights of Kazgermunai 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 amongst local, regional and national tax authorities are not unusual. While Kazgermunai's main tax obligations are clearly established in the Foundation Agreement, 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 Kazgermunai, which could have a material adverse effect on Kazgermunai'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 may be disputed unsuccessfully by Kazgermunai either with the tax authorities or through the courts. There have been recent changes made to certain of Kazakhstan's tax and environmental laws. While the most recent changes to the tax laws may positively affect Kazgermunai, the recent changes to the environmental laws may negatively affect Kazgermunai. Please see Part VII — ''Additional Information — Significant Changes — Changes to legislation'' for further information.

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

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

Risks connected with the Proposed Acquisition

Kazgermunai may not perform in line with expectations.

If the results of operations, cash flows and dividends generated by Kazgermunai are not in line with the expectations of KMG EP, a write-down may be required against the carrying value of its investment in Kazgermunai. Such a write-down may affect the Enlarged Group's business and may also reduce KMG EP's ability to generate distributable reserves by the extent of the write-down, and consequently affect KMG EP's ability to pay dividends.

KMG EP has no experience making acquisitions and is purchasing Kazgermunai from a related party seller.

The Proposed Acquisition, if it completes, will be the first significant acquisition that KMG EP has made. KMG EP does not have previous experience in negotiating the price and other key terms of similar acquisitions, or of managing and obtaining benefits from any acquisitions.

In addition, NC KMG, the seller of the interest in Kazgermunai, controls KMG EP. Due to the interested party rules in Kazakhstan, directors who are also affiliates of NC KMG are not allowed to vote on the Proposed Transaction. As a result, only the Independent Non-Executive Directors are voting to approve the Proposed Acquisition. In reaching their decision to approve the Proposed Acquisition, the Independent Non-Executive Directors, who do not have management experience in Kazakhstan, have relied upon, amongst other matters, information and confirmations provided by the managements of KMG EP and Kazgermunai, the Competent Person's Report, the fairness opinion from Credit Suisse Securities (Europe) Limited and other advice.

Limited information available on Kazgermunai.

KMG EP and its advisers have reviewed information relating to Kazgermunai prior to the Board recommending that KMG EP's Shareholders and GDR Holders approve the Proposed Acquisition.

However, due to the fact that the current senior management of Kazgermunai have an average tenure at Kazgermunai of less than one year (due to the recent changes in Kazgermunai's JV Partners), there can be no assurance that such senior management have the depth of knowledge of Kazgermunai in order to provide all information material to the Proposed Acquisition. Furthermore, there is a risk that material risks exist in Kazgermunai's business which KMG EP has not learned of or been able to examine and which would have a material effect on Kazgermunai's business, prospects, financial condition and results of operations.

Investment in Kazgermunai.

If the Proposed Acquisition proceeds, the investment by KMG EP in Kazgermunai will involve a number of risks, including:

- the attention of KMG EP's management may be diverted away from other business concerns;
- there may be outstanding or unforeseen legal, regulatory, contractual, labour or other issues arising from the acquisition of the interest in Kazgermunai; and
- KMG EP's financial department may need to divert considerable time and resources to ensuring that Kazgermunai provides it with appropriate financial information.

The Seller is not providing any indemnity.

NC KMG, the seller of the interest in Kazgermunai to KMG EP, is not providing any indemnity with respect to any actions carried out by it prior to the Proposed Acquisition and, save for warranties on due incorporation, capacity, authorisation of the Proposed Acquisition and title to the Participatory Interest, has not provided any representations and warranties in the Sale and Purchase Agreement. As a result, should any mismanagement or other event have occurred while NC KMG was in control of its interest in Kazgermunai, KMG EP will not have any recourse to the seller, and any such event may affect Kazgermunai's business, prospects, financial condition and results of operations.

The Proposed Acquisition is conditional and the conditions may not be satisfied.

The Proposed Acquisition is conditional, amongst other things, upon the passing of the Resolution to be proposed at the EGM and regulatory clearance. There can be no assurance that these conditions will be satisfied and completion of the Proposed Acquisition will be achieved. In addition, the regulatory clearance process may take a lengthy period to complete, which would delay the completion of the Proposed Acquisition.

PART III

Information on Kazgermunai

Introduction

Kazgermunai was formed in 1993 with a view to attracting investment into the Republic of Kazakhstan from Germany. Under Kazgermunai's Foundation Agreement, it was granted exclusive rights and licences for exploration and production at the Akshabulak, Nuraly and Aksai fields for a period of 30 years, expiring on 1 March 2024.

Kazgermunai currently operates the Akshabulak, Nuraly and Aksai oil fields. In total, Kazgermunai's oil fields cover a territory of 897 km^2. As at 30 September 2006, their proved plus probable reserves were 40.7 million tonnes (309.8 million barrels) of oil and 4,679 million cubic metres of gas. These estimates are based on the data contained in the Competent Person's Report, set out in Part IV, covering Kazgermunai's reserves as of 30 September 2006, which was prepared according to the standards established by the SPE/WPE. See Part IV — ''Competent Person's Report'' for details.

In 2006, Kazgermunai produced 2.9 million tonnes (22.0 million barrels) of crude oil (which represented a 54% increase compared to 2005 production of 1.9 million tonnes (14.2 million barrels), and 472 million cubic metres of associated gas (which represented a 49% increase compared to 2005 production of 317 million cubic metres). Kazgermunai has no current plans to carry out exploration activities outside its existing fields.

Kazgermunai summary financial information

Kazgermunai's historical financial information for each of the two years ended 31 December 2004 and 2005 was prepared in accordance with the accounting policies specified in the Foundation Agreement (''Foundation GAAP''), which is not based on any particular country's generally accepted accounting principles. KMG EP prepares its financial statements in accordance with IFRS. Significant differences exist between Foundation GAAP and IFRS which lead to reconciling adjustments between the two frameworks. Please see Part V — ''Information on the Expected Impact of the Proposed Acquisition on the Assets, Liabilities and Earnings of the Enlarged Group'' for an explanation of these differences.

Kazgermunai's net income for the years ended 31 December 2004 and 2005 was US$179 million and US$229 million, respectively. Fifty per cent., the amount of the interest in Kazgermunai that KMG EP is seeking to acquire in the Proposed Acquisition, of Kazgermunai's net income for these two periods was equal to approximately US$90 million and US$115 million, respectively.

Kazgermunai's total gross assets as at 31 December 2004 and 2005 were US$321 million and US$554 million, respectively. Fifty per cent., the amount of the interest in Kazgermunai that KMG EP is seeking to acquire in the Proposed Acquisition, of Kazgermunai's total gross assets was equal to approximately US$161 million and US$277 million, respectively.

History and organizational structure

Kazgermunai is a joint venture company whose current JV Partners are NC KMG and PetroKazakhstan. PetroKazakhstan is owned by PetroChina (as to 67%) and NC KMG (as to the remaining 33%).

In 1993, Kazgermunai's Foundation Agreement was entered into by YuzhNefteGaz PO (''YKNG'') and the German enterprises, Veba Oel AG (''VO'') and Erdoil-Erdgaz Gommern GmbH (''EEG''). Originally, the charter capital for Kazgermunai was divided among its JV Partners in the following proportion: 50% YKNG, 25% VO and 25% EEG.

On 31 March 1995, VO sold all of its shares in Kazgermunai to EEG. Following this sale, EEG sold 25% of the share capital of Kazgermunai to the German company, RWE-DEA Aktiengeselschaft fur Mineraloil und Hemi (''RWE-DEA''). On 13 June 1996, EEG sold 7.5% of the share capital of Kazgermunai to International Finance Corporation (''IFC''). Between 1996 and July 2006, ownership of Kazgermunai was divided between YKNG (50%), RWE-DEA (25%), EEG (17.5%) and IFC (7.5%).

In 1997, YKNG was privatized and was named JSC Hurricane Kumkol Munai. Subsequently, in 2003, the company was named JSC PetroKazakhstan Kumkol Resources (''PetroKazakhstan'').

On 18 July 2006, RWE-DEA, EEG and IFC sold their 50% of the participating interests in Kazgermunai to NC KMG for the total consideration of US$1 billion.

On 30 June 2006, in consideration to its providing the financing to NC KMG for the Kazgermunai acquisition, KMG EP and NC KMG have entered into the Option Agreement which granted KMG EP an option to acquire NC KMG's interests in Kazgermunai. On 3 November 2006, in light of the existing Option Agreement, NC KMG issued a power of attorney to the General Director of KMG EP, Mr. Askar K. Balzhanov, giving him the right to represent NC KMG in all matters related to managing NC KMG's interests in Kazgermunai. On 14 December 2006, Mr. Balzhanov voted at the Kazgermunai shareholder meeting to approve the 2007 working programme and budget.

Kazgermunai's corporate headquarters are located in Kyzylorda, Kazakhstan. As at 31 December 2006, Kazgermunai had 627 full time employees.

Kazgermunai operations

Introduction

Kazgermunai has licenses to explore and produce hydrocarbons from three fields: Akshabulak, Nuraly and Aksai. As at 30 September 2006, Kazgermunai's proved oil reserves totalled 24.2 million tonnes (184.6 million barrels) and the Kazgermunai proved plus probable oil reserves totalled 40.7 million tonnes (309.8 million barrels). As at 30 September 2006, Kazgermunai's proved gas reserves were 3.2 billion cubic metres and the proved plus probable gas reserves were 4.7 billion cubic metres.

In total, 56 wells have been in production at Kazgermunai fields at one time or another: 34 on Akshabulak, 17 on Nuraly and five on Aksai. As of 30 September 2006, there were 23 operational wells on Akshabulak and seven wells on Nuraly, in each case either producing or testing.

Kazgermunai explores and produces oil and gas at its fields on the basis of the Foundation Agreement and contracts and licences granted by MEMR. As part of these contracts and licences, there are a variety of taxes, fees, royalty payments, and social obligations, which Kazgermunai is obliged to pay. See the section headed ''Licences and Contracts'' in this Part III — ''Information on Kazgermunai'' for the summary of the key terms of Kazgermunai's contracts and oil and gas exploration and production licences.

The main characteristics of the Kazgermunai oil fields are set out below.

Akshabulak oil field

The Akshabulak structure was discovered in 1987 and first tested in 1989. It is located 60 km south of the large producing Kumkol oil field. Oil and gas bearing deposits were discovered in the Lower Neocomian and Upper Jurassic formations. It is the largest oil field of Kazgermunai in terms of reserves and volumes of production and covers an area of 251 km^2. On 30 September 2006, it contained approximately 89% of Kazgermunai's total proved oil reserves, 86% of the total proved plus probable oil resources, 82% of the total proved gas reserves, 82% of the total proved plus probable gas reserves.

Oil production at Akshabulak commenced in October 1996 and, as of 30 September 2006, cumulative production from the field was 10.0 million tonnes (76.4 million barrels). The average oil rate per well in September 2006 was about 322 tonnes (2.5 thousand barrels) per day at an average water cut of 15%. Reservoir pressure in Akshabulak Central oil field, which is the main oil field in Akshabulak, is currently maintained by the water injection system.

At the end of September 2006, there was a total of 56 wells in Akshabulak, of which 23 producing or testing and five were water injecting. In total, 34 wells have been on production at some time or other from the field.

Nuraly

The Nuraly structure was discovered in 1983. It is located 35 kilometres northwest from Akshabulak. It is the second largest oil field in terms of reserves and volumes of production of Kazgermunai and covers an area of 350 km^2. On 30 September 2006, it contained approximately 11% of the total proved oil reserves, 14% of the total proved plus probable oil resources, 18% of the total proved gas reserves and 17% of the total proved plus probable gas reserves.

Oil was first discovered in 1987 and production commenced in June 1996. As of 30 September 2006, cumulative oil production at Nuraly was 433 thousand tonnes (3.3 million barrels). The average oil rate per well in September 2006 was approximately 90 tonnes (690 barrels) per day at an average water cut of 17%. The field is currently on natural depletion with no reservoir pressure support.

At the end of September 2006, there was a total of 36 wells in Nuraly, of which seven were operational. In total, 17 wells have been in production at some time or other from the field. The Nuraly field is divided into three areas: Central, West and East.

The proposed development plan for Nuraly is based on partial layer pressure maintenance of the Nuraly Central Yu-II and Nuraly West M-II-3 with water injection commencing in 2007. There are no plans for pressure maintenance in any of the other reservoirs.

Aksai

The Aksai oil field was discovered in 1988. It is located 25 km west from Akshabulak. It is Kazgermunai's third largest oil field and covers an area of 296 km^2.

A total of 21 wells have been drilled on Aksai, of which five have produced oil, although 92% of production has come from two wells. Aksai has been producing under the 2002 pilot production scheme, but the field has been shut since July 2005 due to the expiry of the pilot development plan. Cumulative production to 30 September 2006 was 51 thousand tonnes (387 thousand barrels). Kazgermunai is currently reviewing the commercial potential of the Aksai field due to the high gas factor at the field and the current restrictions on gas flaring.

Kazgermunai reserves

As at 30 September 2006, Kazgermunai's proved oil reserves totalled 24.2 million tonnes (184.6 million barrels) whilst proved plus probable oil reserves at Kazgermunai's oil fields totalled 40.7 million tonnes (309.8 million barrels). As at 30 September 2006, Kazgermunai's proved gas reserves comprised 3.2 billion cubic metres of gas and the proved plus probable gas reserves totalled 4.7 billion cubic metres.

Oil reserves

The summary of the proved, probable and possible oil reserves of Kazgermunai as of 30 September 2006 is provided in the table below:

Kazgermunai oil field	Proved, millions of barrels	Proved plus probable, millions of barrels	Proved plus probable plus possible, millions of barrels
Akshabulak	163.8	265.0	303.5
Nuraly	20.8	43.9	63.9
Aksai	—	0.9	16.9
Total:	184.6	309.8	384.3

Gas Reserves

The summary data on the proved, probable and possible associated gas of Kazgermunai as of 30 September 2006 is provided in the table below:

Kazgermunai oil field	Proved reserves, million cubic metres	Proved plus probable, million cubic metres	Proved plus probable plus possible million cubic metres
Akshabulak	2,583.7	3,854.5	4,418.2
Nuraly	568.3	808.8	1,492.6
Aksai	—	15.7	312.8
Total:	3,152.0	4,679.0	6,223.6

Production

Oil production

In 2006 Kazgermunai was the eighth largest oil producer in the Republic of Kazakhstan in terms of annual crude oil production.

2006 ten largest oil producers in Kazakhstan

	Company	2006, million tonnes
1	TCO	13.3
2	KPO B.V.	10.4
3	KMG EP	9.6
4	CNPC — Aktobemunaigas	5.9
5	Mangistaumunaigas	5.7
6	PetroKazakhstan Inc.	3.7
7	Turgai-Petroleum	3.4
8	Kazgermunai	2.9
9	Karazhanbasmunai	2.3
10	Kazakhoil-Aktobe	1.0
	Other Oil Producers	6.6
	Total	64.8

Source: MEMR

Kazgermunai's oil production declined 13% from the year ended 31 December 2004 to the year ended 31 December 2005 as a result of production cut backs due to excessive gas flaring. The production increased 54% for the year ended 31 December 2006 compared to the year ended 31 December 2005.

Crude oil extracted from the Kazgermunai fields generally has an API gravity of 38 degrees, a sulphur mass fraction percentage of between 0.1% and 0.2% and 15% paraffin content. Kazgermunai's oil tends to have a relatively low water content. Kazgermunai's primary benchmark crudes are Brent (approximately 38 degrees API and with 0.4% sulphur), Urals Blend (approximately 33 degrees API with 1.25% sulphur) and CPC Blend (approximately 42 — 43 degrees API and with 0.5% — 0.6% sulphur).

The table below provides the data on oil production in the Akshabulak, Nuraly and Aksai oil fields for the indicated periods in thousand barrels:

Kazgermunai oil field	2006, thousand barrels	2005, thousand barrels	2004, thousand barrels
Akshabulak	20,877	13,960	15,370
Nuraly	1,098	236	907
Aksai	—	46	91
Total:	21,974	14,242	16,368

Gas production

Currently, Kazgermunai only produces associated gas. The table below provides a summary for Kazgermunai's 2004- 2006 gas production by field in million cubic metres:

Kazgermunai oil field	2006, million cubic metres	2005, million cubic metres	2004, million cubic metres
Akshabulak	433	295	327
Nuraly	39	12	39
Aksai	—	9	9
Total:	472	317	376

In 2006 the total volume of gas produced from Kazgermunai's three fields was estimated at about 472 million cubic metres. Of this amount, approximately 4% or 18 million cubic metres was used for field processing requirements, 241 million cubic metres of associated gas is delivered to the gas processing facilities (see below) and the rest flared.

Gas Flaring

Until 2005 Kazgermunai flared all associated gas which it produced, except for the small amounts used for its own needs. Since 2005, restrictions have been in place in relation to the flaring of gas and associated gas for all subsurface users, except for emergency situations or where there is a threat to human life or the environment, and in limited cases during test production with the permission of the authorised state body. The legislation in place envisages complete elimination of gas flaring (the specific date for each company being agreed individually with the MEMR) and the resulting instructions from the MEMR required all producers to submit and have approved a comprehensive gas flaring reduction plan.

In January 2006, in compliance with the Kazakhstan environmental legislation, Kazgermunai approved with the MEMR its ''Gas Utilisation Programme until 2007''. The programme envisaged treatment of associated gas using the existing gas processing facility with capacity of up to 300 million cubic metres per year. It was planned that up to 240 million cubic metres per year of dry gas was to be delivered to the city of Kyzylorda with the remaining volumes of associated gas to be injected back into the Akshabulak field. In order to transport gas, a gas pipeline connecting Akshabulak with the city of Kyzylorda has been built. The pipeline is not currently owned by Kazgermunai but it is the sole user of the pipeline and has contracts in place providing it with access to the pipeline until 2010.

A subsequent study determined that the reinjection of gas back into the Akshabulak field was likely to damage the field and lead to a significant loss of production. Kazgermunai has conducted a study of demand for gas in the region, as a result of which an agreement in principle has been signed with the Akimat of the Kyzylorda region stipulating that Kazgermunai will provide certain volumes of dry gas to the region from 2007 to 2011 and the Akimat will provide a market for such gas. In compliance with this agreement, Kazgermunai currently plans to expand the capacity of its gas processing facility to 515 million cubic meters per year in order to accommodate the entire volume of its associated gas. Kazgermunai plans to agree changes to its Gas Utlisation Programme, based on the new plan for gas utilisation, with the MEMR and other relevant state authorities. Kazgermunai also intends to agree an extension of the term of its gas flaring permits and an increase in the level of permitted flaring for the extended period and an extension of the term of other environmental permits accordingly. See in this Part III — ''Information on Kazgermunai — Environmental Impact of Kazgermunai's Operations — Air Emissions'' below for further information.

Infrastructure and Processing Facilities

Kazgermunai central oil processing facilities (''COPS'') are located in the Akshabulak field area. They are comprised of separation, oil treatment and storage facilities. Total oil processing capacity is 3.0 million tonnes (22.9 million barrels) per year. There are additional ''First Oil Facilities'' that provide a further 300 thousand tonnes (2.3 million barrels) per year of capacity. The oil is subsequently exported via a 57 km pipeline owned by Kazgermunai to Kumkol, or delivered by trucks to the railroad station near the city of Kyzylorda.

There are currently no central processing facilities in either Nuraly or Aksai, with only local two phase separation taking place, with the gas flared and produced oil/water mix trucked to the COPS at Akshabulak Central. Kazgermunai is in the process of installing several multiphase pump stations at Nuraly and building a pipeline to connect Nuraly with Akshabulak Central, where separation will take place at the existing facilities.

In August 2005, a gas processing facility (''GPF'') with a capacity of 300 million cubic metres of associated gas per year was commissioned in Akshabulak. The GPF separates associated gas into dry gas, natural gas liquids and liquefied petroleum gas (''LPG''). At full capacity, the GPF produces about 240 million cubic metres of dry gas, 97 thousand tonnes of LPG and 24 thousand tonnes of gas condensate. Kazgermunai plans to expand the facility's capacity to 515 million cubic metres a year of associated gas.

Field Development and Exploration

In 2007, Kazgermunai is planning to drill 19 producing wells at Akshabulak and Nuraly, including two injecting wells and to invest in infrastructure at both fields. In particular it is planned to install several multi-phase pumps at Nuraly that will deliver produced fluids to the Akshabulak COPS for processing and to build a new pipeline connecting Nuraly to Akshabulak COPS. Kazgermunai also plans to expand the gas processing facilities at Akshabulak from 300 million of cubic metres/year to 515 millions of cubic metres/year of associated gas in order to resolve the gas flaring issue.

Kazgermunai does not have an extensive exploration programme since its license areas are relatively well studied and it does not currently have any plans to apply for exploration licences outside its existing licence areas. However, Kazgermunai plans to drill two exploration wells at Aksai in 2007 in order to determine the commercial potential of the Aksai field, which has a relatively high gas content which presents a technological problem given the current prohibition on gas flaring.

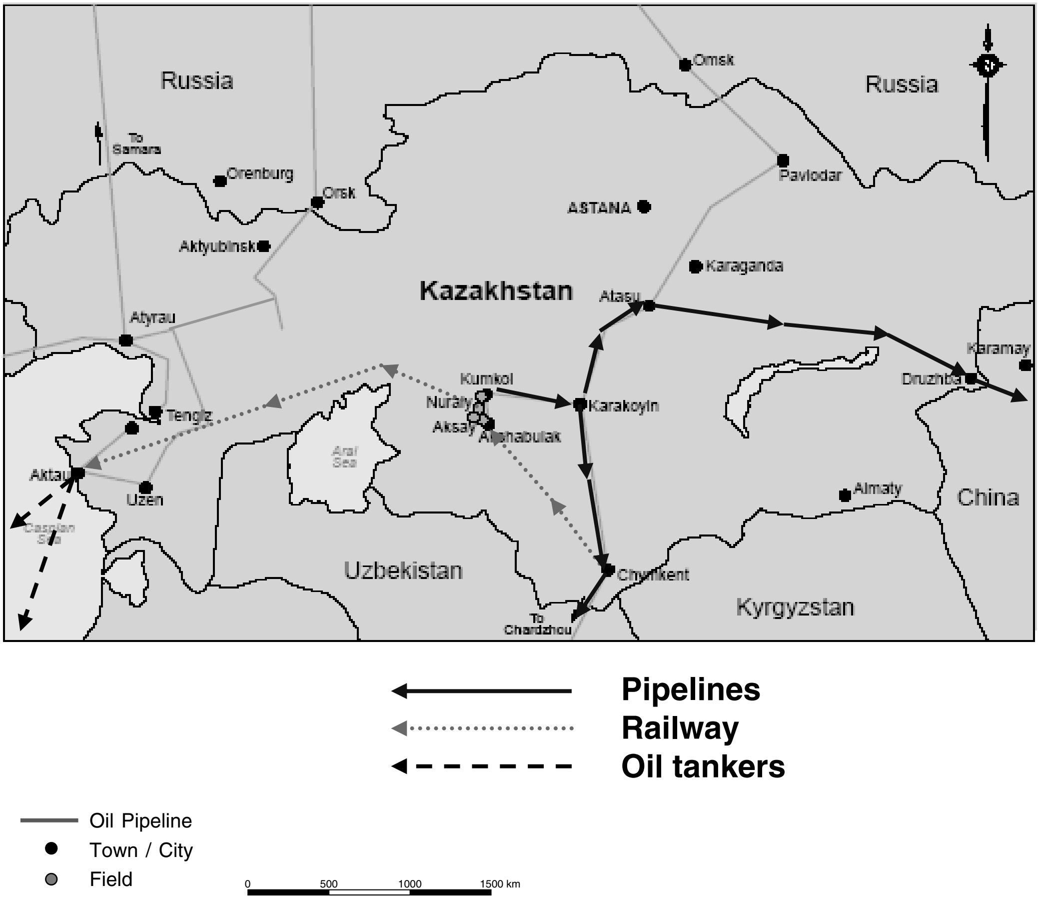
The total amount of capital expenditure for 2007 is expected to be approximately US$110 million.

Crude oil transportation

Overview

Kazgermunai transports the majority of its crude oil through the pipelines from its oil fields to Western China and through pipelines and via railway and road to the seaport of Aktau. Kazgermunai owns the pipeline connecting its largest oil field, Ashkabulak, to the local transportation hub located at Kumkol oil field. The two main pipeline routes that Kazgermunai is using from Kumkol are the Kumkol-Atasu-Alashankou (''KA'') pipeline and the Kumkol-Shagyr (''KS'') pipeline. From Shagyr the crude can be shipped by rail to Aktau, by the pipeline to Shimkent refinery or by rail to Uzbekistan.

The following map details existing transportation routes for Kazgermunai.



Kazgermunai currently uses and expects to rely in the future on the following key export channels:

1) via the KA pipeline to Western China with the point of sale being DDU Alashankou.

2) either via the KS pipeline to Shagyr or via oil trucks to Kyzylorda, then by rail to the port of Aktau, with the point of sale being CPT Aktau.

Kazgermunai in the past has exported certain volumes of oil to the neighbouring countries including Uzbekistan and Iran. In particular, approximately 1.1 million tonnes in total of crude oil was exported to Iran in the last three years. Kazgermunai ceased exporting oil to Iran during 2006 and does not currently have any plans to resume such exports.

Kazgermunai also supplies oil, shipped via pipeline, to the Shymkent Refinery.

The tariffs for the transportation of crude oil and gas to be paid by shippers on pipelines and railroads which Kazgermunai utilises, are approved by the Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies (''Antimonopoly Agency'') (for the part of the pipelines which is in Kazakhstan).

Export quotas

In order for Kazgermunai to export any of its crude oil it must first submit to the MEMR its export application. The MEMR approves monthly a transportation schedule which allocates pipeline capacity over all the pipeline which it controls. Therefore, Kazgermunai must obtain the MEMR's approval before it can export its oil. Please see pages 12-13 for further information on potential risks relating to exports.

Oil sales and marketing

Kazgermunai sells its crude oil to the large oil trading companies, and supplies it to domestic markets and to the Shymkent Refinery. Other than with respect to sales to the Shymkent Refinery and to domestic producers of agricultural products and social infrastructure to be supplied with oil products, which were appointed by the state authorities based on the agreement with MEMR, trading counterparties are chosen based on the commercial terms offered and their creditworthiness. On a monthly basis Kazgermunai selects counterparties by running a competitive tender process. The final decision is approved by both the technical and financial directors of Kazgermunai, subject to approval of transactions in excess of a certain amount by Kazgermunai's shareholders. Based on the results of the tender process, Kazgermunai then asks MEMR for necessary export quotas and, if MEMR satisfies their request, an agreement is signed with the selected counterparty.

The table below sets out the sales volumes, revenues and transportation cost for 2005 extracted from Kazgermunai's management accounts:

	2005
Export, thousand tons	1,517
Transportation cost, million US$	58.3
Revenues, million US$	490
Domestic market, thousand tons	71
Transportation cost, million US$	1.1
Revenues, million US$ (net of VAT)	13
PKOP refining, thousand tons	157
Transportation cost, million US$	1.1
Revenues, million US$ (net of VAT)	29
Total deliveries, thousand tons	1,745
Total Revenues, million US$	532

Note: Transportation costs in the table above exclude the expense of trucking crude oil from Kazgermunai fields to collection points using the Company's own fleet. Total revenues differ from financial statements by the amount of royalties in kind, gas revenues and change in oil stock.

Deliveries to the domestic market

Kazgermunai negotiates annually with the MEMR its obligations to supply oil to the Shymkent Refinery and oil products to the domestic market. In 2006, Kazgermunai agreed to supply 450 thousand tonnes (3.4 million barrels) of crude to the Shymkent Refinery (''Shymkent Refinery''). Included in this obligation was the requirement to supply certain minimum volumes of oil products comprising gasoline, diesel fuel, mazut, jet fuel and LPG to the domestic market at discounted prices.

The actual amounts supplied to the domestic market by Kazgermunai during 2006 pursuant to its agreement with the MEMR was 320 thousand tonnes (2.4 million barrels) of crude oil supplied to the Shymkent refinery, processed and sold as oil products, generating over US$100 million of revenues for Kazgermunai, net of VAT. Included in these revenues were the sale of 24 thousand tonnes of diesel fuel and 10 thousand tonnes of fuel oil supplied to domestic agricultural producers at discounted prices. While there is no current agreement with the MEMR in place, Kazgermunai expects that its domestic supply obligations for 2007 will not exceed those for 2006.

Gas sales

Associated gas produced by Kazgermunai is currently in part flared, or used internally and the rest is supplied to the processing plant at the Ashkabulak field where it is separated into the dry gas, LPG and gas condensate. Currently, the gas processing facility's maximum capacity is 300 million cubic metres per year, with the maximum output levels of 240 million cubic metres of dry gas, 97 thousand tonnes of LPG and 24 thousand tonnes of gas condensate.

The dry gas produced to date at the Kazgermunai facilities is sold to Kaztransgas Aimak pursuant to long-term agreements. In 2006, 104.5 million cubic metres were sold at an average price of KZT675 per thousand cubic metres excluding VAT. LPG is sold under a short-term contract to PetroKazakhstan Kumkol Resources. In 2006 33.4 thousand tonnes of LPG were sold at an average price of KZT19,557 per tonne. The gas condensate is mixed into the crude oil and, therefore, sold at the prevailing price for crude oil flowing from the Ashhabulak field in the KS pipeline.

Current Trading Information

The trading of Kazgermunai in 2006 was driven by substantial increase in production and higher oil prices as compared to 2005. As a result, Kazgermunai's revenues have approximately doubled compared to 2005.

On the expense side, crude oil transportation costs have more than doubled due to greater production and an increase in railroad tariffs. Royalty expense was also significantly higher, in line with higher production volumes and greater revenues. Other operating expenses (net of royalty and transportation costs) were higher in absolute terms, but lower on a per tonne of production basis.

As a result of its strong financial performance in 2006 Kazgermunai has accumulated approximately US$400 million in cash and cash equivalents on its balance sheet at the end of the year after full repayment of all outstanding indebtedness of US$30 million and distribution of US$229 million in dividends, both of which occurred in July 2006.

Capital expenditure

Kazgermunai's capital expenditures on continuing operations in 2005 and 2004 were US$95.4 million and US$25.6 million, respectively. Investments were made in the drilling of the new producing and injecting wells, general field infrastructure and also in installing the gas processing facility at Akshabulak, which was commissioned in August 2005. In 2006 the level of capital expenditure was comparable with that of 2004.

Kazgermunai expects the total amount of capital expenditure for 2007 to be approximately US$110 million, with approximately 30-40% of the total dedicated to planned development drilling at Akshabulak and Nuraly and exploration drilling at Aksai, and 60% of the total comprising investments in infrastructure, in particular the pipeline connecting Nuraly and Akshabulak, installations of multiphase pumps at Nuraly and upgrade of the gas processing facility. Kazgermunai expects that the average capital expenditure for 2008-2011 will be approximately US$30-40 million per year.

Environmental matters

Kazgermunai is subject to a variety of Kazakhstan environmental laws, regulations and requirements that govern air emissions, water use and disposal, waste management and impacts wildlife as well as land use and reclamation. In addition, Kazgermunai'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, resulting in the cessation of production, if these requirements are not addressed.

Regional environmental authorities conduct inspections on a regular basis. When either an external body or an internal audit identifies an environmental issue, Kazgermunai endeavours to take corrective action or develop a corrective action plan to address the issue as soon as possible. The most recent inspection that was performed by regional environmental authorities was in June 2006 when a request for information was sent to Kazgermunai. The audit confirmed that Kazgermunai is in compliance with all necessary requirements including its initial preparations for the implementation of an independent environmental management system in compliance with ISO14000. Kazgermunai is in the preparatory stages of implementing such a system and has built a storage system for methanol and is tendering for a contract to build storage facilities for chemicals.

Under the Republic of Kazakhstan Environmental Code which came into force on 2 February 2007 and replaced, in particular, the Law ''On Environmental Protection'' (the ''LoEP''), Kazgermunai is obliged to obtain an annual environmental permit and must observe all requirements set out in such permit, including requirements for the maximum amounts of air emissions, waste water disposal and municipal and industrial waste water disposal and municipal and industrial waste permitted to be discharged by Kazgermunai.

Kazgermunai pays a fee for the allowable discharge levels, as well as penalties and fines for the amounts of discharge over and above those levels, which are substantially higher on a per unit of discharge basis. In 2004, the total amount of environmental expenses including fines and penalties was approximately KZT80 million, compared to KZT1.4 billion in 2005. The substantial increase in 2005 was primarily due to the increase in environmental fee rates and a substantially lower allowable emission levels. In 2006, Kazgermunai's environmental expenses were approximately KZT400 million as a result of increase in environmental fee rates and fees and penalties related to accidental spillages of oil from field pipelines and the emergency closure of a gas facility resulting in excessive gas flaring.

The MEMR initiated court proceedings in 2005 for compensation of damages in the amount of KZT3,475,955,700 as a result of Kazgermunai's gas flaring without a permit from January through to April 2005. The court decided that, although Kazgermunai had caused damage to the State, as there was no general rule for compensation for damages at the time, the dispute could not be resolved until ''the corresponding regulation was adopted''. Following the adoption in August 2006 of such regulations, on 7 March 2007 MEMR reinitiated proceedings against Kazgermunai. Kazagermunai intends to vigorously defend itself in court, but the outcome of the case is uncertain at the moment.

The Kyzylorda local department of environmental protection issued a letter to Kazgermunai asserting that it had caused harm to the environment as a result of gas flaring from July to September 2006, which has been assessed in the amount of KZT717 million. The claim was settled for KZT90 million in 2006.

Environmental Impact of Kazgermunai's Operations

The principal sources of material environmental liability for Kazgermunai are air emissions, in particular the flaring of associated gas. In addition, the significant environmental impacts from Kazgermunai's operations arise from the requirement to remediate historically contaminated land. Kazgermunai has a dedicated remediation programme in place that is agreed with the MEP. Annual environmental expenditure (including remediation) for 2005 and 2004 was KZT13.9 million and KZT9.4 million, respectively. In 2006, the remediation expenditure was approximately 50% higher than in 2005.

Air Emissions

Kazgermunai's air emissions are primarily related to gas flaring. The amounts of allowable and actual discharge in the years 2004-2007 are shown in the table below:

	2007 Tonnes per year	2006 Tonnes per year	2005 Tonnes per year	2004 Tonnes per year
Permissible level of discharge	4,828	7,697	5,226	12,810
Actual level of discharge	Not Available	6,945	9,320	11,616

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'', 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 or where permits are otherwise granted. Despite this general prohibition, Kazgermunai has historically had no viable alternative available other than the flaring of gas. The following table sets forth the volume of gas flared by Kazgermunai for the periods specified.

	2006, million of cubic metres	2005, million of cubic metres
Akshabulak	174	153
Nuraly	39	3
Aksai	—	10
Total	213	166

Since 2005 Kazgermunai has been subject to fines and penalties related to flaring of gas over the permitted levels. In 2006, the Company paid KZT94 million in fines, penalties and payments for flaring over permitted limits, compared to payments of KZT1.3 billion in 2005. The reduction in the amount of payment for flaring over the permitted levels and fines and penalties in 2006 is related to better utilisation of gas at the gas processing facility, which started operations in August 2005. The unit rates both for the gas flaring within the permitted levels and over the permitted levels substantially increased in 2006 and are expected to increase in the future. The amounts of air emission payments made by Kazgermunai in 2004 — 2006 are set out in the table below:

Type of Payment	2006 KZT million	2005 KZT million	2004 KZT million
Flaring within permitted limits	289	112	67
Flaring over the permitted limits, fines and penalties	94	1,282	—

In 2005, in order to comply with the legislation, Kazgermunai voluntarily initiated partial production cut backs, primarily as a result of which 2005 production declined by 13% compared with the 2004 production levels.

As part of the gas utilisation programme, a gas processing facility with a capacity of 300 million cubic metres of associated gas per year was commissioned in Akshabulak in August 2005. The gas processing facility separates associated gas into dry gas, natural gas liquids and LPG. Gas is transported from the Akshabulak field to the city of Kyzylorda via a gas pipeline of which Kazgermunai is the sole user with contracts in place providing access until 2010.

In November-December 2006, in order to comply with the environmental legislation and avoid payments for flaring over the permitted limits, as well as fines and penalties, Kazgermunai suspended production at its Nuraly field, having already flared the amount of gas specified in the terms of its flaring permit. The production at Nuraly resumed in January 2007 after Kazgermunai received the new 2007 flaring permit. Under the terms of its current permit, Kazgermunai may flare up to 139 million cubic metres of gas up to October 2007 but will have to eliminate all gas flaring starting 1 October 2007. Kazgermunai intends to apply for an extension of this deadline to 1 March 2008 and an increase in the gas flaring limits for such period as well as agreeing a new gas utilisation programme with the MEMR.

Since 2005 Kazgermunai has analysed several options available to it with regard to eliminating gas flaring, including re-injecting the gas into Akshabulak South field. However, there was a risk that this option would have affected the integrity of the field and therefore Kazgermunai determined that the best option available to it is to increase the capacity of its gas treatment infrastructure and to develop a local market for dry gas. Currently Kazgermunai has reached an agreement in principle with the Akimat of Kyzylorda region that expresses the intent of the Akimat to purchase up to 380 million cubic metres of dry gas starting in 2008. Under the agreement, the Akimat of Kyzylorda has agreed in principle to construct the infrastructure necessary for its residents to utilise the dry gas provided by Kazgermunai.

The agreement is expected to cover the entire estimated volumes of dry gas derived from the associated gas produced by Kazgermunai.

In order to implement its new gas utilisation plan, Kazgermunai intends to expand the capacity of the existing gas processing facilities at Akshabulak to up to 515 million cubic metres a year of associated gas and to build a pipeline connecting the Nuraly field to the central processing facilities at Akshabulak, which would allow Kazgermunai to process Nuraly associated gas as well as Akshabulak gas. Kazgermunai expects to complete both the gas processing facility upgrade and the pipeline in 2007. Kazgermunai would need to obtain further extensions and increases to its gas flaring permit or reduce production if these projects are delayed or the dry gas produced cannot be utilised.

Contaminated Earth

Kazgermunai has an obligation to remediate approximately 6,000 tons of contaminated soil. This work is expected to be completed in 2008 and the cost of such remediation is expected to be approximately US$4 million, which has been included in Kazgermunai's budget for 2007.

According to Kazgermunai, in 2006 a local consulting firm conducted an industrial environmental monitoring at the Akshabulak, Nuraly and Aksai fields and prepared a report which was approved by the local environmental authority. The report states that the contamination of soil does not exceed the normative sanitary allowable limits and the level of contamination of the territory by harmful substances is characterised as ''moderate to low''. In 2005, remediation was performed on the following areas of contaminated land: Akshabulak field — 88 hectares, Nuraly field — 88 hectares and Aksai field — 58 hectares.

Waste management

Kazgermunai is obliged to comply with strict regulations regarding the storage, transport, packaging and handling of contaminated earth and hazardous materials, including industrial waste. Where contaminated earth is stored in tanks and waste collectors, the contents of all such storage areas require treatment and disposal.

Kazgermunai has several tanks for temporary waste storage on the territory of the Akshabulak field: solid wastes tank, oil sludge and residual soil tank and bore mud tank.

From 2005, when the relevant reporting regime was implemented, Kazgermunai has submitted the statutory reports on generated toxic waste (including disposal of lead-acid batteries) and has been in compliance with all reporting requirements. No fines or penalties were assessed.

Waste water

Water usage forms an integral part of extraction and each individual field is required to possess permits with respect to water usage. Kazgermunai has its own water wells, water from which is used for technological and communal purposes. Kazgermunai operates closed water systems minimising any adverse impact on the environment. Processed water is re-injected back into the field via a pumping station.

Utility fluids undergo biological treatment in a small-sized unit ''Kombiblok KB 300''. Treated effluents are directed to an evaporation pond and part of such effluents is used for irrigation. When the evaporation pond is filled, the area of leach fields embanked with sandy-loam soil 20 centimetres high is 2,160 square metres.

Kazgermunai adheres to all material conditions of its permits and requirements with respect to waste water. There have not been relevant obligatory or unforeseen expenses in connection with such compliance.

Employees, health and safety

Employees

The table below sets out the number of people employed by Kazgermunai as at the periods indicated:

	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006
Field workers	304	326	365
Administration	217	218	225
Representative Office in Almaty	30	27	28
Expatriates	3	3	9
Total	**554**	**574**	**627**

Trade Union

All employees of Kazgermunai are offered membership in Kazgermunai'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 Kazgermunai and good relations exist with the trade union. Regular communication between the trade union and Kazgermunai's management has prevented significant labour conflicts.

The general terms and conditions of a collective agreement were approved by Kazgermunai's JV Partners in 2003 but have been replaced by a new draft that has to be approved by the management and employees of Kazgermunai. The draft provides for additional unpaid leave of absence for employees in a number of circumstances.

Safety and labour protection

Kazgermunai's operations are subject to legislation, regulations and other requirements of Kazakhstan relating to health and safety requirements that are applicable to oil and gas companies operating in Kazakhstan. These are regulated by the state authorities, which include the Ministry of Labour and Social Protection. Kazgermunai's contracts and production licences require that all its operations conform with applicable safety and health requirements and are in accordance with methods and practices customarily used in good international oilfield practice.

In 2005 and 2006 there were five accidents. Five people were injured in 2005 and one person in 2006. No fatalities occurred.

Kazgermunai believes it has a satisfactory health and safety policy in place, and possesses all necessary licences to operate machines and processes at its production facilities.

Kazgermunai has the appropriate levels of insurance for employees as required by law and which its management considers to be prudent and suitable for a business of its type in Kazakhstan.

Social projects

Kazgermunai was required, under the terms of the Foundation Agreement, contracts and licences, to invest in social projects for the benefit of local communities. Kazgermunai's social project obligations were settled by payment of US$31 million to the Akimat pursuant to a 2005 agreement. This amount was paid in full in 2005. No future obligations on social projects exist.

Litigation

During the 12 months up to the date of this document, there were no state or court trials or arbitrations (including trials under which decisions are not yet made or any threat of trials about which Kazgermunai knows) that could have materially affected the financial position or profitability of Kazgermunai other than those described elsewhere in this document.

Taxation

Kazgermunai 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 introduced subsequent to the changes in legislation, often with a delay and some with retroactive effect. Non-compliance with Kazakhstan tax laws and regulations can lead to the imposition of substantial penalties and interest. While Kazgermunai's main tax obligations relating to exploration and production at the Akshabulak, Nuraly and Aksai fields are defined and thus stabilised in the Foundation Agreement and the Tax Letter, some obligations, in particular personal income tax, are linked to the current tax regulations.

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 of tax underpaid or understated, depending on the particular tax. 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, although this will vary depending on the exact period of underpayment.

Kazgermunai currently operates under the Foundation Agreement approved by a resolution of the Cabinet of Ministers. The Foundation Agreement acts as a subsurface use contract as well as a constitutive agreement which establishes Kazgermunai's existence. According to the Foundation Agreement, Kazgermunai's main taxes are stabilised in accordance with the terms of the Foundation Agreement. For an overview of taxes to which Kazgermunai is subject, see in this Part III — ''Licences and contracts: Foundation Agreement''.

Royalties

Kazgermunai is obliged, under the relevant Foundation Agreement provisions, to pay royalties on the net sale proceeds using rates (from 3% to 15%) established on a sliding scale depending on the volume of oil produced. See in this Part III — ''Licences and contracts: Foundation Agreement'' for further details.

Income tax

Under the provisions of the Foundation Agreement, income tax is calculated on the basis of accounting income and, consequently, no provision for deferred taxation is made as all differences between taxable income and accounting income are permanent and non-reversing. The income tax rate varies from 25 to 40% depending on the level of taxable income. Kazgermunai paid US$114 million and US$149 million in income tax in 2004 and 2005 respectively.

VAT and other

Under the provisions of the Foundation Agreement, VAT is payable at a rate of 20% on domestic sales (VAT at a rate of 0% is applied to exports). Besides royalty for oil and income tax, Kazgermunai paid US$1.1 million and US$2.5 million in other taxes (such as social tax, property tax, transport tax and VAT), in 2004 and 2005 respectively.

Regulatory matters in Kazakhstan

The main regulatory bodies that are relevant to Kazgermunai'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 or has 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.

- *Tax Committee of the Ministry of Finance (State Tax Committee)*. The State Tax Committee is a committee of the Ministry of Finance that is responsible for regulating and monitoring the collection of taxes and other obligatory payments to the state budget, and for ensuring full and timely transfers of obligatory pension contributions and social contributions to the State Social Insurance Fund. The State Tax Committee's functions include implementation of tax control in accordance with the provisions of the Tax Code and other applicable tax legislation.

- *Ministry for Emergency Situations*. The Ministry for Emergency Situations is the central executive body of Kazakhstan responsible for the prevention and elimination of the consequences of natural and technological disasters and emergency situations, civil defence, fire and industrial safety, and safety and labor protection at hazardous industrial sites.

Other

Other regulatory requirements to which Kazgermunai 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;

- 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.

Insurance

Kazgermunai has the appropriate levels of insurance and reinsurance as its management considers to be prudent and suitable for a business of its type in Kazakhstan.

Internal financial controls and financial reporting

Kazgermunai's historical financial information for each of the two years ended 31 December 2004 and 2005 was prepared in accordance with Foundation GAAP, which is not based on any particular country's GAAP. KMG EP prepares its financial statements in accordance with IFRS. Significant differences exist between Foundation GAAP and between IFRS which lead to reconciling adjustments between the two frameworks. Please see Part V — ''Information on the Expected Impact of the Proposed Acquisition on the Assets, Liabilities and Earnings of the Enlarged Group'' for an explanation of these differences. In addition, companies such as Kazgermunai were required under Kazakh law to adopt IFRS from 1 January 2006; however the consequences of late adoption are unclear. The management of Kazgermunai plans to adopt IFRS in 2007.

Information Technology

In 2001 Kazgermunai launched a gradual introduction of comprehensive management system ERP (Enterprise Resource Planning) Scala. This is an integrated business software which offers management of all aspects of Kazgermunai's operations: finance, production, human resource, procurement, logistics, marketing, sales and service, client and supplier relations. Since May 2004 accounting as well as financial, tax and management accounts have been carried out on this system.

Licences and contracts: Foundation Agreement

Kazgermunai operates under the Foundation Agreement approved by a resolution of the Cabinet of Ministers on 19 October 1993, No. 1032, and signed on 9 November 1993. The contract was subsequently registered as a subsurface use contract on 18 August 1994 by MEMR. The Foundation Agreement acts as a subsurface use contract as well as a constitutive agreement which established Kazgermunai's existence. Kazgermunai's main tax obligations are stabilised in accordance with the terms of the Foundation Agreement. The Foundation Agreement exempts Kazgermunai from taxes introduced after the Foundation Agreement signing date meaning that the levels of tax applicable to Kazgermunai are those in force at the date of the Foundation Agreement, and allows amendments in the terms of the contract only on the basis of written consent and stipulates that favourable amendments to the tax legislation should apply to Kazgermunai. However, it is unlikely that favourable changes will apply automatically as any amendments are likely to require an amendment agreement to the Foundation Agreement to be separately agreed between the Republic of Kazakhstan and the subsurface user.

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

Kazgermunai contract territories for hydrocarbon exploration and production (Kyzylorda Oblast)

Contract territories	Mining allotment/ Total area, hectares	Mineral deposits	Type of contract	Licence issue date	Expiry date
Akshabulak	15,494/25,046	Hydrocarbons	Licence for subsoil use in Republic of Kazakhstan, Series MΓ no. 2a (oil)	19 March 1997	1 March 2024
Nuraly	18,431/35,029	Hydrocarbons	Licence for subsoil use in Republic of Kazakhstan, Series MΓ no. 26 (oil)	15 November 1996	1 March 2024
Aksai	15,962/29,344	Hydrocarbons	Licence for subsoil use in Republic of Kazakhstan, Series MΓ no. 2в (oil)	15 November 1996	1 March 2024

The main taxes, duties and payments stabilised under the Foundation Agreement, and incorporating changes to Kazgermunai's tax regime agreed with tax authorities based on the Tax Letter, are summarised below:

Royalty Payments[1]	Royalty calculated on net revenue from sales of oil less transportation and marketing cost	
	Annual production level	**Royalty rate**
	Amount up to 500,000 tonnes	3%
	More than 500,000 tonnes up to 1,000,000 tonnes	6%
	More than 1,000,000 tonnes up to 1,500,000 tonnes	10%
	Exceeding 1,500,000 tonnes	15%
	Taxable income amount	**Tax rate**
Corporate Income Tax[1]	Amount up to 20,000,000 USD	25%
	The portion exceeding 20,000,000 USD up to 30,000,000 USD	30%
	The portion exceeding 30,000,000 USD up to 40,000,000 USD	35%
	The portion exceeding 40,000,000 USD	40%
Value Added Tax[1]	20% of the value of domestic sales	
Excess Profit Tax	Not liable on the basis of the Foundation Agreement	
Property Tax[2]	0.5%	
Road Use Tax[1]	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	
Land Fee	Not liable on the basis of the Foundation Agreement	
Employment Fund Fee[1]	2% of employees' payroll	
Social Insurance Fund Fee[2]	30% of the employees' salaries and wages fund	
Social Programmes[1]	Kazgermunai's participation in the development of social infrastructure in the contractual area is stipulated in Kazgermunai's work programmes	
Withholding Income tax[1]	15% on dividend transfers to foreign partners	
Personal Income Tax[3]	Current legislation at the time the obligation arises	
Vehicle Tax[2]	1-8% of the monthly calculation index for each kilowatt of power	
Vehicle Acquisition Tax[1]	10% of acquisition cost	

Notes:
(1) Stabilised based on the Foundation Agreement
(2) Stabilised based on the Tax Letter
(3) The Tax Letter stipulated that Personal Income Tax should be based on the current legislation applicable when the obligation arises (i.e. it is not stabilised)

The Foundation Agreement also provided for an exemption from the following taxes and obligatory payments to the budget: taxes and duties on export of crude oil of its own production, duties on imported equipment and duties on export of idle equipment.

The Foundation Agreement provides for the following taxes and obligatory payments to be covered by royalty, signature bonuses, corporate income tax or historical costs reimbursements: fixed (rental) payments/excess profit tax, payments to cover geological and exploration and geological and prospecting works on mineral resources, payments to Entrepreneurship Support Fund, payments to Investment Fund, road fund, export/import duties and land fee (real property tax).

Following the Proposed Acquisition, KMG EP will be entitled to the rights and subject to the obligations of NC KMG pursuant to the Foundation Agreement. KMG EP will bear the risk connected with any arbitration, environmental and other claims which relate to the period during which NC KMG held an interest in Kazgermunai.

Other significant terms of the Foundation Agreement are briefly described below:

Consent to a transfer of an interest

In the event of a transfer of an interest in Kazgermunai, the transferring JV Partner would have to obtain the preliminary written consent of the other JV Partner. In accordance with Kazgermunai's Charter, this requirement does not apply if an interest is to be transferred to a person in which over 50% of shares or interests is owned by the transferring JV Partner or which owns over 50% of shares/interests of the transferring JV Partner.

Pre-emptive purchase right

The JV Partners enjoy the pre-emptive right to purchase an interest, or any part thereof, when it is sold by another JV Partner.

General Meeting of JV Partners

Each JV Partner voting at a general meeting has the number of votes corresponding to its interest as at the date of the general meeting. All decisions at general meetings are taken unanimously by all of the JV Partners.

Management Board

The Management Board of Kazgermunai consists of two members, the Technical Director and the Financial Director. NC KMG nominates a candidate for the Technical Director's position, and PetroKazakhstan nominates a candidate for the Financial Director's position. Members of the Management Board are elected by the general meeting. All Management Board resolutions are adopted by a unanimous vote. All Kazgermunai documents, including agreements, orders, powers of attorney, and payment documents, are signed together by the Technical Director and the Financial Director or by their authorised signatories.

Supervisory Board

The Supervisory Board is elected by the general meeting and consists of four members. Each of the JV Partners nominates two candidates for the Supervisory Board. The Charter does not regulate decision-making procedures of the Supervisory Board. Internal procedures of the Supervisory Board shall be established by the general meeting.

NC KMG's obligations to Kazgermunai

Pursuant to the Foundation Agreement, NC KMG, as a participant in Kazgermunai, has an obligation to assist in the following:

- acquiring, exercising quality control of, and transporting western goods and technologies;
- transferring western know-how in the technological and economic areas;
- training and improving the professional skills of Kazakh personnel in the technological and economic areas;
- providing its own or retained experts for the planned activities;
- developing the regional infrastructure; and
- providing medical services and preventive treatment on special occasions.

Compensation

If a founder fails to perform under the terms of the Foundation Agreement, it shall compensate for any direct damages incurred by the other founders.

Applicable Law

Relations between the founders and Kazgermunai when exercising the rights and performing the obligations under the Foundation Agreement are regulated by the laws of the Republic of Austria.

Dispute Resolution

All disputes and discrepancies between the founders or between Kazgermunai and the founders which may arise in connection with the Foundation Agreement shall be settled by arbitration in accordance with the UNCITRAL Rules. Such arbitration shall be conducted in Vienna, Austria.

Arbitration proceedings shall be conducted in German with simultaneous translation into the Kazakh or Russian language, provided that PetroKazakhstan provides a respective translator.

Information on the management of Kazgermunai

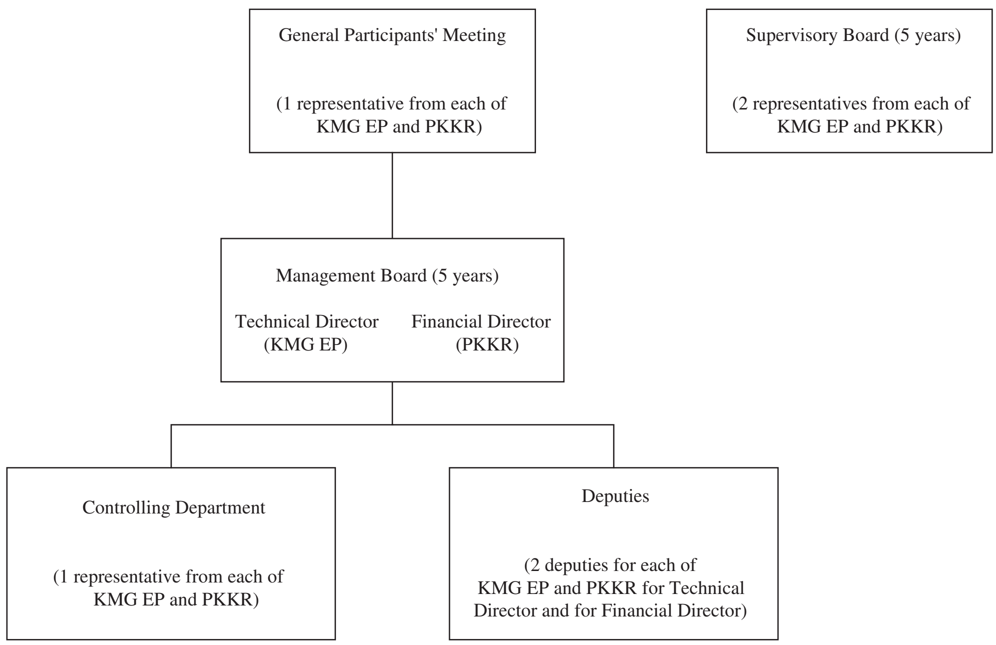
Corporate management structure

The supreme body of Kazgermunai is the General Participants' Meeting. This body consists of a representative from each JV Partner and elects members of the Supervisory Board and the Management Board. The body approves all the decisions regulating the internal activity of Kazgermunai, work programmes and budget, annual financial reports and distributions.

Kazgermunai's Management Board (which is the top executive body of Kazgermunai) consists of both Technical and Financial Directors. One of the Directors is the Chairman of the Management Board. The Technical and Financial Directors of Kazgermunai hold the post of the Chairman of the Management Board in rotation during a three year period. Presently the Technical Director of Kazgermunai holds the post of the Chairman of the Management Board. The Technical Director is currently appointed by a representative of NC KMG and the Financial Director is appointed by a representative of PetroKazakhstan.

The Supervisory Board of Kazgermunai is a supervisory board established in order to control financial and economic operations of the Management Board. The Supervisory Board is comprised of four elected members, two members from each JV Partner of Kazgermunai.

Kazgermunai management structure



All major documents of Kazgermunai, e.g. contracts, orders and payment documents, must be signed jointly by the Technical Director and the Financial Director. Pursuant to resolutions passed at the General Meeting of Kazgermunai held on 9 October 2006, the representatives of each of the JV Partners that are appointed to Kazgermunai as senior officers have identical official duties and are conferred with equal authority, regardless of the specific position of such officer. Certain authorisations require two signatures; one signature of a representative of each of the JV Partners.

Management Board members

Management Board members

Name	Post held in Kazgermunai	Age
Baimukhanov Isturgan Uzakbaevich	Chairman of the Management Board and Technical Director	49
Ren Lixin	Financial Director	38

Isturgan Uzakbaevich Baimukhanov was appointed as Technical Director of Kazgermunai on 18 July 2006. He graduated from the Kazakh State University with a diploma in geology and has previously worked as Deputy to the General Director of JV ''Kazpromstavba'' and as a General Director of Kazmunaygas-Telf. He has had extensive work experience in the oil and gas industry in Kazakhstan.

Ren Lixin was appointed as Financial Director of Kazgermunai on 1 July 2006. He graduated from Dazin Oil Institute in China and has previously worked as Vice-President in charge of joint ventures of ''PetroKazakhstan'' in Almaty and Vice President of Kaz-China Corporation, Ltd.

If the Proposed Acquisition is completed, KMG EP will appoint new members of the Supervisory Board but it does not intend to implement any changes to the Management Board of Kazgermunai.

None of the members of the Management Board has at any time in the last five years:

(a) been a partner in a partnership which, at the time of or within 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.

PART IV

Competent Person's Report

Gaffney, Cline & Associates Ltd

Technical and Management Advisers to the Petroleum Industry Internationally Since 1962

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TG/E1397.03/0443/kab **15th March, 2007**

The Directors,
JSC KazMunaiGas Exploration Production,
20/1 Kabanbay Batyr Avenue,
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Republic of Kazakhstan

Dear Sirs,

AN ASSESSMENT OF THE HYDROCARBON RESERVES AND REFERENCE NET PRESENT VALUES AS OF 30TH SEPTEMBER, 2006 ATTRIBUTED TO KAZMUNAIGAS INTEREST IN THE AKSHABULAK, NURALY AND AKSAI FIELDS, TURGAY BASIN, ONSHORE KAZAKHSTAN

INTRODUCTION

KazMunaiGas Exploration Production (KMG EP) has requested Gaffney, Cline & Associates (GCA) to audit and report on the Proved, Probable and Possible Reserves for the Akshabulak, Nuraly and Aksai oil fields located in the Turgai Basin, onshore Kazakhstan (Figure 1), as of 30th September, 2006. In addition, GCA has been requested to estimate, for reference purposes, post-tax Net Present Values (NPVs) associated with the Proved and Proved + Probable Reserves. The fields were acquired from KazGerMunai (KGM) during 2006 and are produced under a single Foundation Agreement that expires on 1st March, 2024. The total area under the provision of the Foundation Agreement comprises 89,419 hectares and the ownership interests are as follows:

KazMunaiGas (KMG)	50.00%
PetroKazakhstan	50.00%

The Reserves are estimated consistent with the 1997 joint definitions of the Society of Petroleum Engineers/World Petroleum Congresses (SPE/WPC) (Appendix I).

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 GCA have been, and continue to be, independent of KMG EP in the services they provide to the company, including the provision of the opinions expressed in this report. Furthermore, the partners and directors of GCA have no interest in any assets or share capital of KMG EP or in the promotion of the company.

The NPVs presented herein for reference purposes are based on current perceptions and may not be represented as a GCA opinion of the financial value of the subject properties.

Figure 1

Russia
Russia
To Samara
Orenburg
Orsk
Omsk
Pavlodar
ASTANA
Aktyubinsk
Karaganda
Kazakhstan
Atasu
Atyrau
Karamay
Druzhba
Kumkol
Nuraly
Karakoyin
Tengiz
Aksay
Akshabulak
Aral Sea
Kyzylorda
Aktau
Uzen
Almaty
China
Caspian Sea
Uzbekistan
Shymkent
Kyrgyzstan
To Chardzhou
0
500
1000
1500 km
LEGEND
Oil Pipeline
Town / City
Field
Kazakhstan
Field Location Map
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Fig. 1

CONCLUSIONS

1. The gross field and KMG 50% Net Working Interest oil and gas Reserves (in thousands of barrels and millions of cubic meters respectively) are presented in Table 1.

No Proved Reserves are attributed beyond the term of the Foundation Agreement expiry date of 1st March, 2024. Of the total Proved + Probable Reserves, 91.2% are estimated to be produced before 1st March 2024, with 82.0% of the Proved + Probable + Possible.

2. The consolidated NPVs in millions of U.S.$ for KMG's 50% Net Working Interest in the three fields are summarised for the Proved and Proved + Probable Reserves in the following table:

	Post-tax NPV (U.S.$ MM)			
Discount Rate	**7.5%**	**10.0%**	**12.5%**	**15.0%**
Proved	843.8	764.9	698.7	642.5
Proved + Probable	1,311.5	1,135.2	996.8	886.4

3. The proportion of the total Proved + Probable post-tax NPV that is realised up to 1st March, 2024 is 96.5% at the 7.5% discount rate, 97.4% at the 10.0% discount rate, 98.1% at the 12.5% discount rate and 98.6% at the 15.0% discount rate. These values suggest that there is little adverse financial exposure of the Proved + Probable case to the contract period not being extended.

DISCUSSION

1. BACKGROUND AND METHODOLGY

KMG EP has provided data to GCA for the purposes of performing the study, and technical meetings and discussions have been held between the two companies. GCA considers that the information received has been sufficient to enable oil and gas Reserves to be estimated with a reasonable degree of confidence. Certain key data, however, particularly access to the static and dynamic reservoir models, has not been possible, and GCA has also employed analytical and performance techniques for estimating Reserves.

GCA has not been able to conduct a field inspection visit but, given the technical data and other representations made by KMG EP, is comfortable with the results presented herein.

In addition to well production histories, field reports, well data, seismic and other geological and engineering data, there are several sources of Reserves estimates, including development plans, recent KGM studies, reports and expert opinions prepared by Kazakhstan State Institutes. These various reports often report a significant variation in stock tank oil initially in place (STOIIP), recovery factors and Reserves. It has not been possible to audit all of the reports for all reservoirs, thus GCA has adopted an evaluation methodology that is considered to be pragmatic and reasonable.

The key reserve reports and development documents that form the basis of the assessment are listed as follows:

TABLE 1

OIL AND GAS RESERVES AS AT 30TH SEPTEMBER, 2006

	Gross Oil Reserves Thousands of Barrels (MBbl)				
	Proved Developed	**Proved Undeveloped**	**Total Proved**	**Proved + Probable**	**Proved + Probable + Possible**
Akshabulak					
Central	121,396	39,216	160,612	260,119	297,459
East	2,113		2,113	3,248	3,248
South	589	528	1,117	1,679	2,802
Total Akshabulak	124,098	39,744	163,842	265,046	303,509
Nuraly	17,306	3,471	20,777	43,916	63,876
Aksai	—	—	—	862	16,949
Total Gross Oil Reserves	**141,404**	**43,215**	**184,619**	**309,824**	**384,334**

	KMG Net Working Interest Oil Reserves Thousands of Barrels (MBbl)				
	Proved Developed	Proved Undeveloped	Total Proved	Proved + Probable	Proved + Probable + Possible
Akshabulak					
Central	60,698	19,608	80,306	130,060	148,730
East	1,056	—	1,056	1,624	1,624
South	295	264	559	839	1,401
Total Akshabulak	62,049	19,872	81,921	132,523	151,755
Nuraly	8,653	1,735	10,388	21,958	31,938
Aksai	—	—	—	431	8,475
Total Net Oil Reserves	**70,702**	**21,607**	**92,310**	**154,912**	**192,167**

	Gross Gas Reserves MMm^3			KMG Net Working Interest Gas Reserves MMm^3		
	Proved	Proved + Probable	Proved + Probable + Possible	Proved	Proved + Probable	Proved + Probable + Possible
Akshabulak						
Central	2,526.5	3,764.8	4,286.9	1,263.3	1,882.4	2,143.4
East	18.6	29.6	29.9	9.3	14.8	15.0
South	38.7	60.1	101.4	19.3	30.0	50.7
Total Akshabulak	2,583.7	3,854.5	4,418.2	1,291.9	1,927.2	2,209.1
Nuraly	568.3	808.8	1,492.6	284.1	404.4	746.3
Aksai	0.0	15.7	312.8	0.0	7.9	156.4
Total Gas Reserves	**3,152.0**	**4,679.0**	**6,223.7**	**1,576.0**	**2,339.5**	**3,111.8**

Notes:

1. The oil Reserves comprise export volumes plus oil supplied to Chimkent refinery

2. The gas Reserves comprise produced gas volumes after fuel, shrinkage and flare, but before LPG recovery.

Checked: Approved: WBC

- ''Technological Scheme of Akshabulak Central Field Development'' (The 2004 Akshabulak Central Report), prepared by the CaspiMunaiGaz Research Institute in 2004. This is the latest field development document for Akshabulak Central reservoirs, approved by the Central Commission on Field Development of Republic of Kazakhstan (CCFD RK)

- ''Supervision over Akshabulak Central Field Development Plan as of 1st January, 2006,'' (The 2006 Akshabulak Central Report)

- KGM Reserves Report as of 1st January, 2006 (The KGM 2006 Reserves Report)

There were also detailed technical studies for the other fields and reservoirs: Akshabulak South, Akshabulak East, Nuraly and Aksai.

With the exception of The KGM 2006 Reserves Report, which reports according to SPE/WPC guidelines, The Reserves quoted in the various reports are generally categorised according to the former Soviet system, which are not directly comparable with the SPE/WPC system.

GCA has focussed on the main reservoirs that contribute about 80% of the resource potential. Based on KMG's own long term forecast, the approximate distribution of remaining oil resources is as follows:

Field	Reservoir	Percentage of Total Resources
Akshabulak Central	Yu-III, Yu-IIIa	60.0%
	M-II-1, M-II-2	17.1%
	Yu-0, Yu-I, Yu-II	8.3%
Akshabulak East	Yu-II, Yu-III	0.8%
Akshabulak South	Yu-0, Yu-I	2.2%
Nuraly	M-II, Yu-0, Yu-I, Yu-II, Yu-III, Yu-IV	11.6%
Aksai	M-I, M-II	0.0%
Total		**100.0%**

Based on this distribution, GCA has selected the Akshabulak Central Jurassic Yu-III and Lower Cretaceous M-II-2 reservoirs to audit in some detail. For the remaining reservoirs, GCA has performed spot checks on various key reservoir parameters and on the consistency between the various data sources, reservoir performance and conformance with the development plans. GCA has also reviewed in some detail the two largest reservoirs in Nuraly: the Nuraly Central Yu-II and Nuraly West M-II.

Proved Reserves have been attributed on the basis of well and field performance, the proposed 2007 work plan and the approved drilling schedule up to 2010, which are restricted to those developed areas that have established production. For reservoirs that have not been tested or have been shut in for any significant period of time, no Proved Reserves are attributed. Proved Reserves are also constrained to the end of the Foundation Agreement on 1st March, 2024. Probable Reserves have been attributed on the basis of the approved or expected long term development plan and drilling schedule. Probable Reserves are also included for those areas or reservoir intervals mapped beyond Proved areas, where producibility has not yet been established but where there is a reasonable chance that oil will be recovered. Such areas include over-bank or non channel deposits and poorer quality reservoirs that may only be commercial to develop through commingling with other zones. Possible reserves have been attributed on the basis that reservoirs will perform better than expected, may be more extensive and/or will be developed with more wells than currently anticipated. Possible reserves represent a low expectation of occurrence. Both Proved + Probable and Proved + Probable + Possible Reserves are not constrained by the term of the Foundation Agreement, on the premise of an extension being granted. Of the total Proved + Probable Reserves, 91.2% are estimated to be produced before March, 2024, with 82.0% of the Proved + Probable + Possible.

2. RESERVOIR CHARACTERISTICS AND PERFORMANCE

The Akshabulak, Nuraly and Aksai fields are three onshore fields located in the Turgay Basin of the Kyzylorda region of Kazakhstan. The nearest oil transportation hub is the Kumkol field, about 30 kilometres (km) from the project area. The fields comprise Lower Cretaceous and Middle to Upper Jurassic aged fluvio-deltaic/shallow marine sandstones and carbonates, which form a number of discrete oil and gas reservoirs and pools through a combination of stratigraphic and structural trapping. A generalised stratigraphic sequence is shown in Figure 2.

Nuraly came on production in June, 1996, Akshabulak in October, 1996 and Aksai in August, 1998. Cumulative oil production from the three fields was 10,522 thousand tonnes (Mtonnes), or 80,097 thousand barrels (MBbl) as of 30th September, 2006; average oil production rate was about 8,060 tonnes/day (61,300 Bbl/day). Aksai has not produced since July, 2005, nor Akshabulak East since April, 2006, when the pilot development permit expired.

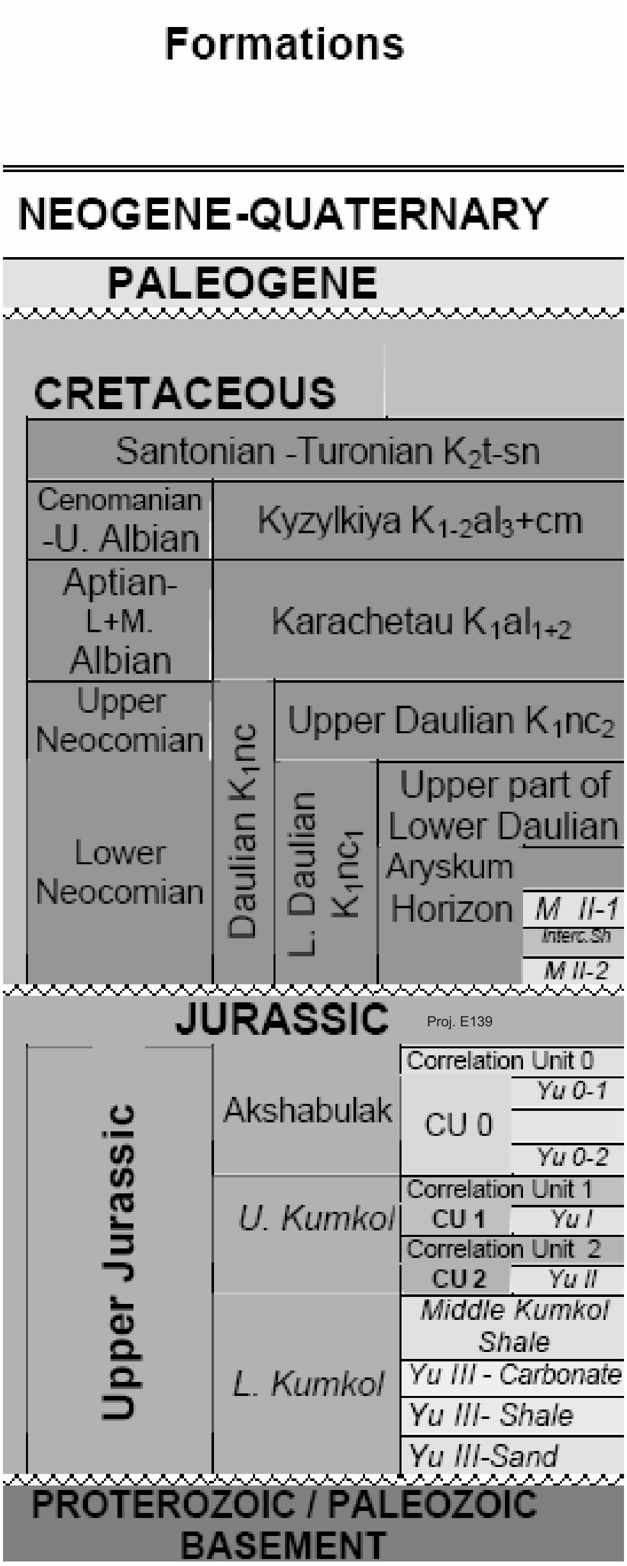
The Akshabulak Central Yu-III reservoir is by far the most significant of all the reservoirs in the three fields, contributing 85.5% of the total production and 83.6% of the production rate as of September, 2006.

The three fields have been adequately appraised with a high quality 3D seismic survey, acquired over all three fields between 2001 and 2003. Further, post-processing has been used to generate seismic inversion cubes and these were subsequently used to define the channel margins and as a control in the development of the geological model.

The structures and reservoirs have been well delineated with drilling. In total, 56 wells have been on production at some time or other: 34 on Akshabulak, 17 on Nuraly and 5 on Aksai. As of September, 2006 there were 23 wells on Akshabulak and 9 wells on Nuraly either producing or testing.

Figure 3 shows the locations of the three fields with respect to each other and to local infrastructure. Akshabulak is the largest of the three fields and comprises three separate accumulations: Akshabulak Central, East and South. Nuraly is located 35 km to the northwest, and Aksai 25 km to the west of Akshabulak. The central oil production facilities (COPS) are located at Akshabulak Central, from where oil is transported by pipeline to Kumkol and gas to Kyzylorda.

Figure 2



Generalised Stratigraphic Sequence		
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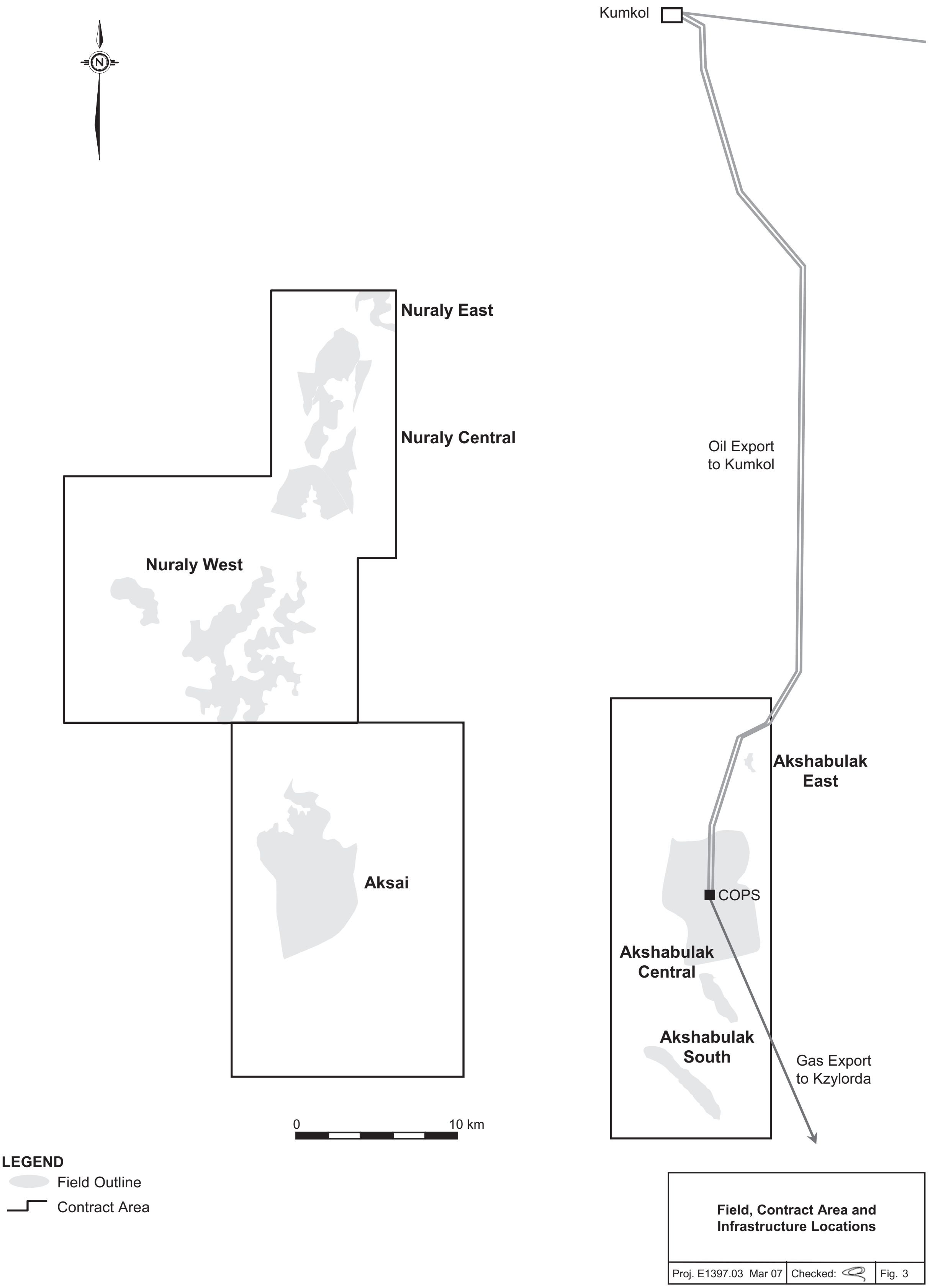
Figure 3


N
Kumkol
Nuraly East
Nuraly Central
Nuraly West
Oil Export
to Kumkol
Aksai
Akshabulak
East
COPS
Akshabulak
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Gas Export
to Kzylorda
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LEGEND
Field Outline
Contract Area
Field, Contract Area and
Infrastructure Locations
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Fig. 3

2.1 Akshabulak

The Akshabulak structure was discovered in 1987 and first tested in 1989. The Akshabulak Central area has established Reserves in: the Jurassic Yu-III, Yu-IIIa; channel sand sequences Yu-0, Yu-I and Yu-II; and the Cretaceous (Neocomian) M-II-1 and M-II-2. The M-II sands comprise a North and South lobe.

At the end of September, 2006 there were a total of 56 wells in Akshabulak, of which 23 were operational and 5 were injecting water. In total, 34 wells have been on production at some time or other from the field.

Oil production commenced in October, 1996 from the Yu-III reservoir and as of 30th September, 2006, cumulative production from the field was 10,038.5 Mtonnes (76,381 Mbls): 9,776.7 Mtonnes (74,378 MBbl) from Akshabulak Central, 188.6 Mtonnes (1,436 MBbl) from Akshabulak East and 73.2 Mtonnes (567 MBbl) from Akshabulak South.

Akshabulak Central has been developed under The 2004 Akshabulak Central Report. This Report is the last official document where field development is reviewed and appropriate recommendations on optimising reservoir management are proposed.

Akshabulak East was operated up until April, 2006 when the pilot development permit expired, and has since been shut in. The field development plan was approved in November, 2006, enabling the field to be returned to production.

Akshabulak South is being operated in accordance with the 2005 ''Additional field exploration plan for Akshabulak South field''. The NIPIMunaiGaz Research Institute is preparing a new follow-up report on implementation of the development strategy envisaged in the pilot development plan, and this report should be completed before the end of the first quarter, 2007.

3D vibroseis seismic was acquired over Akshabulak (251 km^2) in 2001 – 2002. The processing resulted in Post Stack Time and Depth Migration (PoSTM); seismic inversion was performed over 50% of the area. These data were then reprocessed during 2004 to 2005, including PoSTM, pre-stack time/depth migration, and inversion over the entire area. There was also a time coherency cube generated for boundary and edge detection. Following this, both a time and depth interpretation was done with EEG in Berlin. There has been a major geologic and geophysical effort during 2005, after the data set had been reprocessed. Additional studies included a comprehensive and thorough seismic time tie analysis, seismic inversion and seismic modelling. GCA has examined several maps at key intervals based on this re-interpretation.

Seismic modelling was done during 2005 to investigate the seismic response of the various Jurassic sand reservoir channels. It included some fluid replacement modelling to simulate different pore fluid scenarios. The study indicates that the shallow Yu-I has a simple seismic character and interpretation is less reliable when the sand thickness is below tuning thickness, 20 – 25 m. The Yu-III is the result of a complex interference pattern from the shallower high-impedance carbonate layer above the Yu-III sand channel. The amplitude of both top and base Yu-III is affected by tuning in the range of 0 to 20 m for the carbonate and sand.

Seismic inversion of the Akshabulak PoSTM 3D dataset was conducted in 2005. Inversion improves the vertical resolution and facilitates interpretation of subtle seismic features.

All of these geophysical studies were documented in various KGM geophysical reports prepared during the second half of 2005. GCA has examined these reports, summaries and images of the data and has found them to be of a high technical standard.

GCA also received a Petrel Model and having examined the results, has determined that the model is based on prior interpretations dated late 2002, and 2003. This static geologic model has been superseded by a newer interpretation based on the geologic and geophysical (G&G) work done by KGM during 2005.

The structure maps and results derived from KGM's 2005 re-assessment were integrated into The 2006 Akshabulak Central Report, which GCA has used as a basis for its audit of the Akshabulak Central area.

GCA had insufficient data to validate the details of the seismic interpretation and the depth conversion process upon which the depth structure maps and volumes are calculated. However, GCA did view images of selected seismic profiles across Akshabulak East, Central and South, which enabled GCA to accept KGM's interpretation and depth conversion, which tied to the well control.

Overall, the seismic quality is fair to good in most areas. Top and base Aryskum are good seismic markers. Yu-0, Yu-I, and Yu-II are low amplitude, discontinuous seismic events. The Yu-II is a moderately high amplitude, fairly continuous seismic marker. Base Upper Jurassic is a very high amplitude seismic marker. The channels between Yu-0 and Yu-II show up as weak amplitudes but are reasonably well defined seismically. Weak seismic events will generate some ambiguity in the time structure maps.

Nearly all the seismic loops (peaks and troughs) between Base Aryskum and Base Upper Jurassic have been mapped. GCA reviewed a well-to-seismic study which tied the well data to 23 wells; of which 19 were satisfactory for integration into the study. The well tie analysis shows good matches between the synthetic traces with the seismic. This study suggests that, in most cases, the seismic horizons picked on the profiles appear to be reasonable and a fair representation of the structure maps.

2.1.1 Akshabulak Central Yu-III and Yu-IIIa

The Yu-III reservoir is a good quality high permeability sandstone, with porosity averaging about 26% and it is the largest and most prolific of all the reservoirs, with well rates currently averaging about 480 tonnes/day (3,660 Bbl/day). Production performance to date has been good, with no established well production decline or adverse GOR. The reservoir has been under water flood since 2001 and there are currently 5 peripheral water injectors. Total cumulative volume of injected water as of 30th September, 2006 was 7.13 million cubic metres (MMm^3). The reservoir has produced about 21% of its STOIIP to date, with no significant water production. Water injection is insufficient to maintain reservoir withdrawals, and there is some degree of localised pressure depletion.

According to The 2004 Akshabulak Central Report there will be 10 more production wells drilled in Yu-III: 5 in 2007 and 5 in 2008. No new injectors are planned and the requirement for additional pressure support will be achieved through conversion of wells to water injection.

The Yu-IIIa is a carbonate reservoir that overlies the Yu-III and is separated from it by a shale interval. There is no established independent production from the Yu-IIIa but there is commingled production from a number of wells in the Akshabulak Central area. Reservoir quality is fair and there is uncertainty regarding the lateral connectivity owing to the nature of the carbonate reservoir.

Figure 4 shows the extent of the Yu-III and Yu-IIIa reservoirs, as mapped by KGM in 2005, and the wells that have tested or produced hydrocarbons from the reservoirs.

2.1.2 Akshabulak Central M-II-1 and M-II-2

The hydrocarbon bearing Cretaceous horizons in Akshabulak Central are the M-II-1 and M-II-2. The first well came on stream in May, 1998. Total cumulative oil production from the M-II as of 30th September, 2006 was 345.7 Mtonnes (2,613 MBbl). Average oil rate per well in September, 2006 was about 80 tonnes/day (605 Bbl/day) with a water cut of about 10%. Well decline rates are about 11% per year. The M-II contributes some 2.5% of total Akshabulak Central production.

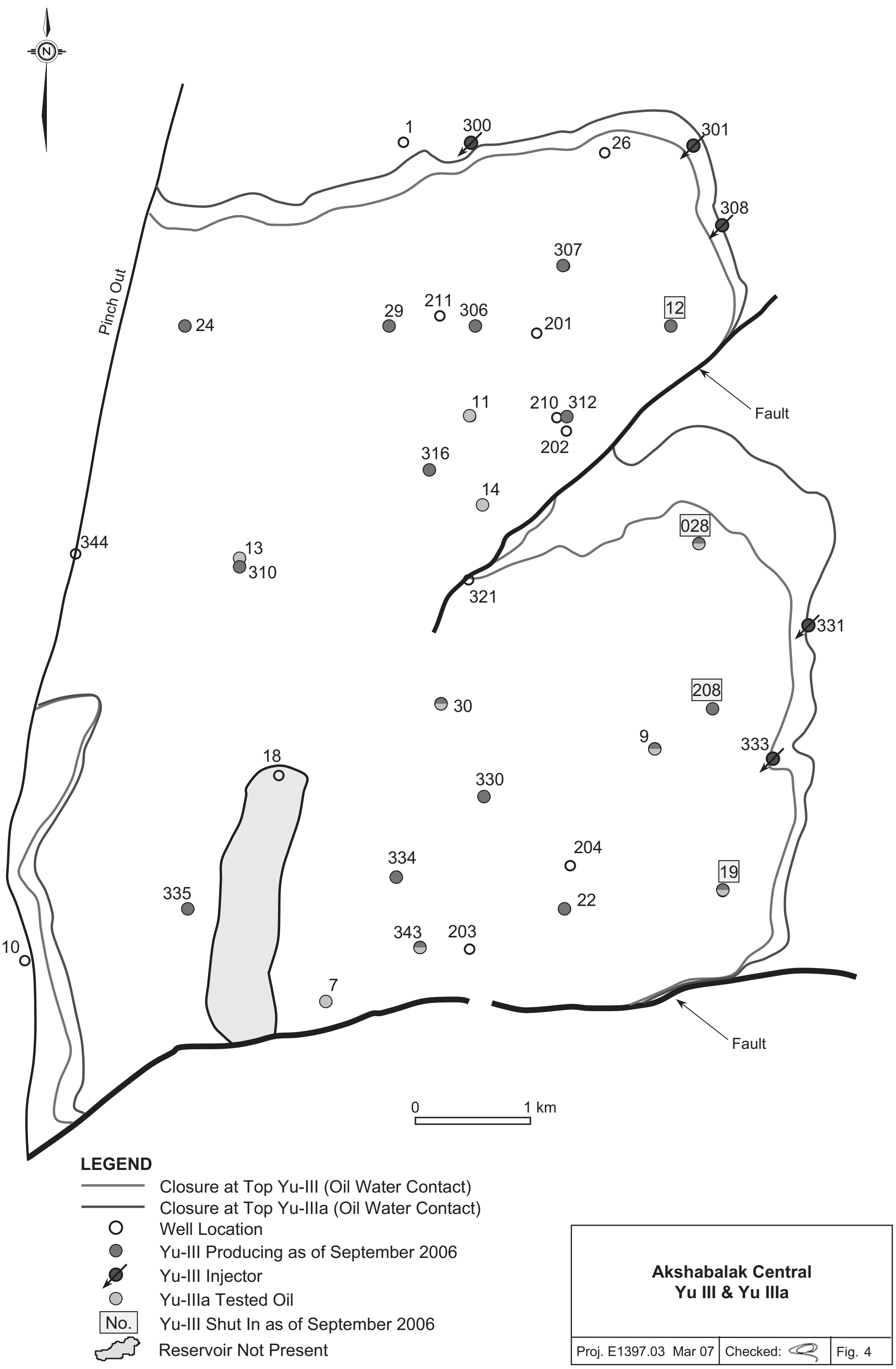
The M-II reservoir is still relatively undeveloped, with only 4 wells having been produced to date. The development plan was for 5 development wells to have been drilled in the M-II in 2005 and a further 5 in 2006. Over the two year period, only 1 well has actually been drilled. The main reason for this has been the awaiting of the results of reservoir studies. The plan is now to drill 10 wells in 2007 and a further 13 wells by 2010. Pressure maintenance is also planned to commence in 2011 with the conversion of wells to water injection. Not withstanding this failure to implement the development plan, GCA considers that the reservoir is sufficiently important to attribute Proved Reserves on the premise that the revised drilling schedule will be implemented.

Figure 5 shows the extent of the M-II-1 and M-II-2 reservoirs, as mapped by KGM in 2005, and the wells that have tested or produced hydrocarbons from the reservoirs.

2.1.3 Akshabulak Central Channel Sands Yu-0, Yu-I and Yu-II

The Upper Jurassic reservoirs are channel sand sequences and non channel over-bank deposits where the channels are reasonably well defined from seismic. Much of the recent drilling activity in Akshabulak has been targeted on these channels. To date, 3 wells have produced from the Yu-0 and 4 from the Yu-I. The well rates are not as high as for the Yu-III and most wells are exhibiting production decline. Without pressure maintenance, recoveries are not expected to be high, especially from the over-bank areas. Cumulative production to 30th September, 2006 was 265.2 Mtonnes (2,040 MBbl) from the Yu-1 and 167.8 Mtonnes (1,290 MBbl) from the Yu-0.

Figure 4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LEGEND
Closure at Top Yu-III (Oil Water Contact)
Closure at Top Yu-IIIa (Oil Water Contact)
Well Location
Yu-III Producing as of September 2006
Yu-III Injector
Yu-IIIa Tested Oil
No.
Yu-III Shut In as of September 2006
Reservoir Not Present
Akshabalak Central
Yu III & Yu IIIa
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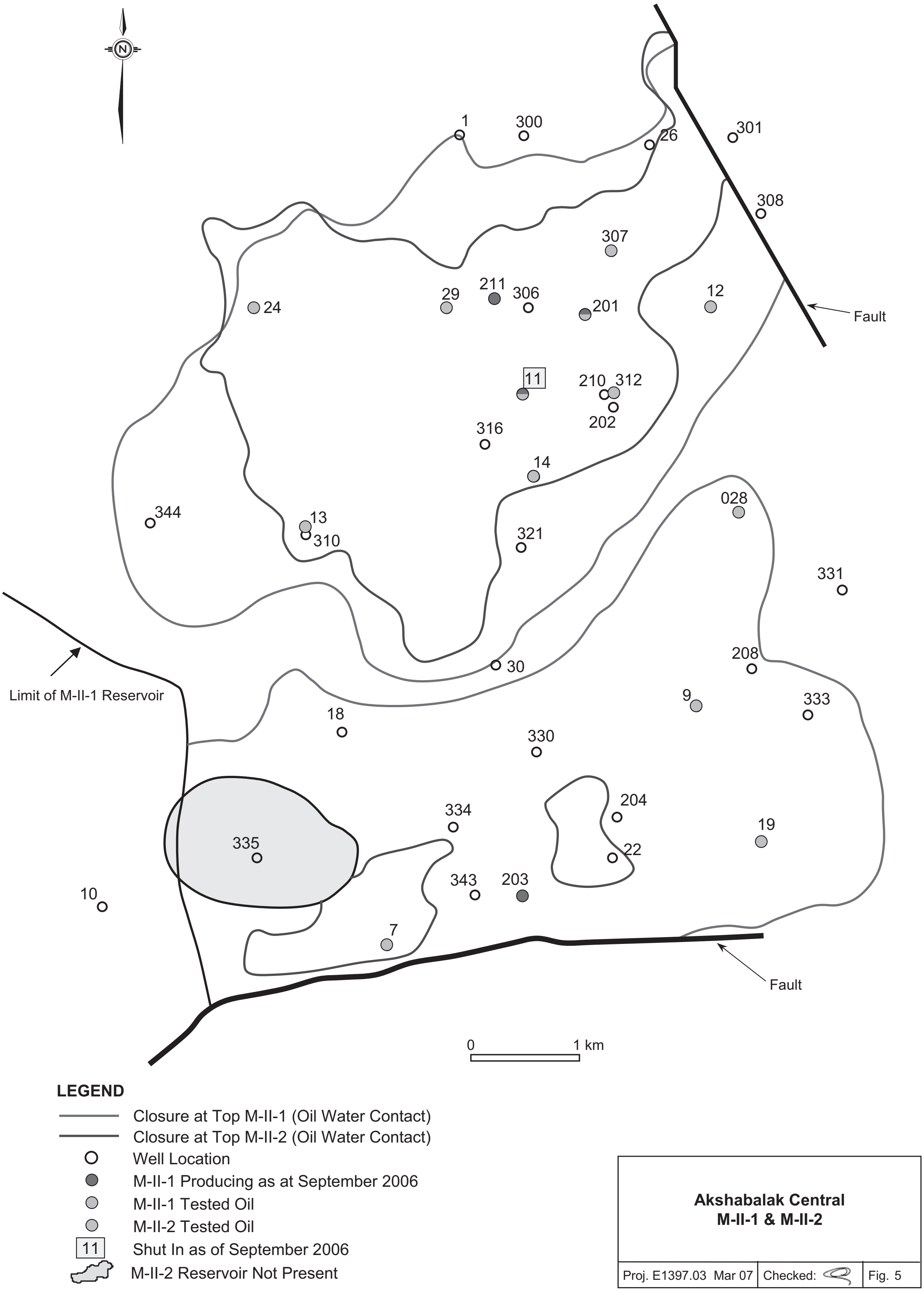
Fig. 4

Figure 5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028
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Limit of M-II-1 Reservoir
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333
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330
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22
343
203
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Fault
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1 km
LEGEND
Closure at Top M-II-1 (Oil Water Contact)
Closure at Top M-II-2 (Oil Water Contact)
Well Location
M-II-1 Producing as at September 2006
M-II-1 Tested Oil
M-II-2 Tested Oil
11
Shut In as of September 2006
M-II-2 Reservoir Not Present
Akshabalak Central
M-II-1 & M-II-2
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Fig. 5

Figure 6 shows the mapped limit of the main channel sands, as mapped in 2004 and the wells that have tested or produced hydrocarbons from the reservoirs.

2.1.4 Akshabulak East

Akshabulak East is a small fault controlled anticline to the northeast of Akshabulak Central. At the Yu-III level the seismic depth section shows sediment drape over a basement high. The seismic data is fair to good. Two wells have produced from the Yu-III reservoir. A recent well, AKSH 34, failed to encounter productive Yu-III but discovered oil in the Yu-II.

Since April, 2006 Akshabulak East has not been producing as the ''Pilot Development Plan for Akshabulak East field'' (Protocol CCFD as at 29th April, 2003) had expired. The new 2006 project document ''Technological Scheme on Development of Akshabulak East field'' prepared by NIPINeftiGaz (The 2006 Akshabulak East Report), has been approved by CCFD RK in November, 2006, allowing the field to be returned to production.

As of 30th September, 2006 cumulative oil production from Akshabulak East field was 188.6 Mtonnes (1,436 MBbl). There are no plans for water injection in the Yu-III or Yu-II.

The drilling schedule is based on two additional production wells: one in 2007 and one in 2008, and no drilling beyond 2008.

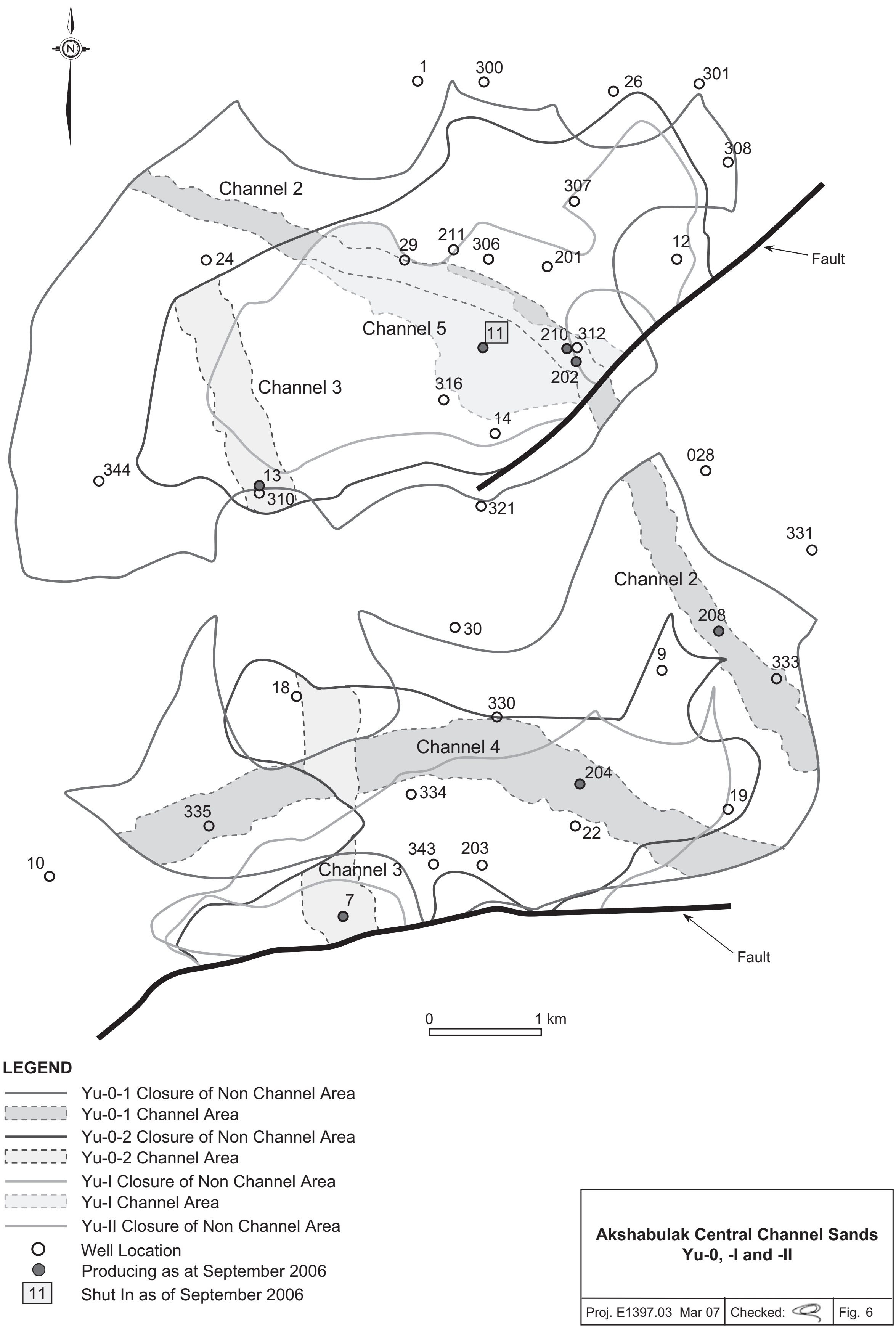
2.1.5 Akshabulak South

The productive reservoirs in Akshabulak South are Yu-0 and Yu-1 channel sands, of which the Yu-I reservoir is an extension of the Akshabulak Central Channel 3. The Yu-III and M-II are primarily gas bearing in this region. Production commenced in December, 2004 and as of 30th September, 2006 there were 2 producers, one in each channel. Well AKSH 36 is producing from Yu-I horizon at about 100 tonnes/day (775 Bbl/day) average oil rate and well AKSH 37 produces at a lower rate of some 8 tonnes/day (62 Bbl/day) from the Yu-0. Cumulative oil production as of 30th September, 2006 was 73.2 Mtonnes (567 MBbl) with no significant water production.

The latest official document on the Akshabulak South field development is the Pilot Development Plan approved by CCFD RK in December, 2003. In 2005 the updated field development document entitled ''Additional field exploration plan for Akshabulak South field'' (The 2005 Akshabulak South Report) was approved (Protocol CCFD RK N^{o}36 as at 9th December, 2005). At present all activities carried out on the field are in accordance with the latter document. ''NIPIMunaiGaz'' Research Institute has been preparing a new follow-up report on implementation of the development strategy envisaged in the pilot development plan, and this report should be ready by January, 2007.

KGM budgeted one new producer in Akshabulak South in its 2007 Budget.

Figure 6



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Channel 2
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Channel 3
Channel 2
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335
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343
203
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7
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1 km
LEGEND
Yu-0-1 Closure of Non Channel Area
Yu-0-1 Channel Area
Yu-0-2 Closure of Non Channel Area
Yu-0-2 Channel Area
Yu-I Closure of Non Channel Area
Yu-I Channel Area
Yu-II Closure of Non Channel Area
Well Location
Producing as at September 2006
11
Shut In as of September 2006
Akshabulak Central Channel Sands
Yu-0, -I and -II
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Checked:
Fig. 6

2.2 Nuraly

The Nuraly field is located about 35 km northwest of Akshabulak and was discovered in 1983. First oil was tested in 1987 and production commenced in June, 1996. As of 30th September, 2006 cumulative oil production was 433.0 Mtonnes (3,329 MBbl). Average oil rate per well in September, 2006 was about 90 tonnes/day (690 Bbl/day) at an average water cut of 17%. There is currently no water injection for reservoir pressure support.

At the end of September, 2006 there were a total of 36 wells in Nuraly, of which 7 were operational. In total, 17 wells have been on production at some time or other from the field.

The Nuraly field is divided into three areas: Central, West and East (Figure 7). The main hydrocarbon bearing reservoirs are Yu-0, -II and -III in Nuraly Central and the M-II-3 and -4 in Nuraly West. Minor reservoirs are the M-II-2 and M-II-1 in Nuraly Central, Yu-I in Nuraly West and Yu-IV in Nuraly East. The Yu-IV is primarily gas bearing.

Recent drilling on Nuraly West has had mixed results. Well Nly-69 tested oil in the south-eastern M-II-3 lobe and well Nly-65 was wet in the south-western M-II-3 lobe.

In comparison to Akshabulak, sand quality in Nuraly is generally poorer and with lower hydrocarbon saturations. Reservoir thickness is typically between 10 and 25 m for the main reservoir units.

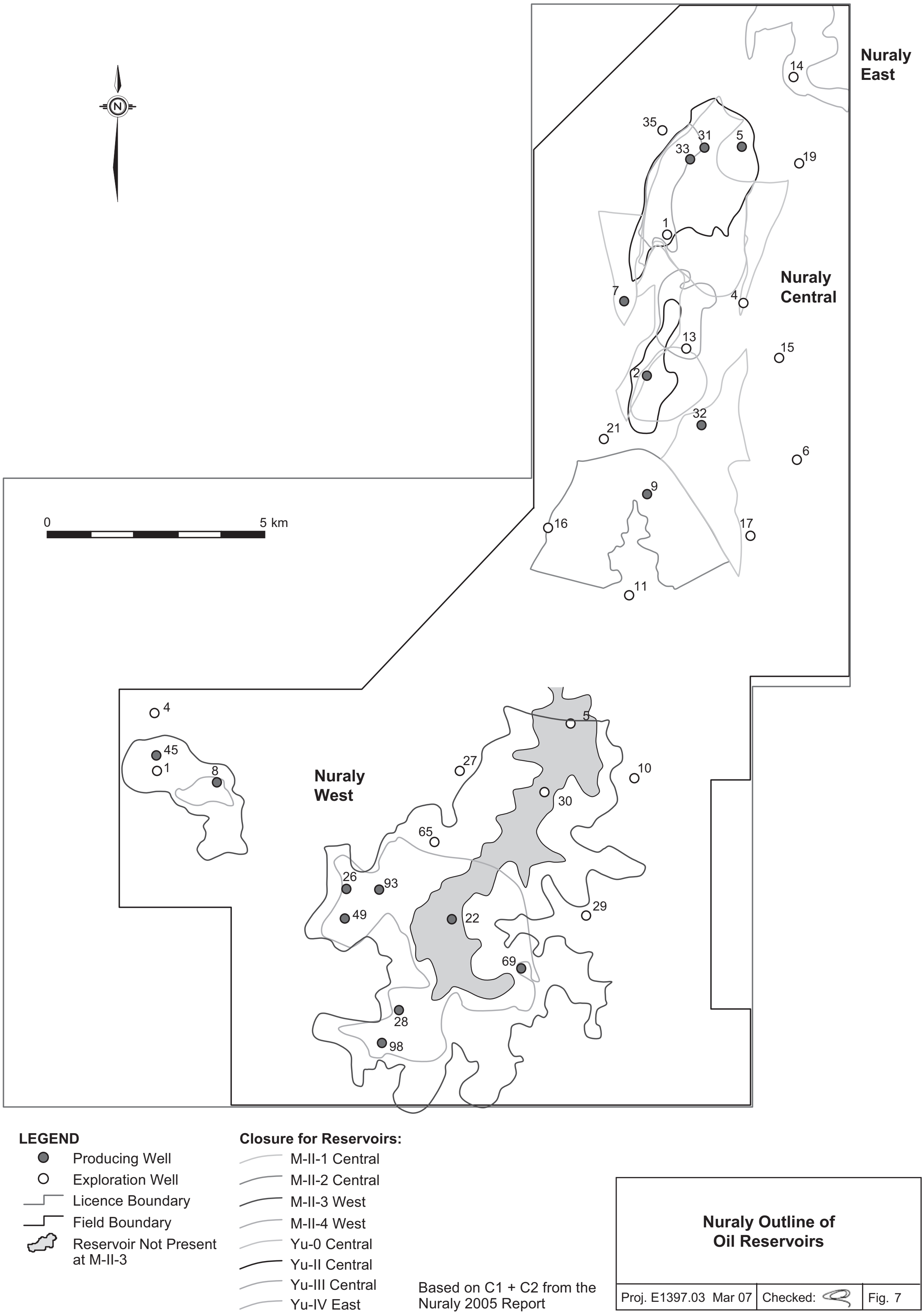
2.2.1 Jurassic

Unlike the Akshabulak field, where the reservoirs generally occur with a sheet like geometry, the Jurassic sands in Nuraly are constrained to a series of incised paleo valleys. Reservoir quality and connectivity are therefore anticipated to be poorer than in Akshabulak.

The Jurassic reservoirs are located mostly in Nuraly Central. The Yu-0 and Yu-II have proved oil in two separate reservoirs, the Yu-III has proved oil in one reservoir and oil with a gas cap in another reservoir. There is a minor oil accumulation in the Yu-I in Nuraly West and an oil rim with gas cap in the Yu-IV in Nuraly East. The Jurassic reservoirs are not well delineated with drilling, with most reservoirs containing only one or two wells.

The Yu-II is a fluvial deposit consisting of fine to medium grained sandstones, ranging in thickness from 10 to 35 m. The stratigraphic nature suggests that the morphology will be constrained to channel deposits for the best reservoirs and thinner, poorer reservoirs outside the channels in over-bank deposits. The fine to medium grained nature of the sands also suggests variable productivities and recoveries. Reservoir quality is somewhat poorer than seen in Akshabulak; porosity and permeability in the Mid Jurassic Yu-II and Yu-0/I reservoir range between 15% and 23% and 100 to 500 mD respectively.

Figure 7



N
0
5 km
Nuraly East
Nuraly Central
Nuraly West
14
35
31
5
33
19
1
7
4
13
15
2
32
21
6
9
16
17
11
4
5
45
1
8
27
10
30
65
26
93
49
22
29
69
28
98
LEGEND
Producing Well
Exploration Well
Licence Boundary
Field Boundary
Reservoir Not Present at M-II-3
Closure for Reservoirs:
M-II-1 Central
M-II-2 Central
M-II-3 West
M-II-4 West
Yu-0 Central
Yu-II Central
Yu-III Central
Yu-IV East
Based on C1 + C2 from the Nuraly 2005 Report
Nuraly Outline of Oil Reservoirs
Proj. E1397.03 Mar 07
Checked:
Fig. 7

2.2.2 Cretaceous

The overlying Lower Cretaceous M-II-1 reservoir was deposited as a drape over the entire structure. The M-II-1 has porosity of the order of 8-20% and permeability of 10 -100 mD.

The most significant Cretaceous reservoirs are the Nuraly West M-II-3 and M-II-4. The M-II-3 also has a large unappraised area. The Nuraly Central M-II-1 has a small proved oil volume with a larger volume of gas and unproven oil. The Nuraly Central M-II-2 is relatively thin and has been produced from one well (Nly-9) that has been shut in since 1998 with a cumulative production of only 403 tonnes (3,084 Bbl).

Nuraly is developed according to the ''Technological Scheme on Nuraly field Development'' which was prepared by ''Caspi Energy Research Institute'' in 2005 (The Nuraly 2005 Report) and subsequently approved by CCFD RK (Protocol N^{o}32 as at 15th April, 2005).

The proposed development plan for Nuraly is based on partial pressure maintenance of the Nuraly Central Yu-II and Nuraly West M-II-3 with water injection commencing in 2007. There are no plans for pressure maintenance in any of the other reservoirs.

KGM plans to drill two injection wells in the Nuraly field in 2007.

2.3 Aksai

The Aksai field is located about 10 km south of Nuraly and covers an area of 296 km^2. There are two separate pools: Aksai Central and South. The field is productive from the Lower Cretaceous M-I and M-II-4 sands only. The M-I sand is present in both the Central and South areas.

A total of 21 wells have been drilled on Aksai, of which five have produced, although 92% of production has come from two wells. The field has been shut in since July, 2005 due to expiry of the pilot development plan. Cumulative production to 30th September, 2006 was 50.9 Mtonnes (387 MBbl).

The Aksai area is more gas prone, with wells producing at an overall higher average GOR than either Akshabulak Central or Nuraly.

Two exploration wells are planned on Aksai during 2007 into the crestal locations of the gas bearing horizons, but there is no further planned development drilling at this time.

3. RECOVERABLE OIL

In the determination of Reserves and for reporting purposes, GCA has calculated a Remaining Recovery for each reservoir. Subject to an Economic Limit Test, these Remaining Recoveries form the basis of the Proved and Proved + Probable Reserves.

3.1 Akshabulak Central

3.1.1 Akshabulak Central Yu-III and Yu-IIIa

GCA has performed checks on the maps from the 2006 Akshabulak Central Report against the well and other data. Both Well Summaries and depth structure maps matched very well. The Net Pay at the Yu-IIIa carbonate reservoir matched reasonable well because the reservoir is very thin, ranging from 0 to 9 m. As a result of the thin nature of the sands, errors were up to 50%. The Top of the depth structure map at the Yu-III reservoir level matched very well, ranging from exact to an error of 10 m. The Net Pay at this level matched well with margins of error ranging from exact to 50% but overall, this was the best match of the horizons examined. The oil water contacts at both levels are very narrow and well defined by the wells.

A comparison was made between the maps in The 2004 Akshabulak Central Report and The 2006 Akshabulak Central Report at the Yu-IIIa and Yu-III levels. The major changes involved three wells: AKSH 344, 335 and 343 in the western part of Akshabulak Central. At the Yu-III, AKSH 343 confirmed the existing analysis; in AKSH 344, the reservoir was much thinner; and AKSH 335 found a slightly thicker interval. The net thickness maps are identical, except for inclusion of the drilling results in The 2006 Akshabulak Central Report.

The net thickness of Yu-IIIa and Yu-III does not require any adjustment as there was a reasonable match.

The Yu-III is considered to be fully delineated, although there is still potential for infill drilling in the western area, especially given the results of AKSH 335. The Yu-IIIa, however, is less well defined. Production from the Yu-IIIa is commingled with the Yu-III and is not reported separately. A spinner survey performed on well AKSH 30, however, does indicate that there is flow contribution from the Yu-IIIa.

GCA has accepted a STOIIP of 324.7 MMBbl for the Yu-III and 17.7 MMMbl for the Yu-IIIa for the purposes of calculating Proved Reserves, and 338.6 MMBbl for the Yu-III and 49.9 MMBbl for the Yu-IIIa for calculating the Proved + Probable Reserves.

Although there may be some uncertainty about the connectivity in the western part of the Yu-III, overall reservoir performance is excellent and indicative of good sweep efficiencies and recoveries. Whilst about 21% of the Yu-III STOIIP has already been produced, there is no indication of any production decline or increasing water cut trends on which to estimate performance based Reserves. KGM's Proved recovery factor is 68.3%, compared with the approved development plan value of 70%. It is not clear how these high recovery factors have been derived, given the lack of relative permeability data and access to the ECLIPSE modelling studies. The fluid and reservoir characteristics otherwise indicate an efficient water displacement mechanism. Considering the reservoir characteristics, and supported by analytical techniques, GCA has attributed recovery factors of 60% for Proved and 68.3% for Proved + Probable.

Given the uncertainty regarding the reservoir quality and connectivity, GCA has assigned recovery factors to the Yu-IIIa of 10% for Proved and 15% for Proved + Probable.

3.1.2 Akshabulak Central M-II-1 and M-II-2

GCA has performed checks on the 2006 maps against the well data for four control wells AKSH 208, 210, 211 and 344. Both the well summaries and depth structure and gross thickness maps at M-II matched well. For the M-II-1 reservoir, gross thickness varied from 5% to 30% with mapped net pay being consistently 20% to 30% higher than the well data indicated. Both the gross thickness and the depth structure map at the M-II-2 were a good match with the well control. The net pay maps were a reasonable match, varying by about 2 m, or up to 30%.

This suggests that some modification would be necessary in the volumetric calculations for the M-II-1 but not for the M-II-2.

The M-II-1 reservoir is well delineated in both the north and south lobes. The M-II-2 is considered by KGM to be fully delineated in the north, but not in the south, where there are as yet no established well tests. Whilst there are production tests in the M-II-2 North and production is being commingled with the M-II-1, the reported oil production is not broken down by reservoir unit and there is no way of knowing what is the overall contribution from the M-II-2.

At the Proved level GCA has attributed a reduced M-II-1 STOIIP of 125.3 MMBbl to reflect the discrepancies in net pay shown on the maps and from the well reports. This is also justified on the basis that well density is not high in the west. GCA considers that it is reasonable to attribute Proved Reserves to the M-II-2 North, but not the M-II-2 South.

At the Proved + Probable level GCA has accepted a STOIIP estimate of 183.4 MMBbl, based on The 2006 Akshabulak Central Report for the M-II-1 and M-II-2.

The 2004 Akshabulak Central Report quotes recovery factors of 30.7% for all of the M-II reservoirs. This is reasonable for the M-II-1, assuming successful implementation of the planned water injection scheme. As this has not yet been demonstrated, GCA has attributed a Proved recovery factor of 20.2% to the M-II-1 (based on The KGM 2006 Reserves Report) and Proved + Probable recovery factors of 30.7% to the M-II-1 and 25% to the M-II-2.

These recovery factors should be achievable, provided that the forward drilling plan is implemented.

3.1.3 Akshabulak Central Channel Sands Yu-0, Yu-I and Yu-II

GCA has reviewed the mapping for the Akshabulak Central Jurassic channel sand reservoirs and the well performance. GCA accepts that recent mapping and drilling activity justify the increase in STOIIP from The 2004 Akshabulak Central Report to The 2006 Akshabulak Central Report, especially for the Yu-0, which only came onto production in 2004.

Existing production is from the channel sands and there is no sustained production to date from the non channel areas to confirm either reservoir productivity or connectivity. There is also no evidence to confirm that water injection would be successful in these sands. GCA has accepted a STOIIP of 83.4 MMBbl for the Yu-0 and 23.9 MMBbl for the Yu-I in the Proved case on the basis that the channel areas will be drained by existing and committed wells. GCA has also accepted STOIIP of 137.5 MMBbl for the Yu-0, 34.5 MMBbl for the Yu-I and 18.6 MMBbl for the Yu-II in the Proved + Probable case.

Dynamic ECLIPSE modelling studies performed by KGM during 2005 on three of the channels: Channel 3, Yu-0-2; Channel 4, Yu-0-1 and Channel 5, Yu-I (see Figure 6) predicted recovery factors ranging between 11% and 24%, with the lowest recovery from the Channel 4 Yu-0. These are lower than the recovery factors quoted in The 2004 Akshabulak Central Report, which were generally in the range of about 25% to 35%.

At the Proved level, GCA has excluded the non channel areas and has assigned a Proved recovery factor of 10% to the Yu-0 and 20% to the Yu-I. These recovery factors are based on the decline rates for the two sands. They are also in line with the results of the ECLIPSE modelling studies.

The Yu-II sand is very limited and present in only 3 wells. Whilst the reservoir tested 184 m^3/day (1,160 Bbls/day) from the Yu-II, GCA has not attributed Proved Reserves to this reservoir.

At the Proved + Probable level for the Yu-0 reservoir, GCA has assigned recovery factors of 25% for the channel areas and 15% for the non channel, for an overall recovery factor of 21.1%. For the Yu-I and Yu-II, recovery factors of 30% for the channel areas and 15% for the non channel areas have been assigned.

3.2 Akshabulak East

During 2005 KGM updated the ECLIPSE model for the Akshabulak East Yu-III reservoir. Predicted recovery factor was 29%.

The 2006 Akshabulak East Report quotes recovery factors of 24% for the Yu-III carbonate and 53% for the Yu-III sandstone, for an overall recovery of 44.8%. Whilst the 2007 drilling plan includes 1 well in Akshabulak East, the KGM 2006 Reserves report states that no further potential for the Yu-III is considered in the area.

GCA has not audited the above STOIIP estimates, but well performance indicates a Proved recovery factor of 40% based on existing wells. At the Proved + Probable level, the overall recovery factor of 44.8% has been accepted, as this is still in line with well performance.

Whilst Akshabulak East has been shut in since April, 2006, GCA has attributed Proved Reserves on the basis that the ''Technological Scheme on Development of Akshabulak East field'' prepared by NIPINeftiGaz has been approved by CCFD RK in November, 2006, allowing the field to be returned to production.

3.3 Akshabulak South

GCA has not considered the oil potential associated with the M-II or Yu-III gas reservoirs on the basis that there is no development plan for handling large gas volumes, and oil Reserves are attributed solely to the Yu-0 and Yu-I channels.

Well AKSH 36 is reported to have tested and produced oil from the Yu-I, which implies that this is included as part of the Yu-0 in The 2005 Akshabulak South Report.

The results of well AKSH 37 were disappointing in that the net pay in the well was below prognosis and production rates have been low. The Yu-1 well AKSH 36 is also exhibiting a high production decline. With the provision of a further well in Akshabulak South in 2007 (as proposed by KGM), there is still little justification to support the levels of Reserves carried in The 2005 Akshabulak South Report. The STOIIP estimates in The KGM 2006 Reserves Report are considered by GCA to be more reasonable. Based on production performance, and making provision for a further well in 2007, GCA has attributed a recovery factor of 15% for Proved and 20% for Proved + Probable.

3.4 Akshabulak Recoverable Oil

Akshabulak remaining recoverable oil as at 30th September, 2006 is summarised in the following table at the **Proved** level:

	Reservoir	STOIIP MBbl	Recovery Factor	Ultimate Recovery MBbl	Cum Prod MBbl	Remaining Recovery MBbl
Akshabulak Central						
	Yu-III	324,659	60.0%	194,795	68,435	126,360
	Yu-IIIa	17,653	10.0%	1,765	—	1,765
	M-II	125,288	20.2%	25,308	2,613	22,695
	Yu-0	83,405	10.0%	8,341	1,290	7,051
	Yu-I	23,906	20.0%	4,781	2,040	2,742
	Yu-II	—	—	—	—	—
Akshabulak East		8,871	40.0%	3,548	1,436	2,113
Akshabulak South		11,230	15.0%	1,685	567	1,117
Total Akshabulak		**595,012**	**40.4%**	**240,223**	**76,381**	**163,842**

Notes:

1. Numbers may not add up due to rounding
2. The Yu-IIIa production is included in the Yu-III
3. These remaining recoverable resources are subject to the Economic Limit Test cut off

Akshabulak remaining recoverable oil as at 30th September, 2006 is summarised in the following table at the **Proved + Probable** level:

	Reservoir	STOIIP MBbl	Recovery Factor	Ultimate Recovery MBbl	Cum Prod MBbl	Remaining Recovery MBbl
Akshabulak Central						
	Yu-III	338,622	68.3%	231,279	68,435	162,844
	Yu-IIIa	49,915	15.0%	7,487	—	7,487
	M-II	183,432	29.9%	54,785	2,613	52,172
	Yu-0	137,522	21.1%	28,969	1,290	27,679
	Yu-I	34,532	25.4%	8,766	2,040	6,726
	Yu-II	18,585	17.3%	3,211	—	3,211
Akshabulak East		10,455	44.8%	4,684	1,436	3,248
Akshabulak South		11,230	20.0%	2,246	567	1,679
Total Akshabulak		**784,295**	**43.6%**	**341,427**	**76,381**	**265,046**

Notes:

1. Numbers may not add up due to rounding
2. These remaining recoverable resources are subject to the Economic Limit Test cut off
3. The Yu-IIIa production is included in the Yu-III

Akshabulak remaining recoverable oil as at 30th September, 2006 is summarised in the following table at the **Proved + Probable + Possible** level:

	Reservoir	STOIIP MBbl	Recovery Factor	Ultimate Recovery MBbl	Cum Prod MBbl	Remaining Recovery MBbl
Akshabulak Central						
	Yu-III	338,622	70.0%	237,036	68,435	168,601
	Yu-IIIa	49,915	25.0%	12,479	—	12,479
	M-II	183,432	35.0%	64,201	2,613	61,588
	Yu-0	137,522	30.0%	41,257	1,290	39,967
	Yu-I	34,532	30.0%	10,360	2,040	8,320
	Yu-II	18,585	35.0%	6,505	—	6,505
Akshabulak East		10,455	44.8%	4,684	1,436	3,248
Akshabulak South		11,230	30.0%	3,369	567	2,802
Total Akshabulak		**784,295**	**48.4%**	**379,890**	**76,381**	**303,509**

Notes:

1. Numbers may not add up due to rounding
2. The Yu-IIIa production is included in the Yu-III

3.5 Nuraly

GCA was provided with reports and various presentation documents, but no digital seismic project or reservoir models. The Nuraly and Aksai fields are covered by 420 km^2 of 3D seismic recorded in 2001/2002. During 2004/2005 these data were reprocessed and reinterpreted.

Based on KMG's own long term forecast, Nuraly comprises about 11.6% of the remaining oil resources in all three fields. Of this, about 68% is in the Nuraly Central Yu-II and Nuraly West M-II-3 reservoirs. GCA has not performed as rigorous an audit on Nuraly as it has on the Akshabulak main reservoirs. Rather, GCA has reviewed the technical reports for consistencies and performed spot checks on the maps from the 2004 study against recent well results. GCA generally accepts the STOIIP presented in The Nuraly 2005 Report, but has adjusted the recovery factors based on well performance, well coverage and confidence in the degree of reservoir quality and connectivity.

Based on GCA's assessment of the Nuraly reservoirs, Nuraly remaining recoverable oil as at 30th September, 2006 is summarised in the following table at the **Proved** level:

	Reservoir	STOIIP MBbl	Recovery Factor	Ultimate Recovery MBbl	Cum Prod MBbl	Remaining Recovery MBbl
Central	M-II-1	1,602	1.6%	25	25	—
Central	M-II-2	2,204	0.1%	3	3	—
West	M-II-3	26,016	35.0%	9,106	155	8,951
West	M-II-3 (Nly-8)	4,041	20.0%	808	545	263
West	M-II-4	3,126	35.0%	1,094	806	288
Central	Yu-0	9,894	20.0%	1,979	49	1,930
West	Yu-1	2,502	0.0%	—	—	—
Central	Yu-II	35,648	30.0%	10,694	1,756	8,938
Central	Yu-III	2,053	20.0%	411	4	407
East	Yu-IV	10,585	0.0%	—	—	—
Total Nuraly		**97,670**	**24.7%**	**24,120**	**3,343**	**20,777**

Notes:

1. Numbers may not add up due to rounding
2. These remaining recoverable resources are subject to the Economic Limit Test cut off

GCA considers that the KGM STOIIP estimates are reasonable, but has reduced KGM's overall recovery factor from 47.6% to a composite 24.7% for the following reasons:

1. It has not been demonstrated that reservoir connectivity exists or that water flooding will be successful. For the main reservoirs with the most production to date (Nuraly Central Yu-II, -III and Nuraly West M-II-3 and -4) recovery factors of 30% to 35% are assigned.
2. For the smaller reservoir, M-II-3 West in Nly 8, with less recovery to date, a reduced recovery factor of 20% has been assigned.
3. For the small M-II-1 Central and M-II-2 Central reservoirs, wells NLY-7 and NLY-9 have not produced since 1998 and no further Reserves are attributed.
4. The Yu-IV is primarily gas and condensate, with a thin oil rim in only one well (Nly-14). No Proved Reserves are attributed.
5. No maps were presented for the Yu-I West, other than a circle around well NLY-29. There are also no reported tests or production for the reservoir.

Nuraly remaining recoverable oil as at 30th September, 2006 is summarised in the following table at the **Proved + Probable** level:

	Reservoir	STOIIP MBbl	Recovery Factor	Ultimate Recovery MBbl	Cum Prod MBbl	Remaining Recovery MBbl
Central	M-II-1	14,775	15.0%	2,216	25	2,191
Central	M-II-2	2,239	10.0%	224	3	221
West	M-II-3	39,926	40.0%	15,970	155	15,815
West	M-II-3 (Nly-8)	13,125	30.0%	3,937	545	3,392
West	M-II-4	3,596	40.0%	1,438	806	632
Central	Yu-0	13,312	35.0%	4,659	49	4,611
West	Yu-1	2,502	0.0%	—	—	—
Central	Yu-II	35,648	40.0%	14,259	1,756	12,503
Central	Yu-III	2,895	30.0%	869	4	865
East	Yu-IV	18,429	20.0%	3,686	—	3,686
Total Nuraly		**146,447**	**32.3%**	**47,259**	**3,343**	**43,916**

Notes:

1. Numbers may not add up due to rounding
2. These remaining recoverable resources are subject to the Economic Limit Test cut off

GCA considers that the KGM STOIIP estimates are reasonable, but has reduced KGM's overall recovery factor from 47.6% to a composite 32.3%. Recovery factors of 40% are attributed to the two largest reservoirs with planned water injection, i.e. the Nuraly Central Yu-II and Nuraly West M-II-3/M-II-4.

Two injectors are budgeted for 2007. For 2008 and beyond GCA has accepted the drilling schedule presented in the ''Technological Scheme on Nuraly field Development''.

Nuraly remaining recoverable oil as at 30th September, 2006 is summarised in the following table at the **Proved + Probable + Possible** level:

	STOIIP MBbl	Recovery Factor	Ultimate Recovery MBbl	Cum Prod MBbl	Remaining Recovery MBbl
Total Nuraly	**146,447**	**45.9%**	**67,219**	**3,343**	**63,876**

3.6 Aksai

GCA has not performed a detailed review of the Aksai field and has not been able to validate the existing estimates of STOIIP. No Proved Reserves are attributed to Aksai on the basis that the field is currently shut in and there are no definitive plans to re-instate production or drill any further wells.

In 2003 TOO ''MunaiGazGeolservice'' carried-out an oil and gas Reserves re-assessment for Aksai field as of 1st January, 2003, approved by GKZ RK on 18th April, 2003 (Protocol N^{o} 223 — 03 — Y). No recovery factors or Reserves were indicated in the report. An expert from the Central Resources Committee considered that Aksai was insufficiently appraised to justify full development of the field at the time and that production forecasts quoted were too optimistic.

It is difficult to justify the STOIIP values on the basis of well performance, unless very low recovery factors are assumed. Proved + Probable Reserves are therefore attributed to the M-I and M-II reservoirs based on The KGM 2006 Reserves Report estimated STOIIP and a recovery factor of 20%.

Aksai remaining recoverable oil as at 30th September, 2006 is summarised in the following table at the **Proved** level:

	Reservoir	STOIIP MBbl	Recovery Factor	Ultimate Recovery MBbl	Cum Prod MBbl	Remaining Recovery MBbl
Total Aksai	**M-I, M-II**	**6,244**	**6.2%**	**387**	**387**	**0.0**

Note: These remaining recoverable resources are still subject to the Economic Limit Test

Aksai remaining recoverable oil as at 30th September, 2006 is summarised in the following table at the **Proved + Probable** level:

	Reservoir	STOIIP MBbl	Recovery Factor	Ultimate Recovery MBbl	Cum Prod MBbl	Remaining Recovery MBbl
Total Aksai	**M-I, M-II**	**6,244**	**20.0%**	**1,249**	**387**	**862**

Note: These remaining recoverable resources are still subject to the Economic Limit Test

These values are also consistent with well performance. Aksai remaining recoverable oil as at 30th September, 2006 is summarised in the following table at the **Proved + Probable + Possible** level:

	Reservoir	STOIIP MBbl	Recovery Factor	Ultimate Recovery MBbl	Cum Prod MBbl	Remaining Recovery MBbl
Total Aksai	**M-I, M-II**	**57,786**	**30.0%**	**17,336**	**387**	**16,949**

3.7 Reserves

Proved and Proved + Probable Reserves have been calculated from the remaining recoverable volumes by developing long term forecasts of production and costs and performing a pre-tax economic limit test (see Section 7). Reserves are attributable to those volumes of liquids and gas that are scheduled to be sold. The gas Reserves are the volumes of wet gas that go to the gas treatment plant, equivalent to the dry gas and LPG sales products.

Associated solution gas Reserves have been attributed on the premise of a constant producing GOR throughout the remaining life of the fields, based on actual current levels, less fuel, shrinkage and flare.

Gas Reserves have not been assessed for the non-associated or gas cap gas on the basis that there is no development plan to exploit the gas and there is no existing or planned infrastructure or market to handle gas volumes over and above those expected to be produced in association with the oil.

Any condensate that is recovered in the field is added to the oil and is included in the oil Reserves. No condensate Reserves are attributed to the non associated gas as there is as yet no development plan for this gas.

4. FIELD PROCESSING FACILITIES AND CAPACITIES

4.1 Oil production

The central oil processing facilities (COPS) are located in the Akshabulak field area. They comprise separation, oil treatment and storage. Oil production scheduled for export is transported via pipeline 57 km to Kumkol. Total oil processing capacity is 3.0 MMtonnes (circa 23 MMBbl) per year. There are additional ''First Oil Facilities'' that provide a further 0.3 MMtonnes (2.3 MMBbl) per year of capacity. At current production levels, these facilities are operating almost at full capacity.

There are currently no central processing facilities in either Nuraly or Aksai, only local two phase separation, with the gas flared and produced oil/water trucked to the COPS at Akshabulak Central.

4.2 Gas Utilisation

The total estimated volume of produced gas from the three fields for 2006 will be about 470 MMm^3. Of this, about 5% is used for field processing requirements and 300 MMm^3 is delivered to the gas processing facilities, where dry sales gas, natural gas liquids and liquified petroleum gas (LPG) are produced. Of the remaining produced gas, there is a 2006 flaring consent of 173 MMm^3 for the three fields. Whilst this is adequate to handle all of the remaining gas, flaring must cease by the end of 2007. Beyond that date, the existing facilities will not have sufficient capacity to handle all of the gas.

The dry gas is sold to Akimat of Kyzylorda region for local use, and currently the average annual demand for gas is about 240 MMm^3, which will be insufficient to accommodate all of the available gas after the cessation of gas flaring in 2007. GCA was provided with a copy of a co-operation agreement (unsigned) between Akimat and KMG that expresses the intent for Akimet to take up to 380 MMm^3 by 2008, which would cover all of the available dry gas derived from the produced associated gas. It would not, however, be sufficient to cover any significant amount of non-associated gas production.

On the basis of this agreement, KGM is no longer pursuing the option of re-injecting any excess gas (into Akshabulak South) but is expanding the gas processing facilities at Akshabulak Central to treat up to 515 MMm^3 a year of wet gas (410 MMm^3 of dry gas for delivery to market).

At the Proved + Probable level, GCA has accepted that this agreement will be implemented. Based on the forecast gas production, the extra gas handling and sales capacity will be adequate to prevent any curtailment in production. At the Proved level, if the gas sales capacity is not increased above the existing 240 MMm^3, then there may need to be a production curtailment between 2008 and 2010. As KGM is committed to the gas processing expansion project, GCA has also accepted the intent of the co-operation agreement at the Proved level.

GCA has assumed an LPG yield of 0.323 tonnes/Mm^3, based on values quoted in the April, 2005 gas utilisation feasibility study.

4.3 Oil Export

There is an obligation to provide about 8% of current oil production to the Chimkent refinery, from where a diesel product is taken and sold into the domestic market. Based on data provided to GCA the product yield is about 58% of the feed. At 2007 production levels, the commitment to Chimkent is about 235 Mtonnes (1,790 MBbl) of oil which, for the purposes of this assessment, is kept constant in future years at the Proved level. At the Proved + Probable level, the commitment to Chimkent is maintained at a constant 8% of oil production.

4.4 Future Plans

During 2007 it is planned to expand the production capacity at Nuraly with the installation of multi-phase pumps that will deliver produced fluids to the Akshabulak COPS for processing. This will also require the installation of a new pipeline from Nuraly to Akshabulak COPS.

The gas processing facilities are also planned to be expanded during 2007 from 300 MMm^3/year to 515 MMm^3/year of produced gas. This will increase the dry processed gas output from 240 MMm^3/year to 410 MMm^3/year. Provided that there is a market for the additional gas, there should then be no need to flare any gas.

5. DEVELOPMENT AND OPERATING COSTS

5.1 Capex

Information was provided on the 2006 capex budget and actual expenditures to September, 2006. A preliminary 2007 budget was also provided but there was no available information on capex for 2008 or beyond. The total 2006 budget capex is U.S.$62.5 MM. Excluding drilling and gas processing facilities, this reduces to U.S.$13.3 MM, of which U.S.$4.8 MM was expended to the end of September.

The 2007 capex budget is for a total U.S.$108.6 MM, or U.S.$78.0 MM excluding drilling. The majority of these costs are associated with the expanded gas processing facilities and Nuraly field facilities (multi-phase pumps and pipeline). No reliable estimates of capex have been provided for 2008 and beyond. At the Proved level, GCA has assumed that there will be no further capex beyond 2008 and at the Proved + Probable level has assumed a further U.S.$70 MM over four years.

Drilling capex has been estimated on the basis of the total well count and an average drilling cost of U.S.$1.45 MM per well for both producers and injectors.

5.2 Opex

The 2006 opex was based on the 2006 budget forecast as of September, 2006, less the DD&A and abandonment provisions (which are calculated within the cash flow model). The forecast opex is U.S.$48.0 MM, broken down as follows:

	U.S.$MM
Production costs	17.8
Personnel field	4.8
Personnel administrative	5.8
Personnel expatriate	3.6
Shareholder services	1.4
General	14.6

GCA has included an additional cost for operating the expanded gas processing facilities of U.S.$0.35 MM in 2007 and U.S.$0.7 MM in 2008 and beyond. Opex for 2008 and beyond at the Proved level is fixed at U.S.$48.7 MM; at the Proved + Probable level it is 70% fixed and 30% variable, based on the oil production rate in 2007.

5.3 Transportation

Transportation costs have been estimated at U.S.$42.00/tonne (U.S.$5.50/Bbl), based on the 2006 opex budget.

6. LONG TERM FORECASTING

Oil production forecasts are constructed for each field from a base decline for each reservoir, with provision for benefits from new wells and implementation of planned pressure maintenance. The remaining oil is recovered within the term of the Foundation Agreement (i.e. by March, 2024) at the Proved level. At the Proved + Probable level, the production has been taken out to 2030, on the premise that the contract will be extended. Associated gas is based on a constant producing GOR for each field. The Proved and Proved + Probable forecasts of oil production for each of the three fields, and wet gas production (less fuel and flare) for all fields, are summarised in Tables 2 and 3.

For the purposes of calculating NPVs the long term forecasts of export oil, diesel, LPG, dry sales gas, capex and opex are summarised at the Proved and Proved + Probable levels in Tables 4 and 5.

NPVs are not calculated for the Proved + Probable + Possible Reserves.

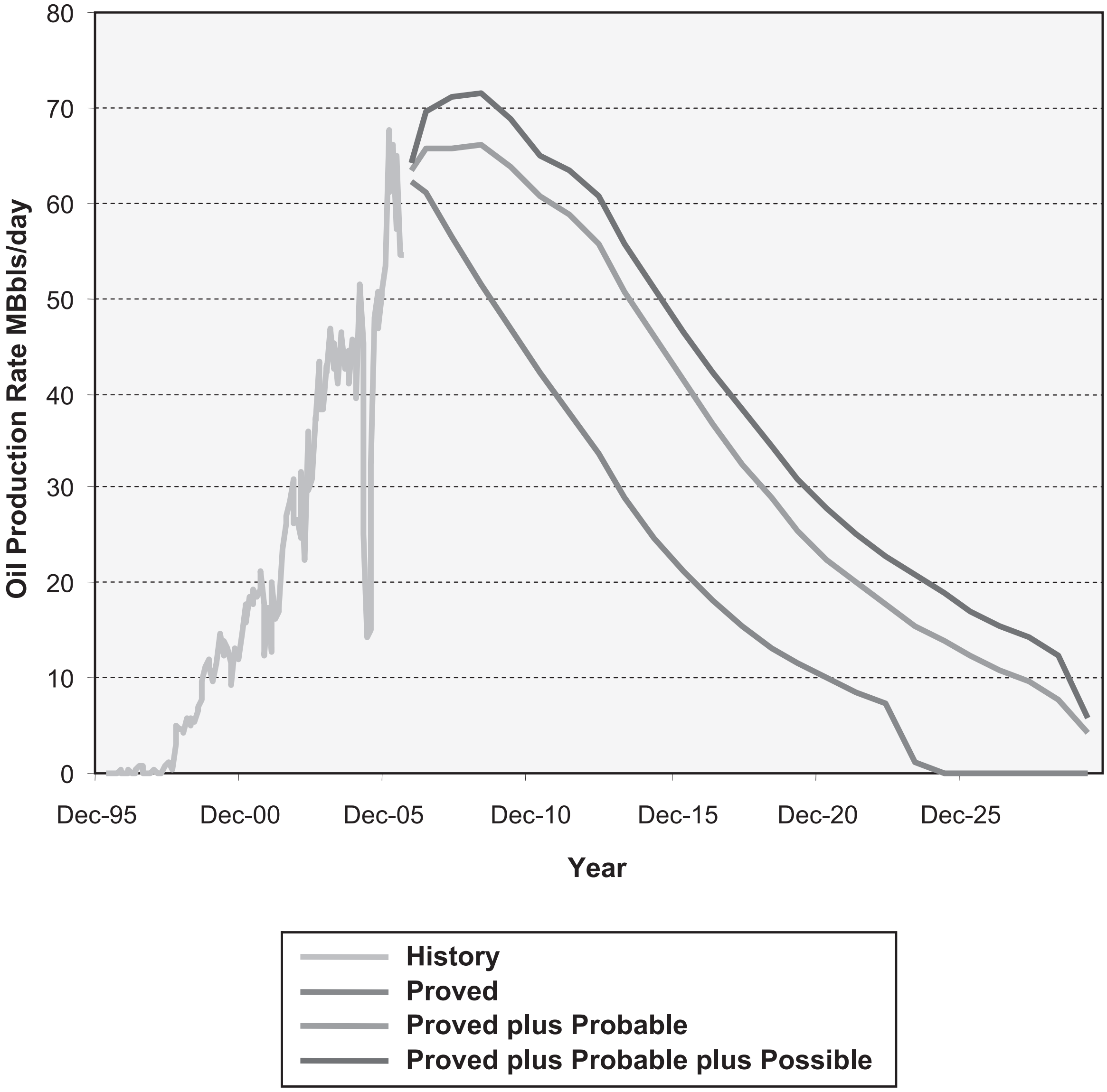
Historical oil production and the long term production forecasts for the Proved, Proved + Probable and Proved + Probable + Possible Reserves are plotted in Figure 8. The Proved + Probable + Possible forecast is not constrained by the current fluids handling limitations at the COPS, whereas both the Proved and Proved + Probable forecasts are. The forecast for the Proved + Probable + Possible Reserves is hence only indicative.

7. COMMERCIAL CONSIDERATIONS

GCA has developed an economic cash flow model for the purposes of performing the economic limit test for Reserves and calculating post-tax NPVs. The fiscal assumptions have been as follows:

1. All transportation costs, whether within or outside of Kazakhstan, are assumed to be deductible for taxes and Royalties.

Figure 8



Akshabulak, Nuraly and Aksai Fields Production History and Forecasts		
Proj. E1397.03 Mar 07	Checked:	Fig. 8

TABLE 2

LONG TERM OIL AND GAS PRODUCTION FORECASTS BY FIELD PROVED

	Akshabulak							
	Central MBbl	East MBbl	South MBbl	Total MBbl	Nuraly MBbl	Aksai MBbl	Total Oil MBbl	Total Wet Gas MMm^3
2006								
Oct-Dec	5,150	123	61	5,334	460	0	5,794	75.0
2007	19,833	437	220	20,489	1,839	0	22,329	300.0
2008	18,087	361	184	18,631	2,014	0	20,645	409.0
2009	16,020	298	153	16,472	2,259	0	18,730	365.0
2010	14,493	247	128	14,867	2,154	0	17,021	322.7
2011	13,130	204	107	13,441	1,925	0	15,366	280.5
2012	11,914	168	89	12,172	1,684	0	13,856	249.2
2013	10,649	139	75	10,863	1,449	0	12,312	218.4
2014	9,183	115	62	9,360	1,246	0	10,607	185.6
2015	7,907	21	38	7,965	1,073	0	9,038	155.8
2016	6,813	0	0	6,813	923	0	7,737	130.1
2017	5,823	0	0	5,823	795	0	6,618	108.9
2018	4,998	0	0	4,998	685	0	5,683	90.7
2019	4,242	0	0	4,242	590	0	4,832	73.8
2020	3,675	0	0	3,675	508	0	4,183	61.0
2021	3,184	0	0	3,184	438	0	3,622	49.9
2022	2,760	0	0	2,760	378	0	3,138	40.3
2023	2,393	0	0	2,393	326	0	2,718	31.9
2024	358	0	0	358	33	0	391	4.2
2025	0	0	0	0	0	0	0	0.0
2026	0	0	0	0	0	0	0	0.0
2027	0	0	0	0	0	0	0	0.0
2028	0	0	0	0	0	0	0	0.0
2029	0	0	0	0	0	0	0	0.0
2030	0	0	0	0	0	0	0	0.0
Total	**160,612**	**2,113**	**1,117**	**163,842**	**20,777**	**0**	**184,619**	**3,152.0**

Notes:

1. Numbers may not add up due to rounding
2. Gas production represents wet gas supplied to treatment plant, after fuel and flare

Checked: Approved: WBC

TABLE 3

LONG TERM OIL AND GAS PRODUCTION FORECASTS BY FIELD PROVED + PROBABLE

	Akshabulak							
	Central MBbl	East MBbl	South MBbl	Total MBbl	Nuraly MBbl	Aksai MBbl	Total Oil MBbl	Total Wet Gas MMm^3
2006 Oct-Dec	5,246	135	113	5,494	415	0	5,909	75.0
2007	20,690	496	395	21,580	1,661	0	23,242	400.0
2008	20,789	433	316	21,539	2,386	66	23,991	445.5
2009	19,921	379	253	20,553	3,401	121	24,075	408.3
2010	19,233	331	203	19,767	3,401	106	23,274	373.8
2011	18,184	289	163	18,636	3,401	94	22,130	347.5
2012	17,674	252	130	18,057	3,401	82	21,540	333.5
2013	16,787	221	104	17,112	3,350	73	20,535	313.7
2014	15,391	193	1	15,585	3,010	64	18,658	277.9
2015	14,014	168	0	14,183	2,659	56	16,897	248.0
2016	12,578	147	0	12,725	2,349	50	15,123	220.8
2017	11,172	128	0	11,301	2,075	44	13,420	194.4
2018	9,920	76	0	9,996	1,834	38	11,869	170.3
2019	8,813	0	0	8,813	1,621	34	10,468	148.5
2020	7,834	0	0	7,834	1,433	30	9,298	129.9
2021	6,968	0	0	6,968	1,267	5	8,241	112.9
2022	6,201	0	0	6,201	1,121	0	7,322	98.1
2023	5,470	0	0	5,470	991	0	6,462	84.4
2024	4,796	0	0	4,796	877	0	5,673	72.0
2025	4,255	0	0	4,255	776	0	5,031	61.6
2026	3,798	0	0	3,798	687	0	4,485	52.5
2027	3,392	0	0	3,392	608	0	4,000	44.4
2028	3,029	0	0	3,029	538	0	3,567	37.2
2029	2,398	0	0	2,398	406	0	2,804	28.8
2030	1,564	0	0	1,564	246	0	1,810	16.7
Total	**260,119**	**3,248**	**1,679**	**265,046**	**43,916**	**862**	**309,824**	**4,695.8**

Notes:

1. Numbers may not add up due to rounding
2. Gas production represents wet gas supplied to treatment plant, after fuel and flare

Checked: Approved: WBC

TABLE 4

LONG TERM FORECASTS OF EXPORT OIL, LPG, SALES GAS AND EXPENDITURES PROVED

	Export Oil MBbl	Diesel Mtonnes	LPG Mtonnes	Gas Sales MMm^3	Drilling Capex $MM	Facil Capex $MM	Opex $MM	Transp $MM
2006								
Oct-Dec	5,333	35.6	24.3	60.0	5.8	4.8	10.0	32.0
2007	20,554	137.3	97.0	240.0	27.6	78.0	48.4	123.2
2008	18,872	137.3	132.3	327.2	18.9	0.0	48.7	113.9
2009	16,958	137.3	118.0	292.0	10.2	0.0	48.7	103.4
2010	15,248	137.3	104.3	258.1	8.7	0.0	48.7	93.9
2011	13,592	137.3	90.7	224.4	0.0	0.0	48.7	84.8
2012	12,080	137.3	80.6	199.4	0.0	0.0	48.7	76.5
2013	10,535	137.3	70.6	174.7	0.0	0.0	48.7	67.9
2014	8,828	137.3	60.0	148.5	0.0	0.0	48.7	58.5
2015	7,258	137.3	50.4	124.7	0.0	0.0	48.7	49.9
2016	5,956	137.3	42.1	104.1	0.0	0.0	48.7	42.7
2017	4,836	137.3	35.2	87.1	0.0	0.0	48.7	36.5
2018	3,901	137.3	29.3	72.5	0.0	0.0	48.7	31.4
2019	3,049	137.3	23.9	59.0	0.0	0.0	48.7	26.7
2020	2,399	137.3	19.7	48.8	0.0	0.0	48.7	23.1
2021	1,838	137.3	16.1	39.9	0.0	0.0	48.7	20.0
2022	1,353	137.3	13.0	32.2	0.0	0.0	48.7	17.3
2023	933	137.3	10.3	25.5	0.0	0.0	48.7	15.0
2024	103	22.2	1.4	3.4	0.0	0.0	7.9	2.2
2025	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2026	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2027	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2028	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2029	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2030	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**153,626**	**2,391.5**	**1,019.1**	**2,521.6**	**71.1**	**82.8**	**845.4**	**1,018.8**

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TABLE 5

LONG TERM FORECASTS OF EXPORT OIL, LPG, SALES GAS AND EXPENDITURES PROVED + PROBABLE

	Export Oil MBbl	Diesel MMtonnes	LPG MMtonnes	Gas Sales MMm^3	Drilling Capex $MM	Facil Capex $MM	Opex $MM	Transp $MM
2006								
Oct-Dec	5,438	36.3	24.3	60.0	5.8	4.8	10.0	32.6
2007	21,388	142.8	129.3	320.0	27.6	78.0	48.8	128.2
2008	22,080	147.5	144.1	356.4	30.5	40.0	49.6	132.4
2009	22,161	147.9	132.0	326.6	23.2	20.0	49.7	132.7
2010	21,424	142.9	120.9	299.0	20.3	10.0	49.2	128.3
2011	20,372	135.9	112.3	278.0	10.2	0.0	48.4	121.9
2012	19,829	132.2	107.8	266.8	10.2	0.0	48.1	118.7
2013	18,904	126.1	101.4	251.0	0.0	0.0	47.4	113.1
2014	17,176	114.5	89.9	222.3	0.0	0.0	46.2	102.8
2015	15,555	103.7	80.2	198.4	0.0	0.0	45.1	93.1
2016	13,922	92.8	71.4	176.6	0.0	0.0	44.0	83.3
2017	12,354	82.4	62.8	155.5	0.0	0.0	42.9	73.9
2018	10,926	72.9	55.1	136.2	0.0	0.0	41.9	65.4
2019	9,637	64.3	48.0	118.8	0.0	0.0	41.0	57.7
2020	8,559	57.1	42.0	104.0	0.0	0.0	40.2	51.2
2021	7,586	50.6	36.5	90.3	0.0	0.0	39.6	45.4
2022	6,740	45.0	31.7	78.5	0.0	0.0	39.0	40.4
2023	5,948	39.7	27.3	67.5	0.0	0.0	38.4	35.6
2024	5,222	34.9	23.3	57.6	0.0	0.0	37.9	31.3
2025	4,632	30.9	19.9	49.3	0.0	0.0	37.5	27.7
2026	4,129	27.6	17.0	42.0	0.0	0.0	37.2	24.7
2027	3,682	24.6	14.4	35.6	0.0	0.0	36.9	22.1
2028	3,283	21.9	12.0	29.8	0.0	0.0	36.6	19.7
2029	2,581	17.3	9.3	23.0	0.0	0.0	36.1	15.5
2030	1,666	11.1	5.4	13.4	0.0	0.0	35.5	10.0
Total	**285,195**	**1,902.8**	**1,518.3**	**3,756.7**	**127.6**	**152.8**	**1,027.0**	**1,707.7**

Checked: Approved: WBC

2. There are no tax losses carried forward at 30th September, 2006.

3. Royalty and Profit Tax are ring-fenced at a contract level, i.e. all fields are treated under one contract.

4. Excess Profits Tax is not applicable under the contract

5. Carried forward undepreciated expenditure as at 1st January, 2006 is U.S.$173 MM.

6. Effective date 1st October, 2006.

7. NPVs are run at a consolidated level for all three fields.

8. Other Fiscal assumptions:

   - Royalty is 3-15% of crude oil revenue less transportation costs, assessed on an incremental basis. The actual rate is dependent on annual production. Oil commitment to refinery is not subject to Royalty, as title is only to the product diesel;
   - Profit tax is 25-40% dependent on taxable income threshold;
   - Social Tax/Employment fund is not assessed;
   - NPVs are calculated on a nominal mid-year basis; and
   - Flat costs and prices for Reserves determination; capex and opex inflation of 2.5% per annum for 2007 and beyond for the assessment of NPVs.

For the purposes of estimating Reserves, the economic limit test was performed at a constant Brent oil price of U.S.$64.45/Bbl, equivalent to the average price for the 12 month period October 2005 to September 2006. It is the convention for Reserves to be assessed at a constant forward oil price, based on actual recent values.

For the purposes of calculating NPVs, the following Brent oil price forecast was used:

2006	U.S.$60.00/Bbl
2007	U.S.$50.00/Bbl
2008	U.S.$45.00/Bbl
2009	U.S.$40.00/Bbl
2010 and thereafter	escalation at 2.5% per annum

The oil price differential during 2006 has varied between about U.S.$10/Bbl and U.S.$15/Bbl over the U.S.$62/Bbl to U.S.$72/Bbl Brent oil price range. Whilst there is no real correlation, the discount does appear to increase with oil price. Based on the trend, GCA has assumed a price differential of $11.70/Bbl at a Brent oil price of U.S.$60/Bbl, reducing to U.S.$7.50/Bbl at a Brent oil price of U.S.$40/Bbl to reflect the crude quality and transportation differential at the points of sale.

The gas sales price is U.S.$6.00/Mm^3, with an LPG price of 49% of the Brent oil price and diesel price of 77% of the Brent oil price.

For the Proved Reserves the forecasts are terminated at the end of the Foundation Agreement in 2024. For the Proved + Probable Reserves, no such constraint is applied.

7.1 Reserves

The gross field and KMG 50% Net Working Interest Reserves are summarised in Table 1.

The tonne equivalents of these Reserves are as follows at the Proved, Proved + Probable and Proved + Probable + Possible levels, respectively:

	Proved Mtonne	Proved + Probable Mtonne	Proved + Probable + Possible Mtonne
Akshabulak Central	21,121.8	34,188.8	39,081.3
Akshabulak East	277.4	426.5	426.5
Akshabulak South	144.3	216.8	361.8
Total Akshabulak	21,543.5	34,832.1	39,869.6
Nuraly	2,712.5	5,713.0	8,277.6
Aksai	0.0	113.5	2,231.2
Total	**24,256.0**	**40,658.6**	**50,378.4**

No corresponding economic limit test has been performed at the Proved + Probable + Possible level for either the oil or gas.

7.2 Net Present Value Assessment

The consolidated NPVs for KMG's 50% Net Working Interest in the three fields are summarised for the Proved and Proved + Probable Reserves in the following table:

	Post-tax NPV (U.S.$ MM)			
Discount Rate	**7.5%**	**10.0%**	**12.5%**	**15.0%**
Proved	843.8	764.9	698.7	642.5
Proved + Probable	1,311.5	1,135.2	996.8	886.4

The proportion of the total Proved + Probable post-tax NPV that is realised up to 1st March, 2024 is 96.5% at the 7.5% discount rate, 97.4% at the 10.0% discount rate, 98.1% at the 12.5% discount rate and 98.6% at the 15.0% discount rate. These values demonstrate that there is little financial exposure of the Proved + Probable case to the contract period not being extended.

Escalated cash flow forecasts for KMG's 50% Net Working Interest were run for the three cases, with oil price sensitivities of plus and minus U.S.$5.00/Bbl and capex and opex sensitivities of plus and minus 20%. The results of these cases are summarised in Table 6.

8. QUALIFICATIONS

GCA is an independent international energy advisory group of 44 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 A. Goodearl 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 46 years of industry experience. He is a

TABLE 6

SUMMARY OF POST-TAX NPVS WITH PRICE AND COST SENSITIVITIES
KMG 50% NET WORKING INTEREST

Proved

Discount Rate	Post-tax NPV (U.S.$ MM) 7.5%	10.0%	12.5%	15.0%
Proved Base	843.8	764.9	698.7	642.5
Crude Price + U.S.$5.00/Bbl	1,020.6	923.7	842.6	773.9
Crude Price – U.S.$5.00/Bbl	667.8	606.6	555.1	511.2
OPEX + 20%	765.8	696.7	638.3	588.5
OPEX – 20%	923.9	834.6	760.0	697.2
CAPEX + 20%	834.2	755.2	688.9	632.7
CAPEX – 20%	853.5	774.7	708.5	652.3

Proved + Probable

Discount Rate	Post-tax NPV (U.S.$ MM) 7.5%	10.0%	12.5%	15.0%
Proved + Probable Base	1,311.5	1,135.2	996.8	886.4
Crude Price + U.S.$5.00/Bbl	1,572.3	1,361.9	1,196.8	1,064.8
Crude Price – U.S.$5.00/Bbl	1,050.8	908.4	796.9	708.0
OPEX + 20%	1,203.3	1,043.8	918.3	817.8
OPEX – 20%	1,420.0	1,226.6	1,075.4	955.1
CAPEX + 20%	1,294.0	1,117.9	979.8	869.7
CAPEX – 20%	1,329.1	1,152.5	1,013.9	903.1

Checked: Approved: WBC

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 Goodearl holds a BSc. (Hons) in Chemical Engineering and a MSc. in Petroleum Engineering and has over 35 years of experience. He is a member of the Society of Petroleum Engineers and the Energy Institute. Mr Kislyakov holds an MSc in Petroleum Production Engineering, has 10 years of experience and is a member of the Society of Petroleum Engineers.

9. 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 sincerely
GAFFNEY, CLINE & ASSOCIATES

William B. Cline
Senior Partner

GLOSSARY

List of key abbreviations used in this report.

Bbl	Barrels
Capex	Capital Expenditure
COPS	Central Oil Processing Facilities
Cum Prod	Cumulative Production
GIIP	Gas initially in place
GOR	Gas Oil Ratio
km	Kilometers
km^2	Square kilometres
LPG	Liquefied Petroleum Gas
m	Metres
M	Thousand
MM	Million
m^3	Cubic metres
MBbl	Thousand Barrels
MMBbl	Million Barrels
Mm^3	Thousand Cubic metres
Mtonnes	Thousand Tonnes
mD	Permeability in millidarcies
NPV	Net Present Value
Opex	Operating Expenditure
SPE/WPC	Society of Petroleum Engineers and World Petroleum Congresses
ss	Subsea
STOIIP	Stock tank oil initially in place
3D	Three dimensional
%	Percentage
U.S.$	United States Dollar

Appendix I

SPE/WPC Reserve Definitions

PETROLEUM RESERVES DEFINITIONS
SOCIETY OF PETROLEUM ENGINEERS (SPE)
AND
WORLD PETROLEUM CONGRESSES (WPC)

PREAMBLE

Petroleum[1] is the world's major source of energy and is a key factor in the continued development of world economics. It is essential for future planning that governments and industry have a clear assessment of the quantities of petroleum available for production and quantities which are anticipated to become available within a practical time frame through additional field development, technological advances, or exploration. To achieve such an assessment, it is imperative that the industry adopt a consistent nomenclature for assessing the current and future quantities of petroleum expected to be recovered from naturally occurring underground accumulations. Such quantities are defined as reserves, and their assessment is of considerable importance to governments, international agencies, economists, bankers, and the international energy industry.

The terminology used in classifying petroleum substances and the various categories of reserves have been the subject of much study and discussion for many years. Attempts to standardize reserves terminology began in the mid 1930's when the American Petroleum Institute considered classification for petroleum and definitions of various reserves categories. Since then, the evolution of technology has yielded more precise engineering methods to determine reserves and has intensified the need for an improved nomenclature to achieve consistency among professionals working with reserves terminology. Working entirely separately, the Society of Petroleum Engineers (SPE) and the World Petroleum Congresses (WPC) produced strikingly similar sets of petroleum reserve definitions for known accumulations which were introduced in early 1987. These have become the preferred standards for reserves classification across the industry. Soon after, it became apparent to both organizations that these could be combined into a single set of definitions which could be used by the industry worldwide. Contacts between representatives of the two organizations started in 1987, shortly after the publication of the initial sets of definitions. During the World Petroleum Congress in June 1994, it was recognized that while any revisions to the current definitions would require the approval of the respective Boards of Directors, the effort to establish a worldwide nomenclature should be increased. A common nomenclature would present an enhanced opportunity for acceptance and would signify a common and unique stance on an essential technical and professional issue facing the international petroleum industry.

As a first step in the process, the organizations issued a joint statement which presented a broad set of principles on which reserves estimations and definitions should be based. A task force was established by the Boards of SPE and WPC to develop a common set of definitions based on this statement of principles. The following joint statement of principles was published in the January 1996 issue of the SPE Journal of Petroleum Technology and in the June 1996 issue of the WPC Newsletter:

> *There is a growing awareness worldwide of the need for a consistent set of reserves definitions for use by governments and industry in the classification of petroleum reserves. Since their introduction in 1987, the Society of Petroleum Engineers and the World Petroleum Congresses reserves definitions have been standards for reserves classification and evaluation worldwide.*
>
> *SPE and WPC have begun efforts toward achieving consistency in the classification of reserves. As a first step in this process, SPE and WPC issue the following joint statement of principles.*
>
> *The SPE and the WPC recognize that both organizations have developed a widely accepted and simple nomenclature of petroleum reserves.*
>
> *The SPE and the WPC emphasize that the definitions are intended as standard, general guidelines for petroleum reserves classification which should allow for the proper comparison of quantities on a worldwide basis.*
>
> *The SPE and the WPC emphasize that, although the definition of petroleum reserves should not in any manner be construed to be compulsory or obligatory, countries and organizations should be encouraged to use the core definitions as defined in these principles and also to expand on these definitions according to special local conditions and circumstances.*

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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.

The SPE and the WPC recognize that suitable mathematical techniques can be used as required and that it is left to the country to fix the exact criteria for reasonable certainty of existence of petroleum reserves. No methods of calculation are excluded, however, if probabilistic methods are used, the chosen percentages should be unequivocally stated.

The SPE and the WPC agree that the petroleum nomenclature as proposed applies only to known discovered hydrocarbon accumulations and their associated potential deposits.

The SPE and the WPC stress that petroleum proved reserves should be based on current economic conditions, including all factors affecting the viability of the projects. The SPE and the WPC recognize that the term is general and not restricted to costs and price only. Probable and possible reserves could be based on anticipated developments and/or the extrapolation of current economic conditions.

The SPE and the WPC accept that petroleum reserves definitions are not static and will evolve.

A conscious effort was made to keep the recommended terminology as close to current common usage as possible in order to minimize the impact of previously reported quantities and changes required to bring about wide acceptance. The proposed terminology is not intended as a precise system of definitions and evaluation procedures to satisfy all situations. Due to the many forms of occurrence of petroleum, the wide range of characteristics, the uncertainty associated with the geological environment, and the constant evolution of evaluation technologies, a precise classification system is not practical. Furthermore, the complexity required for a precise system would detract from its understanding by those involved in petroleum matters. As a result, the recommended definitions do not represent a major change from the current SPE and WPC definitions which have become the standards across the industry. It is hoped that the recommended terminology will integrate the two sets of definitions and achieve better consistency in reserves data across the international industry.

Reserves derived under these definitions rely on the integrity, skill and judgment of the evaluator and are affected by the geological complexity, stage of development, degree of depletion of the reservoirs, and amount of available data. Use of these definitions should sharpen the distinction between the various classifications and provide more consistent reserves reporting.

DEFINITIONS

Reserves are those quantities of petroleum 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.

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 + 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, or 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 + Probable + 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.

PART V

Information on the Expected Impact of the Proposed Acquisition on the Assets, Liabilities and Earnings of the Enlarged Group

Impact of the Proposed Acquisition on the assets, liabilities and earnings of the Enlarged Group

Kazgermunai is a joint venture which will be owned 50% by KMG EP (assuming the Proposed Acquisition occurs) and 50% by PetroKazakhstan, which is in turn owned 33% by NC KMG and 67% by PetroChina. Under the terms of the Foundation Agreement, the JV Partners each have equal representation at Kazgermunai's annual general participant's meeting. This meeting approves key decisions including Kazgermunai's production programs, annual budget and profit distribution. Unanimous approval is required for decisions to be approved.

KMG EP intends to account for the investment as a joint venture using the equity basis of accounting. Accordingly the acquisition consideration of KZT133.3 billion (US$1,073 million) (less 50% of any cash distribution made by Kazgermunai to its shareholders between signing and completion of the transaction) plus transaction costs will be treated as a non-current financial asset in the consolidated balance sheet of KMG EP representing KMG EP's 50% share of the fair value of the net assets of Kazgermunai and the related intangibles and goodwill arising on the transaction, if any. The intangibles will be amortised through the income statement whilst the goodwill will remain on the balance sheet subject to review for impairment. Each year, the investment in the joint venture (which includes goodwill, if any) will be increased by the share in net profits and reduced by the amortisation/impairment charges, if any, and dividends.

The payment of the acquisition proceeds will initially reduce KMG EP's cash resources by an equivalent amount. The purchase consideration will be paid out of available cash resources, after which NC KMG will repay the US$800 million loan entered into between NC KMG and a subsidiary of KMG EP on 30 June 2006.

In the consolidated income statement KMG EP will record its 50% share of the post tax profits of Kazgermunai under IFRS in one line under the heading ''share of profit of associates'' less the amortisation of intangibles. KMG EP will recognise its share of the dividends declared by Kazgermunai in its cash flow statement.

Illustrative pro forma items

The directors of KMG EP estimate that if the Proposed Acquisition had occurred on 1 January 2005, KMG EP's pro forma net profit from continuing operations for the year ended 31 December 2005 would have increased by US$61 million from US$329 million to US$390 million. The pro forma increase in net profit arises from:

(i) an increase of approximately US$112 million, representing 50% of the share of the estimated post tax profits of Kazgermunai under IFRS being profits before taxation of US$185 million less tax of US$73 million but before any fair value adjustments including amortisation of intangibles; offset by

(ii) a decrease of approximately US$51 million in interest receivable (net of tax) arising from the payment of the purchase consideration of US$1,073 million based on an assumed interest rate of 8% less tax using an effective rate of 40%.

Although the functional currency of KMG EP is KZT, Kazgermunai reports in US$ and therefore for convenience the analysis above is presented in US$.

The pro forma financial information above is prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation, and, therefore, does not represent the KMG EP's actual financial position or results.

Principal differences in the application of KMG EP's accounting policies and those applied by Kazgermunai

Kazgermunai's historical financial information for each of the two years ended 31 December 2004 and 2005 was prepared in accordance with Foundation GAAP, which is not based on any particular country's generally accepted accounting principles. KMG EP prepares its financial statements in accordance with IFRS. Significant differences exist between Foundation GAAP and between IFRS which lead to reconciling adjustments between the two frameworks.

The following is a summary of the material adjustments to key line items in the Kazgermunai Income Statement (revenue, EBITDA, profit before tax) for the year ended 31 December 2005 and Balance Sheet (total assets) as at

31 December 2005 which KMG EP believes would have been required to be adjusted for significant differences between Foundation GAAP and IFRS.

As Kazgermunai has not prepared its financial information in accordance with IFRS or any recognised accounting framework, the Directors cannot offer any assurance that the differences described below are complete or would in fact be the accounting principles creating the greatest differences between financial information of Kazgermunai prepared under Foundation GAAP and IFRS. The following summary does not include all differences that exist between Foundation GAAP and IFRS and is not intended to provide a comprehensive listing of all such differences specifically related to Kazgermunai or the industries in which it operates. A description of such further potential differences is also set out below:

		Year ended 31 December 2005			As at 31 December 2005
	Notes	Revenue	EBITDA	PBT	Total assets
		US$'000	US$'000	US$'000	US$'000
Foundation GAAP		560,401	399,241	378,125	554,467
Depreciation/depletion of property, plant & equipment	(1)	—	—	1,909	45,096
Development expenditure	(2)	—	—	1,207	8,730
Intangible assets	(3)	—	(1,007)	(356)	(3,478)
Asset retirement obligation	(4)	—	—	(195)	7,517
Royalty payments in kind	(5)	(30,887)	—	—	—
VAT receivable	(6)	—	(6,128)	(6,128)	(6,128)
Provision for tax claims	(7)	—	(4,105)	(4,105)	—
Total adjustments		(30,887)	(11,240)	(7,668)	51,737
IFRS		529,514	388,001	370,457	606,204

EBITDA refers to earnings before interest income, interest expense, income tax expense, depreciation of fixed assets and amortization of intangible assets.

(1) Property, Plant and Equipment (PPE)

Under Foundation GAAP, property, plant and equipment includes oil and gas assets and non-oil and gas assets that are depreciated on a straight-line basis at double depreciation rates as defined by a 1990 Resolution of the USSR Cabinet of Ministers. Under IFRS, the depreciation method used under IFRS should reflect the pattern in which the asset's future economic benefits are expected to be consumed.

The adjustment reflects the reduction in the amount of depreciation recorded such that the accelerated depreciation under the double depreciation rates is reversed and recorded using the unit-of-production method for oil and gas assets and the straight-line method for non-oil and gas assets.

(2) Development expenditure

In accordance with Foundation GAAP, pre-development expenditures are amortised on a straight-line basis over 6.6 years and other development expenditures are amortised on a unit of production basis within a period of five years. Under IFRS, the depreciation method used should reflect the pattern in which future economic benefits are expected to be consumed and, therefore, depletion for the cost incurred for the development of an oil field would be determined on a unit-of-production basis by reference to the appropriate amount of units expected to be produced during the licence period.

The adjustment contains the reversal of depreciation for certain other development expenditures and reinstatement of assets for those not expected to be fully depleted applying the unit-of-production method under IFRS.

Under Foundation GAAP, payments made in relation to social infrastructure commitments have been capitalised as development expenditures whereas under IFRS where it appears that there are likely to be no economic benefits for Kazgermunai, such cost would most likely not meet the asset recognition criteria.

These assets have been reversed from the balance sheet and expensed in the income statement.

(3) Intangible assets

Under Foundation GAAP, payments made in relation to social infrastructure commitments have been capitalised as intangible assets (as well as development expenditures above) whereas under IFRS where it appears that there are likely to be no economic benefits for the company, such cost would most likely not meet the asset recognition criteria.

These assets have been reversed from the balance sheet and expensed in the income statement.

(4) Asset retirement obligation (ARO)

Under Foundation GAAP, the obligation to retire and dismantle equipment and facilities and restore the oilfields is recognised based on the estimated restoration cost, whereby total estimated costs are determined by reference to the annual oil production and a conversion rate per tonne. The provision is recognised on an undiscounted basis.

IFRS requires the recognition of an asset retirement obligation initially as part of the cost of the asset to which the obligation relates. The estimated costs of the obligation at the balance sheet date should be discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. Changes in the obligation should be added to or deducted from the cost of the related asset, provided the asset is carried at cost less depreciation.

The adjustment therefore creates an asset and reflects the best estimate of the obligation on a discounted basis, the discount and amortisation of which has been taken to the income statement.

(5) Royalty payments

Under Foundation GAAP, royalty payments made in kind that are based on sales and overall production, are accounted for as revenue. Under IFRS, royalty in kind that is not based on income is not accounted for as revenue under IFRS.

The adjustment removes these royalty in kind payments from revenue (as well as cost).

(6) Accounts receivable, including VAT

Under Foundation GAAP, accounts receivable are stated at their net realisable value after deducting provisions for uncollectible amounts which are determined through an ageing analysis. IFRS requires accounts receivable to be initially recognised at fair value and subsequently at amortised cost.

The adjustment relates to the write off of VAT receivables that are not likely to be collectible.

(7) Provision for tax claims

Foundation GAAP does not address the accounting for provisions except the asset retirement obligation. Under IFRS, provisions are recorded for present obligations arising from past events if the outflow of resources is probable and can be reliably estimated. Provisions under IFRS are recognised with respect to legal and constructive obligations.

The adjustment recognises the provision for the probable risk of outflow in relation to tax claims regarding VAT and royalty issues.

Further potential differences between Foundation GAAP and IFRS

In addition to the summary of significant differences reconciled and discussed above, other differences exist between Foundation GAAP and IFRS which could significantly affect other balance sheet amounts and classifications, taxes and profit after taxation and the amount and type of disclosures that would have been needed to have been made if Kazgermunai's historical financial statements were prepared in accordance with IFRS. Whilst KMG EP does not purport to provide a comprehensive list of all differences, some further potential areas of difference have been identified below.

Revenue recognition

Under Foundation GAAP, revenue should be recognised upon delivery of the products, although Kazgermunai records revenues associated with sales of crude oil when the title and all significant risks and rewards related to the right of possession of realized production passes to the customer. Under IFRS, revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred and the company does not retain continuing managerial involvement nor effective control over the goods, the amount of revenue can be measured reliably, receipt of the benefits is probable and the costs incurred in respect of the transaction can be measured reliably.

Impairment of assets

Under Foundation GAAP, costs of exploration and development of wells which are abandoned are expensed in the year of abandonment. No specific guidance for impairment testing for property, plant and equipment, intangible assets or financial assets is provided. IFRS requires assets to be tested for impairment if there is an indication that the assets may be impaired, whereby impairment is assessed on a discounted basis. Impaired assets are written down to the higher of fair value less costs to sell and value in use based on discounted cash flows. Reversal of impairment losses is required in certain cases.

Financial liabilities

Foundation GAAP does not address the accounting for financial liabilities. Under IFRS financial liabilities are initially recognised at fair value and subsequently at amortised cost, unless for specific type of liabilities fair value through profit or loss is selected.

Deferred tax

Under Foundation GAAP no deferred tax accounting is applied. Income tax expense is established on the basis of accounting income as determined under Foundation GAAP. IFRS requires the recognition of deferred tax assets and liabilities for the tax effects attributable to differences between the carrying amount and the tax bases of assets and liabilities, using currently enacted tax rates. Deferred tax assets should be recognised only when it is probable that taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets and liabilities are not discounted under IFRS.

Borrowing costs

Under Foundation GAAP, all borrowing costs are expensed. IFRS permits borrowing costs incurred with respect to certain qualifying assets to be either capitalised or expensed.

Functional Currency

Foundation GAAP does not contain specific guidance with respect to the definition and determination of a company's functional currency. The Foundation Agreement requires all records of Kazgermunai to be maintained in US dollars. IFRS requires a company to determine its functional currency and measure its results and financial position in that currency. The functional currency is the currency of the primary economic environment in which the entity operates.

Foreign exchange gains and losses

Under Foundation GAAP, Kazgermunai has recorded all its foreign exchange gains and losses as non-operating items in the income statement. Under IFRS, any foreign exchange gains and losses relating to operating assets and liabilities would be recorded as part of operating income.

PART VI

Principal Terms of the Proposed Acquisition

The following summary of the principal terms of the Proposed Acquisition and the other information in this document in respect of the Proposed Acquisition is subject in its entirety to the actual terms and conditions of the Proposed Acquisition which are set out in the Sale and Purchase Agreement.

The Proposed Acquisition

KMG EP is acquiring, upon and subject to the terms and conditions contained in the Sale and Purchase Agreement, a 50% participatory interest in Kazgermunai (the ''Participatory Interest'') from KMG.

Details of the conditions of the Proposed Acquisition

The completion of the transfer of the Participatory Interest from NC KMG to KMG EP shall occur upon satisfaction of the following conditions, or the waiver thereof in writing by the party on whom such condition is intended to benefit:

(1) NC KMG having obtained:

- a waiver by PetroKazakhstan of its pre-emptive right pursuant to Kazakhstan law to purchase the Participatory Interest being transferred and PetroKazakhstan consenting to the transfer;
- a waiver by Kazgermunai of its pre-emptive right pursuant to Kazakhstan law to purchase the Participatory Interest being transferred along with a copy of a resolution of the general meeting of participants of Kazgermunai regarding approval of such waiver;
- consent to the transfer from the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan;
- a waiver by the Republic of Kazakhstan of its priority right to purchase the Participatory Interest;
- consent by the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan to the assignment by NC KMG of its rights and obligations under the Foundation Agreement of Kazgermunai; and
- letters of resignation from each member of the supervisory board of Kazgermunai appointed by NC KMG.

(2) KMG EP having obtained:

- consent of the Committee for the Protection of Competition of the Ministry of Industry and Trade of the Republic of Kazakhstan to the purchase of the Participatory Interest;
- consent of the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies (the AREM) to the purchase of the Participatory Interest in accordance with law of the Republic of Kazakhstan ''On Natural Monopolies'';
- confirmation from the authorised body for state procurement or any other state body authorized to clarify the law that the purchase of the Participatory Interest does not constitute state procurement or is exempt from the requirements of the Law on State Procurement; and
- all required documentation with regard to state procurement, in the event that such authorised body or state body confirms that the purchase of the Participatory Interest constitutes a state procurement.

(3) All corporate approvals, consents and authorizations required for the execution and performance of the Sale and Purchase Agreement having been obtained by both NC KMG and KMG EP.

(4) A general meeting of the shareholders of Kazgermunai having taken place to acknowledge KMG EP as the owner of the Participatory Interest and to discharge and release the members of the supervisory board of Kazgermunai nominated by NC KMG.

(5) The representations and warranties made in the Sale and Purchase Agreement being true on the date of completion.

(6) All of the covenants, agreements and conditions required by the Sale and Purchase Agreement capable of fulfilment prior to completion have been performed and complied with to the extent required.

(7) No court or government body prohibiting the completion of the Proposed Acquisition.

KMG EP's covenants

(1) KMG EP undertakes not to raise any claims against any present or former member of the supervisory or management boards of Kazgermunai appointed or nominated by NC KMG for any act arising before completion of the transfer of the Participatory Interest. KMG EP further agrees to vote against any pursuit by Kazgermunai of such claims.

(2) KMG EP undertakes to vote at the general meeting of the shareholders of Kazgermunai to vote in favour of the discharge and release of the members of the supervisory board of Kazgermunai nominated by NC KMG.

(3) Until all applicable tax statutes of limitations have expired, KMG EP shall retain all books and records and other documents of Kazgermunai that are required to be retained and to make them available to NC KMG after completion of the transfer of the Participatory Interest.

(4) For a period of one year from the completion of the transfer of the Participatory Interest, KMG EP shall provide NC KMG with access to Kazgermunai's accountants and financial information for certain specified purposes.

(5) KMG EP will acquire the Participatory Interest in its own name and for its own account and not as trustee or agent for any third party.

(6) KMG EP undertakes to accede to the Foundation Agreement.

Other terms of the Proposed Acquisition

Warranties are given by each of KMG EP and NC KMG on due incorporation, capacity and authorisation of the Proposed Acquisition. Save for warranties on title to the Participatory Interest, no other warranties are given by NC KMG in relation to the Participatory Interest or Kazgermunai. The Sale and Purchase Agreement is subject to Kazakh law.

Prior to or on completion of the transfer of the Participatory Interest, NC KMG shall assign its rights under the Foundation Agreement of Kazgermunai to KMG EP and KMG EP shall accede to the Foundation Agreement.

KMG EP is entitled to terminate the Sale and Purchase Agreement prior to completion (i) if completion has not occurred within 90 days after signing of the Sale and Purchase Agreement, (ii) if there is a drop in the value of world oil prices such that the mean quotations for ''Brent dated'' as published by ''Platt's Crude Oil Market Wire'' is equal to or below US$45 per barrel on any five successive trading days or (iii) by mutual agreement between the parties.

The nature of the consideration to be paid

The purchase price for the Participatory Interest shall be KZT133.3 billion less 50% of the total amount of distributions made by Kazgermunai between signing and completion. This purchase price shall be paid by KMG EP to NC KMG on completion.

PART VII

Additional Information

1. Directors', Senior Executives' and others' interests

1.1 The Directors

Name	Age	Position
Uzakbay S. Karabalin	59	Chairman and Non-Executive Director
Askar K. Balzhanov	48	General Director and CEO
Yerzhan A. Zhangaulov	38	Non-Executive Director
Evgeni K. Ogai	60	Non-Executive Director
Assia N. Syrgabekova	46	Non-Executive Director
Christopher Mackenzie	52	Independent Non-Executive Director
Paul Manduca	55	Independent Non-Executive Director
Edward T. Walshe	65	Independent Non-Executive Director

1.2 The Management Board

In addition to the Executive Director Mr. Balzhanov, who serves as a General Director, KMG EP's Management Board consists of the following:

Name	Age	Position
Vladimir Y. Miroshnikov	56	First Deputy of General Director
Zhanneta D. Bekezhanova	37	Deputy General Director, CFO
Askar A. Aubakirov	37	Deputy General Director, Corporate Development
Kairolla Z. Erezhepov	59	Managing Director on Human Resources and Information Policy
Murat I. Kurbanbayev	56	Head of UMG
Bagitkali L. Biseken	48	Director of EMG

1.3 Directors' and members of the Management Board's interests

The interests of the Directors and the members of the Management Board in the Ordinary Shares and preference shares of KMG EP all of which are beneficial unless otherwise stated, at the date of this document are as follows:

	Number of Ordinary Shares	Number of Preference Shares
Christopher Mackenzie	1,166	—
Paul Manduca	1,138	—
Edward Walshe	1,138	—
Assia N. Syrgabekova	796	—
Askar A. Aubakirov	565	34
Zhanneta D. Bekezhanova	474	—
Vladimir Y. Miroshnikov	401	—
Murat I. Kurbanbayev	401	1,236
Bagitkali L. Biseken	—	280

The Directors and members of the Management Board as Shareholders have the same voting rights as all other Shareholders.

Options over GDRs have been granted to Directors and members of the Management Board as follows:

Name	Name of Scheme	Number of GDRs over which options granted	Exercise price	Dates exercisable between
Askar K. Balzhanov............	Company's Share Option Plan	36,916	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
		10,662	Nil	29 December 2007
Vladimir Y. Miroshnikov ...	Company's Share Option Plan	33,844	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
		9,935	Nil	29 December 2007
Zhanneta D. Bekezhanova..	Company's Share Option Plan	29,262	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
		8,590	Nil	29 December 2007
Kairolla Z. Erezhepov.........	Company's Share Option Plan	22,025	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
		6,465	Nil	29 December 2007
Murat I. Kurbanbayev.........	Company's Share Option Plan	27,044	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
		7,938	Nil	29 December 2007
Askar A. Aubakirov............	Company's Share Option Plan	27,044	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
		7,938	Nil	29 December 2007

1.4 Principal Shareholders and/or GDR Holders

In so far as is known to KMG EP, the name of each person who, directly or indirectly, has an interest in the Ordinary Shares or GDRs which is notifiable under Kazakh law, and the amount of such person's interest, as at 12 March 2007 (being the latest practicable date prior to the publication of this document) are as follows:

Shareholder	Number of Ordinary Shares held	Percentage of issued share capital
NC KMG..	43,087,006	57.95

None of the major Shareholders referred to above has different voting rights from other Shareholders except as discussed in this Part VII — ''Additional Information — Related party transactions'' with regard to NC KMG and the Notice of Extraordinary General Meeting at the back of this document with regard to the procedures for voting by GDR Holders holding GDRs through the Bank of New York.

No irrevocable undertakings have been provided by Shareholders or GDR Holders to vote in favour of the Proposed Acquisition at the EGM. Neither NC KMG nor its subsidiaries or affiliates will vote on the Resolution.

2. Directors' service agreements and letters of appointment

Directors' Service Contracts

Uzakbay S. Karabalin is engaged by KMG EP as a non-executive Director and Chairman. He was appointed Director at an extraordinary general meeting of the Shareholders on 24 November 2006. On 28 November 2006, the Board of Directors of KMG EP elected Mr. Karabalin as Chairman. Mr. Karabalin will not receive any fee in respect of his role as a Director of KMG EP but will be entitled to reimbursement for costs and expenses associated with such appointment.

Askar Balzhanov is engaged by KMG EP as an executive Director and CEO of KMG EP. He was appointed CEO on 7 June 2006 and appointed a Director at a general meeting of the Shareholders held on 12 June 2006. Mr. Balzhanov will not receive any fee in respect of his role as a Director of KMG EP but will be entitled to reimbursement for costs and expenses associated with such appointment.

Yerzhan Zhangaulov is engaged by KMG EP as a non-executive Director. He was appointed Director at a general Shareholders meeting of the Shareholders held on 12 June 2006. Mr. Zhangaulov will not receive any fee in respect of his role as a Director of KMG EP but will be entitled to reimbursement for costs and expenses associated with such appointment.

Evgeni Ogai is engaged by KMG EP as a non-executive Director. He was appointed Director at a general meeting of the Shareholders held on 12 June 2006. Dr Ogai will not receive any fee in respect of his role as a Director of KMG EP but will be entitled to reimbursement for costs and expenses associated with such appointment.

Assia Syrgabekova is engaged by KMG EP as a non-executive Director. She was appointed Director at a general meeting of the Shareholders held on 4 July 2006. Ms Syrgabekova will not receive any fee in respect of her role as a Director of KMG EP but will be entitled to reimbursement for costs and expenses associated with such appointment.

Christopher Mackenzie is engaged by KMG EP as a non-executive Director on the terms of a letter of appointment and decision of a general meeting of the Shareholders 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 KMG EP 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 KMG EP as a non-executive Director on the terms of a letter of appointment and decision of a general meeting of the Shareholders 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 KMG EP 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.

Edward T. Walshe is engaged by KMG EP as a non-executive Director on the terms of a letter of appointment and decision of a general meeting of the Shareholders 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 KMG EP 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 KMG EP which generally provide for business travel insurance, for reimbursement for expenses incurred while travelling on Company business in accordance with the internal rules of KMG EP, 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 KMG EP.

Other

The aggregate remuneration paid to the members of the Board of Directors and Management Board for the year ended 31 December 2006 (including any contingent or deferred compensation) and benefits in kind granted to the members of the Board of Directors and Management Board by KMG EP was KZT605 million.

At 31 December 2006 there were no benefits set aside or accrued by KMG EP to provide pension, retirement or similar benefits to the Directors or members of the Management Board.

3. Details of key individuals important to Kazgermunai's business

So far as KMG EP is aware, the following persons are key individuals important to Kazgermunai:

Name	Post held in Kazgermunai	Age
Baimukhanov Isturgan Uzakbaevich	Chairman of the Management Board and Technical Director	49
Ren Lixin	Deputy Chairman of the Management Board and Financial Director	38
Kairbek A. Aishuakov	Deputy Technical Director	44
Yu Gao	Deputy Financial Director	34
Dauletzhan K. Hasanov	Deputy Financial Director	35
Du Umin	Deputy Technical Director	42

Further information on Baimukhanov Isturgan Uzakbaevich and Ren Lixin can be found in Part III — ''Information on Kazgermunai — Management Board members''.

Kairbek A. Aishuakov was appointed as Deputy Technical Director of of Kazgermunai in October 2006. He has graduated from Atyrau (Guriev) Polytechnic College as an oil and gas development engineer and from Kazakh National Polytechnic University as a mining engineer and has previously worked as Production Manager at LLP Meridian Petroleum, Senior Engineer at LLP Buzachi Operating, Director for Field Development at PetroKazakhstan Kumkol Resources and as Deputy General Director for Production at JSC Hurricane Kumkol Munai.

Dauletzhan K. Hasanov was appointed as Deputy Financial Director of Kazgermunai in July 2006. He graduated from the West Kazakhstan Agricultural Institute with a diploma in accounting and economics and has previously worked as deputy director for economics and finance, director of the finance department and first deputy of general accountant of Production Branch ''EmbaMunaiGas'' of JSC KMG EP.

Yu Gao was appointed as Deputy Financial Director of Kazgermunai in May 2006. She graduated from the Heilongjiang University in China with a bachelor's degree in economics and has previously worked as Senior Supervisor of the Finance and Capital Operation Department of CNPC International Limited, Beijing and Senior Supervisor of the Financial Department of PetroChina International Limited, Beijing.

Du Umin was appointed as Deputy Technical Director of Kazgermunai in April 2006. He graduated from Dzhan Han Oil Institute in 1992 with a diploma in field development engineering and has been granted a PhD from Moscow National Oil and Gas Academy. He has worked in various positions at CNPC Aktobemunaigas and CNPC in Kyryzstan and at Buzachi Operating.

4. Information about 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 33 companies, which include certain oil and gas companies operating in Kazakhstan and various other companies that are focused on activities other than exploration.

Currently NC KMG owns 57.9% of KMG EP's issued share capital. NC KMG therefore retains a majority of the Shares and hold a majority of votes at a general shareholders' meeting, which allows NC KMG to have significant influence over the strategy and activities of KMG EP.

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.

The arrangements between KMG EP and NC KMG are set out more fully in the Services Agreement and the Relationship Agreement as summarised below and in the Prospectus.

5. Related party transactions

The following are descriptions of the material provisions of agreements and other arrangements between KMG EP and various individuals and entities that may be deemed to be related parties:

Agreements with NC KMG and its affiliates

KMG EP 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 KMG EP 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 KMG EP has any obligation or entitlement which is material to KMG EP as at the date of this document. Shareholders and GDR Holders should also consider the summary of the agreements with NC KMG and its affiliates set out in the section ''Principal Shareholders, Relationship with NC KMG and Related Party Transactions'' in the Prospectus.

Services Agreement

KMG EP is in the process of renegotiating its Services Agreement with NC KMG, as the current agreement expired in December 2006. KMG EP expects that a new agreement will be entered into in the near future on similar terms to the existing Services Agreement.

The previous Services Agreement was entered into between KMG EP and NC KMG on 8 September 2006 (the ''Service Agreement'') and provides that NC KMG grants certain rights and renders certain services to KMG EP 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 KMG EP 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 was terminated on 31 December 2006 and the agreement is in process to be renewed for the year 2007. KMG EP 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 KMG EP 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 KMG EP provided that KMG EP undertakes that it shall only be entitled to grant such consent if validly approved at a meeting of the Board of Directors of KMG EP 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 KMG EP, 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 KMG EP 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 KMG EP 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 KMG EP) for sale by way of auction to interested parties, in which event KMG EP will be entitled to match the winning bid for such interest and acquire 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, 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 KMG EP 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 KMG EP and KMG EP 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 KMG EP has declared an interest to acquire, NC KMG must first grant KMG EP 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 KMG EP 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 KMG EP) by way of auction to interested parties, in which event KMG EP will be entitled to match the winning bid for such interest and acquire 50% of such offered existing onshore oil asset.

If NC KMG fails to sell a controlling interest in any existing onshore oil asset (whether pursuant to the exercise of KMG EP's right of first refusal or by way of auction or otherwise) and subsequently KMG EP requests that NC KMG sell 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 KMG EP).

(d) NC KMG must use all reasonable endeavours to ensure that members of KMG EP continue to benefit on materially the same terms as at Admission from the export infrastructure used by members of KMG EP 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 KMG EP with transportation facilities as provided in the KTO Transportation Agreement and KMG EP shall provide the volume of crude oil for transportation and make payments as provided in the KTO Transportation Agreement;

   (ii) after the expiration of the KTO Transportation Agreement, KTO shall allocate to KMG EP at the relevant time oil transportation capacity on terms no less 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 KMG EP through the UAS pipeline is envisaged in the volumes agreed between KMG EP and KTO in accordance with the KTO Transportation Agreement with the presentation by KMG EP 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) KMG EP (or any specified member of KMG EP) 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 KMG EP to be delivered through the CPC pipeline, (B) KMG EP is entitled to deliver into the CPC pipeline any volume of crude oil proposed in writing by KMG EP to be delivered through the CPC pipeline in accordance with the quota allocated to the Shareholder from 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 KMG EP to NC KMG) in the CPC pipeline to KMG EP 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, KMG EP has agreed to pay to NC KMG for the year 2006 the sum of KZT7.0 billion. 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 KMG EP anticipates that it will increase in line with the consumer prices index of the Republic of Kazakhstan as provided in the Relationship Agreement. Accordingly, the sum for 2007 amounts to KZT7.49 billion.

Option Agreement for Kazgermunai

On 30 June 2006, KMG EP entered into an option agreement with NC KMG to acquire NC KMG's interests in Kazgermunai, representing 50% of the participatory interests in Kazgermunai. Under the terms of the option agreement, in consideration of KMG EP providing financial support to NC KMG to finance NC KMG's acquisition of its interest in Kazgermunai, following exercise of the option by KMG EP NC KMG shall be obliged to sell the Participatory Interest to KMG EP at a price to be negotiated and determined between KMG EP 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 Participatory Interest (i) not to negotiate the sale of its interest in Kazgermunai to a third party; (ii) to permit KMG EP to carry out its due diligence of Kazgermunai; (iii) and to use all reasonable endeavours to procure that the other JV Partners in Kazgermunai provide access to facilities, personnel and information, such as financial statements and information in relation to oil reserves, when KMG EP 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 KMG EP to either exercise the option or to complete the acquisition. Under the terms of KMG EP's Charter, acquisition of the Participatory Interest requires the approval of the independent Shareholders of KMG EP (including holders of GDRs). KMG EP 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, KMG EP's finance subsidiary, Munaishy Finance B.V., lent to NC KMG the proceeds of the Senior Notes and KMG EP lent an additional amount equal to KZT24.4 billion in order to finance the acquisition by NC KMG of its interest in Kazgermunai.

The Proposed Acquisition relates to KMG EP exercising this option agreement.

Interest Free Loans

KMG EP and NC KMG entered into an agreement on 26 April 2005 for the provision of a KZT26.0 billion non-interest bearing loan by KMG EP to NC KMG. As of 31 December 2006 this interest free loan has been repaid by NC KMG.

As described above, on 30 June 2006 NC KMG and KMG EP 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. On 13 December 2005, the loan was amended to bring the repayment date forward to 31 December 2006. Currently KMG EP does not expect to recover this loan and intends to write it off for financial reporting purposes.

Intra-Group Transactions

A highly significant proportion of KMG EP's revenue, expenses and financing has been obtained from NC KMG and its subsidiaries, constituting related party transactions under Kazakhstan law.

6. Significant changes

Litigation

In October 2006, the General Prosecutor's Office issued a supervisory protest with respect to the court judgment issued in favour of KMG EP on the payment of penalties for environmental damages. The case was previously initiated by the Mangistau oblast territorial administration of the Ministry of Environmental Protection of the Republic of Kazakhstan against KMG EP for the payment of a penalty for environmental damage in the amount of KZT11.4 billion in relation to an oil pit which was formed due to previous operations and an accident in the pipelines in the oil fields now owned by KMG EP, which occurred in 1974. On 16 November 2006 the

Supervisory Board of the Court of Astana dismissed the supervisory protest and upheld the prior judgments made in favour of KMG EP.

Changes to Legislation

Several recent amendments to the legislation of the Republic of Kazakhstan have been adopted which may affect, in certain circumstances, the activities of KMG EP. The first change implements stricter requirements on subsurface users to use equipment, materials and finished goods manufactured in Kazakhstan if they comply with Kazakhstan technical regulations, rather than, as under prior law, if they met state and/or international standards.

Also, on 3 February 2007 legislation enhancing the Kazakhstan State's right to purchase crude oil came into effect. This legislation also strengthened certain requirements relating to the inclusion of local Kazakh employees and goods, including changes in terms of hiring Kazakhstan personnel, and rules for the purchase of goods, works and services used in subsoil use operations.

In particular, a provision has been added to the Subsoil Use Law giving the Government of Kazakhstan a priority right to buy crude oil from producers at prices no higher than world market prices. As was previously the case, the volumes and the procedure for the determination of the price must be established in a separate agreement with a subsoil user.

The relevant subsoil use law has also been amended to require contract terms to include an obligation on contractors to ensure equal labour conditions and equal payment for Kazakhstan and foreign personnel. This obligation will also apply to personnel working under subcontracts.

From 1 January 2007 dividends paid to Kazakhstan legal entities are not subject to withholding tax (prior to this date a 15% dividend withholding tax was applied to dividend payments made by Kazakhstan legal entities to their Kazakhstan participants/shareholders).

From 1 January 2007 the VAT rate applicable to KMG EP decreased from 15% to 14%.

On 2 February 2007, the new Environmental Code of the Republic of Kazakhstan came into effect. The Environmental Code replaces three laws: ''On Environmental Protection'', ''On Protection of Athmospheric Air'' and ''On Ecological Expert Review''. The new law reflects recommendations of international conventions and agreements that Kazakhstan has entered into. Based on the Environmental Code, the regulatory environmental authorities are currently developing new regulatory documentation, instructions and methodologies addressing the mechanisms through which the new law will operate.

Changes to subsoil use contracts

Pursuant to an agreement with the MEMR dated 29 December 2006, amendments have been made to KMG EP's subsoil use contract for the Uzen and Karamandybas fields. The amendments made clarified certain asprects of the tax regime under the existing subsoil use use contract and introduced social infrastructure obligations pursuant to which KMG EP will contribute up to KZT900 million per year to social infrastructure programmes in the Mangistau region. Such contributions were previously made by KMG EP outside the framework of the contract on the basis of separate agreements with the local authorities.

The amendments made also established clear excess profit tax calculation methodology, which was absent inform the existing subsoil use contract. Previously KMG EP calculated and paid excess profit tax based on a conservative estimate of the applicable provisions, which conservative approach management found it prudent to adopt given the prohibitive fines and penalties for tax violations combined with the lack of clarity with regard to the calculation methodology for the excess profit tax contained in the original subsoil use contract.

Changes have also been made, which will apply prospectively, to the royalties and certain other taxes payable under the subsoil contract; in particular, in exchane for the abolition of the obligation to pay a rate of 0.5% of turnover for road use, the royalty rate has been increased from 3% to 3.5%. In addition rates of social tax and value added tax have been brought into line with the existing rate in current legislation. Other changes were also made in relation to less significant local taxes, which are not expected to have a material effect on KMG EP's financial statements.

IPO

Since 30 September 2006, the date of the last unaudited interim financial statements of KMG EP, the Company has undertaken an IPO which closed on 4 October 2006. The Company raised approximately US$1,970 million net proceeds in the IPO. As part of the IPO, KMG EP's senior notes issued in 2006 by a finance subsidiary were transferred to KMG EP in exchange for shares, resulting in a decrease in net debt of US$800 million.

Other

On 22 November 2006, NC KMG repaid an interest-free loan of KZT24.4 billion. In 2006, the Company paid NC KMG KZT7.0 billion due under the Service Agreement. In the period subsequent to the balance sheet date, tax authorities of the Republic of Kazakhstan granted a refund of input VAT, related to zero-rated output turnovers, in the amount of KZT13.4 billion.

Disposal of Petrochemicals business

As part of its strategy of rationalising KMG EP's operations, KMG EP has begun divesting its ownership interests in most of its subsidiaries whose operations are non-core to KMG EP's upstream operations and development strategy. An agreement is in place for the sale, which is not yet complete, of KMG EP's 35% interest in JSC Kazakhstan Petrochemical Industries, a petrochemical operation, to LLP SAT & Company. In 2006 KMG EP has fully provided for the 3.2 billion Tenge receivable from the above sale. Additionally, an impairment loss has been recognised as at 31 December 2006 to write the remaining investment in JSC Kazakhstan Petrochemical Industries down to zero, which is management's best estimate of the current fair value of the investment. KMG EP is currently considering disposing of its stake in JSC Kazakhstan Petrochemical Industries.

Other than as outlined in this paragraph 6 above or in the ordinary course of business, there has been no significant change in the financial or trading position of KMG EP since 30 September 2006, the date to which KMG EP's last interim financial statements were prepared.

7. Material contracts

The following contracts are the only contracts (not being contracts entered into in the ordinary course of business) that have been entered into by KMG EP within the two years immediately preceding the date of this document which are or may be material to KMG EP or which have been entered into by KMG EP at any other time and which contain provisions under which KMG EP has an obligation or entitlement that is material to KMG EP as at the date of this document:

(a) The Underwriting Agreement dated 29 September 2006 between KMG EP and the Underwriters providing for the underwriting of the IPO (''Underwriting Agreement''). The Underwriting Agreement contains, amongst others, the following provisions:

  (i) The Underwriters will deduct from the proceeds of the IPO, certain selling commissions and management and underwriting commissions payable by KMG EP, of 3.69% of the gross proceeds of the IPO subject to a cap of US$37.5 million.

  (ii) KMG EP 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.

  (iii) KMG EP has given customary indemnities to the Managers in connection with the IPO.

(b) The Relationship Agreement dated 8 September 2006 between KMG EP and NC KMG managing the continuing relationship between the parties and ensuring KMG EP is capable of carrying on its business independently of NC KMG as a controlling Shareholder, summarised in the Prospectus.

(c) The Services Agreement dated 8 September 2006 between NC KMG and KMG EP regulating the continuing relationship between the parties and pursuant to which NC KMG will continue to provide certain commercial services to KMG EP, summarised in the Prospectus.

(d) The Oil Sale Agreement dated 18 August 2004 between KMG EP 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.

(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, described in the Prospectus.

(f) The Ministry of Finance of the Republic of Kazakhstan (''MF'') and KMG EP entered into a pledge agreement dated 24 March 2005 pursuant to which KMG EP 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.

(g) The Atyrau Refinery Sale Agreement dated 27 December 2005 between KMG EP and KMG TradeHouse described in the Prospectus.

(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 KMG EP upon the merger of EMG with KMG EP 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 KMG EP giving 90 days' advance notice, subject to contractual terms and conditions.

(i) The Refinery Supply Undertaking dated 28 February 2006 between KMG EP and KMG TradeHouse described in the Prospectus.

(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, KMG EP and NC KMG entered into an agreement relating to the provision of a KZT26.0 billion non-interest bearing loan to NC KMG, which is described in the Prospectus.

(l) The JSC Atoll sale agreement dated 13 December 2005 NO. 3831-22 between KMG EP and Sat & Company LLP.

(m) On 26 December 2005, KMG EP and KMG TradeHouse entered into the KMG TradeHouse Agency Agreement, described in the Prospectus.

(n) On 30 June 2006, KMG EP'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 KMG EP.

(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.

(p) On 30 June 2006, NC KMG and KMG EP 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, described in the Prospectus.

(q) On 30 June 2006, KMG EP and NC KMG entered into an option agreement in relation to the acquisition of 50% interest in Kazgermunai.

(r) The Deposit Agreement dated 4 October 2006, between KMG EP and The Bank of New York, as depositary in connection with the issue of the GDRs pursuant to the IPO.

(s) The Sale and Purchase Agreement, relating to the Proposed Acquisition, between KMG EP and NC KMG.

8. Possible Acquisitions

In July 2006 NC KMG acquired a 33% stake in PetroKazakhstan from PetroChina for approximately US$1.4 billion.

KMG EP is considering the possibility of acquiring these assets from NC KMG, but is under no obligation to do so. If KMG EP does determine to proceed with the acquisition, it will be subject to certain conditions precedent including full due diligence by KMG EP, 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 PetroKazakhstan has been extracted from publicly available information, including 2004 annual financial statements of PetroKazakhstan, prepared in accordance with Canadian GAAP. KMG EP has not undertaken any review of or performed diligence on the information regarding PetroKazakhstan provided below or elsewhere in this document.

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.

KMG EP is aware that NC KMG is prepared to offer its stake in PetroKazakhstan (excluding any interest in the Shymkent Refinery). 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 in Part VI of this document — ''Principal Terms of the Proposed Acquisition''.

Nations Energy

On October 25, 2006 Nations Energy Company Ltd. (Canada) entered into an agreement with CITIC Group (China) (''CITIC'') to sell to CITIC the Kazakhstan oil assets of Nations Energy for an aggregate consideration of US$1.91 billion before adjustment for cash and debt.

The information provided below regarding Nations Energy Company Ltd. has been extracted from publicly available information. KMG EP has not undertaken any review of or performed diligence on the information regarding Nations Energy Company Ltd provided below or elsewhere in this document.

On December 30, 2006 NC KMG and CITIC announced that CITIC has granted to NC KMG a call option under which NC KMG may acquire a 50 percent interest in Nations Energy Company Ltd. The option is exercisable within one year and the price is based on acquisition price.

Currently, KMG EP is negotiating the transfer of the option to purchase 50 percent interest in Nations Energy Company Ltd from NC KMG to KMG EP.

Nations Energy was formed in 1996 as a private Canadian company to pursue international oil and gas E&P projects around the world. In 1997, Nations Energy acquired 94.62% of the Share capital and representing 100% of voting control of JSC ''Karazhanbasmunai'' from the Government of Kazakhstan. Nations Energy Company Ltd subsidiary JSC Karazhanbasmunai holds 100% of the mineral rights until 2020 to develop the Karazhanbas oil and gas field in the western part of Kazakhstan which has proved reserves in excess of 340 million barrels of oil and current production of over 50,000 barrels of oil per day. Nations Energy Company Ltd. currently owns 94.6% of JSC Karazhanbasmunai. In 2006 JSC Karazhanbasmunai produced approximately 2.3 million tonnes of crude oil.

9. Consent

Gaffney, Cline & Associates has given and not withdrawn its consent to the inclusion herein of its report in Part IV — ''Competent Person's Report'', and the references thereto and to its name in the form and context in which they appear.

Credit Suisse Securities (Europe) Limited has given and not withdrawn its consent to the inclusion herein of the references to its name and the opinion attributed to it in the form and context in which they appear.

10. Bases and sources of information

KMG EP and Kazgermunai operate in industries in which it is difficult in certain cases to obtain precise industry and market information. Unless the source is otherwise stated and except as described below in relation to information on Kazgermunai and other third party information:

- the market data in this document has been extracted without material amendment from government publications; and
- the financial information included in this document in respect of KMG EP has been extracted without material amendment from the financial statements contained in the Annual Report and Accounts and the Company's accounting records.

Hydrocarbon Data

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

Kazgermunai 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.

Since 1999, KMG EP has engaged Gaffney, Cline & Associates, an international oil and gas consultant, to conduct an annual review of KMG EP's oil and gas reserves.

Unless otherwise stated herein, the estimates set forth in this document of Kazgermunai's proved, probable and possible crude oil reserves are based on reports prepared for it by Gaffney, Cline & Associates in accordance with the standards established by the SPE/WPC.

Shareholders and GDR Holders should be aware that reserve data set forth on KMG EP's or Kazgermunai'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 Gaffney, Cline & Associates' reports, and that the two sets of data are likely to be significantly different.

For internal record-keeping purposes, Kazgermunai 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. References in this document to ''tonnes'' are to metric tonnes. One metric tonne equals 1,000 kilograms. Depending on the field from which Kazgermunai's crude oil is extracted, the factor for converting from data in tonnes to data in barrels varies between 6.84 and 7.85. This document includes conversions of data in tonnes into barrels of crude oil, a volumetric measure, at 7.62 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, included in this document are 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 Kazgermunai's gas condensate for 2005. The conversion of data for other companies in tonnes into barrels may be at different rates.

Gaffney, Cline & Associates has estimated reserves in barrels, converting into tonnes for information only. In all instances, the barrel values should take precedence.

Information Regarding Kazgermunai

In this document the information regarding Kazgermunai has been sourced from the management and from management records of Kazgermunai, including its annual financial statements. Please see Part II — ''Risk Factors — Limited information available on Kazgermunai'' above for further important information on this process.

11. Documents available for inspection

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), from the date of this document, up to and including the date of conclusion of the Extraordinary General Meeting, at the offices of KMG EP:

a. the Charter of KMG EP;

b. the consent letters referred to in paragraph 9 of this Part VII;

c. a copy of this circular; and

d. a copy of KMG EP's prospectus dated 29 September 2006 which include the audited accounts of KMP EP for the three years ended 31 December 2005

Definitions

Admission	the admission of the GDRs to the Official List of the UK Listing Authority and to the London Stock Exchange effective 5 October 2006
the Akimat	the local government body in Kazakhstan
Antimonopoly Agency	Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies
Astana Time	Greenwich Mean Time plus 6 hours
Board of Directors	the board of directors of KMG EP
Charter	the charter of the Company
the Company or KMG EP	Joint Stock Company KazMunaiGas Exploration Production, a company incorporated in Kazakhstan under the Joint Stock Companies Law, and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings
COPS	central oil processing facilities
Corporate Governance Code	the corporate governance code as introduced into Kazakhstan in 2001
CPC	Caspian Pipeline Consortium
the Competent Person's Report	the report prepared by Gaffney, Cline & Associates dated 15 March 2007 and which is included as Part IV of this document
Depositary	Bank of New York as depositary of the GDRs
Directors	the directors of KMG EP
EBITDA	earnings before interest, taxation, depreciation, depletion and amortisation
EGM Notice	the notice of the Extraordinary General Meeting set out at the end of this document
EMG	JSC EmbaMunaiGas
Enlarged Group	KMG EP as enlarged following the completion of the Proposed Acquisition
Esomet	Esomet SAS
Esomet Arrangement	means certain financing arrangements between KMG EP and Esomet which contain covenants restricting KMG EP's payment of dividends
Extraordinary General Meeting or EGM	the extraordinary general meeting of KMG EP convened for 12 April 2007, notice of which is set out at the end of this document
Foundation Agreement	the agreement under which Kazgermunai is constituted
Foundation GAAP	the accounting policies specified in Appendix 4 and Appendix 4A of the Foundation Agreement
GCA	Gaffney Cline & Associates
GDR Holders	holders of GDRs
GDRs	the global depositary receipts each representing one sixth of an ordinary share
Government	the Republic of Kazakhstan
GPF	gas processing facility
IFRS	International Financial Reporting Standards
IPO	the offering of Ordinary Shares in Kazakhstan and the GDRs to institutional investors outside Kazakhstan and admission of the GDRs to

	listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc on and around 4 October 2006
Independent Non-Executive Directors	the independent non-executive directors of KMG EP
Joint Stock Company Law	the Joint Stock Company Law of Kazakhstan
JV Partners	the joint venture partners of Kazgermunai from time to time
KAA	the Kumkol-Atasu-Alashankou pipeline
KASE	the Kazakhstan Stock Exchange
Kazgermunai or KGM	JV Kazgermunai LLP
KGM Shares	the interest in the charter capital of Kazgermunai
KMG EP or the Company	Joint Stock Company KazMunaiGas Exploration Production, a company incorporated in Kazakhstan under the Joint Stock Companies Law, and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings
KMG TradeHouse Agency Agreement	the agency agreement entered into between KMG EP and KMG TradeHouse on 26 December 2005
KS	the Kumkol-Shagyr pipeline
KTO	JSC KazTransOil
KTO Transportation Agreement	the Agreement on Rendering Services of Crude Oil Transportation between KMG EP and KTO dated 10 September 2004
KZT or Tenge	the lawful currency of the Republic of Kazakhstan
Kyoto Protocol	the Kyoto Protocol to the United Nations Framework Convention on Climate Change
LoEP	the Republic of Kazakhstan Law ''On Environmental Protection''
LPG	liquefied petroleum gas
MEMR	the Ministry of Energy and Mineral Resources of Kazakhstan
MEP	the Ministry of Environmental Protection
MF	Ministry of Finance of Kazakhstan
NC KMG	JSC National Company KazMunaiGas
NC KMG Group	NC KMG and its subsidiary undertakings and, where the context requires, its associated undertakings
Noteholders	the holders of the Senior Notes
Option	the option for KMG EP to acquire NC KMG's interests in Kazgermunai, representing 50% of the participating interests in Kazgermunai pursuant to the Option Agreement
Option Agreement	an agreement between KMG EP and NC KMG dated 30 June 2006 relating to the Option
Ordinary Shares or Shares	the ordinary shares in the capital of KMG EP
Participatory Interest	a 50% participatory interest in Kazgermunai which is the subject of the Proposed Acquisition
PetroChina	PetroChina Company Limited
PetroKazakhstan or PKZ	PetroKazakhstan Kumkol Resources JSC

Proposed Acquisition	the proposed acquisition by Joint Stock Company KMG EP of 50 per cent. of the issued and outstanding KGM Shares in accordance with the terms described in this document
Prospectus	KMG EP's prospectus dated 29 September 2006 in connection with the IPO
Relationship Agreement	the relationship agreement entered into between KMG EP and NC KMG on 8 September 2006
Resolution	the resolutions to approve the matters set out in items 4, 5(a) and 6 of the agenda set out in the EGM Notice
Sale and Purchase Agreement	the sale and purchase agreement relating to the Proposed Acquisition between KMG EP and NC KMG
SEC or US SEC	United States Securities and Exchanges Commission
Securities Act	US Securities Act of 1933, as amended
Senior Notes	the US$800 million principal amount 6.5% fixed rate senior notes issued by KMG EP's finance subsidiary, Munaishy Finance B.V.
Services Agreement	the Services Agreement dated 8 September 2006 between NC KMG and KMG EP regulating the continuing relationship between the two parties
Shareholders	holders of Ordinary Shares
SPE	Society of Petroleum Engineers
State Procurement Committee	the Committee for Financial Control and State Procurement of the Ministry of Finance
State Procurement Law	the Law of the Republic of Kazakhstan dated 16 May 2002 on State Procurement.
Subsoil Law	the Law of the Republic of Kazakhstan dated 27 January 1996 on Subsoil and Subsoil Use
Tax Letter	the letter of the State Tax Committee dated 30 January 1997
UMG	JSC UzenMunaiGas
Underwriters	ABN AMRO Rothschild, Credit Suisse Securities (Europe) Limited, JSC ''Visor Capital'' and Merrill Lynch International
Underwriting Agreement	the underwriting agreement between KMG EP and the Underwriters providing for the underwriting of the IPO
USD, US dollars, US$	the lawful currency of the United States of America
US Exchange Act	US Securities Exchange Act of 1934, as amended
VAT	Value Added Tax
WPC	World Petroleum Congresses

APPENDIX

KAZGERMUNAI FINANCIAL INFORMATION

KAZGERMUNAI LLP

Financial Statements
For the year ended December 31, 2005

Prepared in accordance with the provisions
of the Foundation Documents

KAZGERMUNAI LLP

BALANCE SHEET

AS AT DECEMBER 31, 2005

PREPARED IN ACCORDANCE WITH THE PROVISIONS OF THE FOUNDATION DOCUMENTS

(all amounts are in 000'USD unless otherwise stated)

	Notes	December 31, 2005	December 31, 2004
ASSETS			
CURRENT ASSETS:			
Cash	3	228,448	101,599
Accounts receivable, net	4	86,814	44,062
Inventory	5	5,876	7,667
Advances paid and prepaid expenses, net	6	33,561	30,401
Total current assets		354,699	183,729
NON-CURRENT ASSETS:			
VAT receivable	7	20,127	29,941
Construction in progress	8	34,388	10,518
Development expenditures, net	9	32,546	5,122
Fixed assets, net	10	107,398	87,604
Intangible assets, net	11	5,309	4,485
Total non-current assets		199,768	137,670
TOTAL ASSETS		554,467	321,399
LIABILITIES AND PARTNERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	12	7,603	9,861
Taxes payable		8,220	5,010
Other accruals		220	507
Total current liabilities		16,043	15,378
LONG TERM LIABILITIES:			
Provision for oil field restoration		8,869	7,501
Long-term debt	13	28,768	27,003
Total long-term liabilities		37,637	34,504
PARTNERS' EQUITY:			
Charter fund	14	1,000	1,000
Retained earnings		499,787	270,517
Total partners' equity		500,787	271,517
TOTAL LIABILITIES AND PARTNERS' EQUITY		554,467	321,399

Signed on behalf of management:

Yang Shu
Financial Director

Svetlana Nogayeva
Chief Accountant

March 30, 2006
Kyzylorda, Republic of Kazakhstan

The accompanying notes on pages 105 to 113 are an integral part of these financial statements.

KAZGERMUNAI LLP

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2005

PREPARED IN ACCORDANCE WITH THE PROVISIONS OF THE FOUNDATION DOCUMENTS

(all amounts are in 000'USD unless otherwise stated)

	Notes	For the year ended December 31, 2005	For the year ended December 31, 2004
REVENUE		560,401	454,856
PRODUCTION AND SALES EXPENSES:			
Crude oil transportation		(61,592)	(71,571)
Royalty		(30,887)	(31,877)
Depreciation of fixed assets	10	(18,689)	(16,114)
Services of other organizations		(20,074)	(12,750)
General and administrative expenses		(36,652)	(11,461)
Amortization of development expenditures	9	(3,776)	(5,870)
Material inputs		(5,092)	(5,057)
Accrued expenses for oil field restoration		(1,368)	(2,822)
Interest expense	13	(1,765)	(2,339)
Salaries and other personnel expenses		(3,234)	(2,193)
Write off of construction in progress		—	(1,489)
Amortization of intangible assets	11	(662)	(472)
Social fund contributions		(550)	(276)
Total production and sales expenses		(184,341)	(164,291)
NON-OPERATING INCOME AND LOSSES:			
Interest income		4,972	860
Foreign exchange (losses)/gains		(2,548)	1,864
Other (losses)/gains		(359)	5
Total non-operating income		2,065	2,729
NET INCOME BEFORE INCOME TAX EXPENSE		378,125	293,294
INCOME TAX EXPENSE		(148,855)	(113,795)
NET INCOME		229,270	179,499

Signed on behalf of management:

Yang Shu Financial Director	Svetlana Nogayeva Chief Accountant

March 30, 2006
Kyzylorda, Republic of Kazakhstan

The accompanying notes on pages 105 to 113 are an integral part of these financial statements.

KAZGERMUNAI LLP

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2005

PREPARED IN ACCORDANCE WITH THE PROVISIONS OF THE FOUNDATION DOCUMENTS

(all amounts are in 000'USD unless otherwise stated)

	Notes	For the year ended December 31, 2005	For the year ended December 31, 2004
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:			
Net income		229,270	179,499
Adjustments to net income:			
Depreciation of fixed assets	10	18,689	16,114
Amortization of development expenditures	9	3,776	5,870
Accrued expenses for oil field restoration		1,368	2,822
Accrued interest expense	13	1,765	2,339
Write off of construction in progress		—	1,681
Amortization of intangible assets	11	662	472
Losses from disposal of fixed assets and construction in progress		326	71
(Reversal)/provision of allowance for doubtful advances paid and prepaid expenses	6	(118)	88
Reversal of allowance for doubtful trade receivable	4	—	(1,396)
Changes in assets and liabilities:			
Increase in accounts receivable		(42,752)	(16,891)
Increase in advances paid and prepaid expenses		(3,042)	(17,371)
Decrease in inventory		1,791	274
Decrease/(increase) in long term VAT receivable		9,814	(13,818)
Decrease in accounts payable		(2,258)	(429)
Decrease in advances received from related party		—	(2,653)
Increase in tax payable		3,210	409
(Decrease)/increase in other accruals		(287)	482
Net cash provided by operating activities		222,214	157,563
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of intangible assets	11	(110)	(826)
Additions to fixed assets and construction in progress	8, 10	(64,055)	(24,763)
Development expenditures		(31,200)	—
Net cash used in investing activities		(95,365)	(25,589)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of loans	13	—	(51,238)
Net cash used in financing activities		—	(51,238)
NET CHANGE IN CASH		126,849	80,736
CASH, beginning of the year		101,599	20,863
CASH, end of the year	3	228,448	101,599

Signed on behalf of management:

Yang Shu Financial Director	Svetlana Nogayeva Chief Accountant

March 30, 2006
Kyzylorda, Republic of Kazakhstan

The accompanying notes on pages 105 to 113 are an integral part of these financial statements.

KAZGERMUNAI LLP

STATEMENT OF CHANGES IN PARTNERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2005

PREPARED IN ACCORDANCE WITH THE PROVISIONS OF THE FOUNDATION DOCUMENTS

(all amounts are in 000'USD unless otherwise stated)

	Charter fund	Retained earnings	Total
Balance at December 31, 2003	1,000	91,018	92,018
Net income for the year	—	179,499	179,499
Balance at December 31, 2004	1,000	270,517	271,517
Net income for the year	—	229,270	229,270
Balance at December 31, 2005	1,000	499,787	500,787

Signed on behalf of management:

Yang Shu
Financial Director

Svetlana Nogayeva
Chief Accountant

March 30, 2006
Kyzylorda, Republic of Kazakhstan

The accompanying notes on pages 105 to 113 are an integral part of these financial statements.

1. Nature of The Business and Operating Risks

Background

Kazgermunai (''KGM'' or the ''Partnership'') was registered as a limited liability partnership (''LLP'') in the Republic of Kazakhstan in 1993 with the participation of foreign capital. The Partnership performs its activity on the basis of the provisions of the Foundation Agreement dated November 9, 1993 (the ''Foundation Documents''). The objective of the Partnership is the development, exploitation, transport and marketing of hydrocarbons from the proved reserves at the Akshabulak, Nuraly and Aksai oil fields in the Republic of Kazakhstan in accordance with the terms of the respective licenses for exploitation and production.

KGM started commercial production on October 1, 1998. Until December 31, 2003 commercial production was focused on the Akshabulak oil field solely. Commencing January 1, 2004 the Nuraly field was transferred by the Partnership from development to commercial production stage. As at December 31,2005, the Aksai field remains in the development stage (see Note 17).

Operating environment and business risks

The Partnership's operating results are dependent upon future oil prices both inside and outside of Kazakhstan, and its ability to sell its oil at a margin sufficient to ensure future profitability and its ability to successfully market its crude oil. The Partnership's success is also dependent upon its relationship with the Government of the Republic of Kazakhstan (the ''Government'') and other factors.

The Partnership's operations are subject to economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the Government, economic conditions, imposition of, or changes to, taxes and regulations, foreign exchange fluctuations, and enforceability of contract rights.

The Kazakhstan Government has exercised, and continues to exercise, significant influence over many aspects of the private sector. The Government has been attempting to implement economic reform policies and encourage substantial private economic activity. These reforms are ongoing and have resulted in significant structural changes in the economy of Kazakhstan.

Oil reserves and recoverability of non-current assets

The Partnership's operations are dependent upon the production of crude oil from oil fields located in South-Central Kazakhstan. The long-term economic viability of the Partnership is dependent upon the continuing availability of sufficient economically recoverable oil reserves to provide sufficient future cash flows to recover the current carrying values of the Partnership's non-current assets.

2. Summary of Significant Accounting Policies

Basis of preparation

The Partnership prepares its financial statements in accordance with the accounting policies specified in Appendix 4 and Appendix 4A of the Foundation Documents of the Partnership.

The accounting policies specified in the Foundation Documents require the presentation of the financials statements in United States Dollars (''USD'').

Management estimates

The preparation of the financial statements in conformity with accounting policies of the Foundation Documents requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses of the reporting period then ended. These estimates are subject to measurement uncertainty. Therefore actual results could differ from and affect the results reported in these financial statements.

Accounts receivable

Accounts receivable are stated at their net realizable value after deducting provisions for uncollectible amounts.

Inventory

Crude oil inventory is recorded at the lower of cost, calculated on a FIFO (first-in, first-out) basis, and net realizable value. Cost comprises direct materials and where applicable direct labor costs and those overheads, which have been incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Materials and supplies inventories held for use in the operations are calculated on a weighted average cost basis.

Fixed assets and depreciation

Fixed assets are presented net of accumulated depreciation. The gross fixed assets balance is recorded at the original cost of the assets and includes expenses incurred in constructing or acquiring the assets and bringing them into use.

In accordance with the accounting provisions of the Foundation Documents, the Partnership depreciates its fixed assets on a straight — line basis at double depreciation rates defined by the Resolution of the USSR Cabinet of Ministers #1072, dated October 22, 1990. Assets are depreciated from the time when they are placed into operations and depreciated over the following estimated useful lives:

	Years
Buildings and constructions	20-50
Machinery and equipment	2.5-17
Transport	4-16
Other	4-5

Construction in progress

Construction in progress includes costs incurred on specific assets that have not been completed or placed into production and an appropriate allocation of directly attributable variable overheads that are incurred in construction. When such assets are completed and placed into operation they are transferred to the relevant fixed assets category and depreciated on the basis described above.

Development expenditures

Prior to commencing operations, the costs of development are capitalized. Development expenditures are amortized to the statement of operations on the following basis:

- Pre-development expenditures — straight line basis over 6.6 years;
- Other development expenditures — unit of production basis within a period of 5 years.

Impairment of wells

All associated costs of exploration and development for wells which are abandoned are expensed in the year of abandonment.

Intangible assets and amortization

Intangible assets are stated net of accumulated amortization. The gross intangible assets balance is recorded at the original cost of the assets and includes expenses incurred in acquiring the assets. Intangible assets are capitalized when it is probable that the asset will generate economic benefits in future reporting periods. Intangible assets are amortized over the length of their useful lives and/or respective agreements.

Revenues and expenses

Revenues associated with sales of crude oil are recorded when the title and all significant risks and rewards related to the right of possession of realized production passes to the customer. Revenue is recognized net of value added tax.

Expenses are recorded in the period in which they are incurred.

Foreign currency transactions

The Partnership maintains all records in USD.

All transactions in currencies other than USD, including Tenge, are considered as foreign currency transactions and are recorded in USD at the rate of exchange prevailing at the date of transaction.

Monetary assets and liabilities denominated in currencies other from USD are translated into USD at the rates prevailing on the balance sheet date. All translation differences (foreign exchange gains and losses) are recognized in the income statement.

Provision for oil field restoration

Provision for oil field restoration is provided for on the unit of production basis. The restoration costs are allocated to recoverable oil reserves in order to determine the rate per tonne, at which restoration expenses will be recognized (the conversion rate). Annual provision for oil field restoration are calculated as the conversion rate times annual oil production. Provision for oil field restoration is not discounted.

At present the conversion rate is 0.72 USD per tonne of oil produced. In 2004, 2003 and 2002 the conversion rate was 1.43, 1.43 and 1.35 USD per tonne, respectively. Prior to 2002, the conversion rate was 0.77 USD per tonne. According to the provisions of the Foundation Documents, the conversion rate may be revised to reflect the changes in either the proposed amount of the oil field restoration or changes in the level of recoverable oil reserves.

Taxation

Income tax expense is determined in accordance with the provisions of the Foundation Documents. Under the provisions of the Foundation Documents, income tax is calculated on the basis of accounting income. Consequently, no provision for deferred taxation is made as all differences between taxable income and accounting income are permanent and non reversing. The income tax rate varies from 25 to 40% depending on the level of taxable income as follows:

Taxable income amount

	Tax rate
Amount less than 20,000,000 USD	25%
The portion greater than 20,000,000 USD but less than 30,000,000 USD	30%
The portion greater than 30,000,000 USD but less than 40,000,000 USD	35%
The portion greater than 40,000,000 USD	40%

3. Cash

	December 31, 2005	December 31, 2004
Cash on hand	5	9
Deposit	28,807	27,758
Letter of credit	7	1,287
Cash in banks	199,629	72,545
Total cash	228,448	101,599

4. Accounts Receivable, Net

	December 31, 2005	December 31, 2004
Trade receivable from other customers	63,795	41,156
Trade receivable from related parties — PKOP & PKKR (see note 15):	23,019	2,906
Allowance for uncollectible amounts	—	—
Total accounts receivable, net	86,814	44,062

Trade receivables from other customers include mainly receivables from Euro Asia Oil for the sale of crude oil amounting to 39,125 thousand USD and 21,945 thousand USD as at December 31, 2005 and 2004, respectively, and receivables from UniOil amounting to 16,185 thousand USD and 13,190 thousand USD as at December 31, 2005 and 2004, respectively. For the years ended December 31, 2005 and 2004, Euro Asia Oil was the main customer of the Partnership purchasing approximately 64% and 73% respectively, of the total volume of crude oil sold.

5. Inventory

	December 31, 2005	December 31, 2004
Materials and supplies	4,882	6,928
Crude oil	994	739
Total inventory	5,876	7,667

As at December 31, 2005 and 2004 inventory was reflected at cost as described in Note 2.

6. Advances Paid and Prepaid Expenses, Net

	December 31, 2005	December 31, 2004
Advance payments for goods and services	23,143	23,586
Other prepayments	9,871	6,760
Advance payments to related parties — PKKR (see note 15)	989	615
Allowance for doubtful advances paid and prepaid expenses	(442)	(560)
Total advances paid and prepaid expenses, net	33,561	30,401

7. Vat Receivable

The amount of VAT receivable represents VAT paid to suppliers of goods, works and services and arose due to the difference in the VAT output rate for sales of crude oil for export, which are zero-rated, and the VAT input rate of 15% for the year ended December 31, 2005. As disclosed in Note 16, the Partnership is in dispute with the tax authorities over certain additional taxes assessed by the tax authorities as being payable for the fiscal years 2004, 2003, 2002 and 2001. Management believes that repayment of the VAT receivable will commence only once the disputes with the tax authorities are settled and that the Partnership will ultimately receive full settlement of the VAT due. However, given the uncertainty over the time that will be required to settle the disputed tax matters, management has classified the VAT receivable as falling due after more than one year.

8. Construction in Progress

	December 31, 2005	December 31, 2004
Opening balance	10,518	14,018
Additions to construction in progress	64,055	24,019
Transfer from fixed assets	5,372	—
Transfer to fixed assets	(43,890)	(25,838)
Transfer to intangible assets	(1,376)	—
Disposals	(291)	(1,681)
Closing balance	34,388	10,518

The balance of construction in progress is represented by exploratory and development oil wells and roads to the fields under construction and other oil and gas equipment and materials to be used in that construction.

9. Development Expenditures, Net

Development expenditures include expenditures that relate to the project taken as a whole and cannot generally be allocated to specific production assets. This includes all costs associated with the entire project from inception to September 30, 1998 and costs associated with the Aksai oil field through December 31, 2005 that are not assigned to assets currently in operations. All expenditures for development of the oil properties were capitalized in accordance with accepted oil industry practice for development projects. All revenues from test oil production at development stage are used to reduce the capitalized development expenditures. These expenditures are amortized from the time commercial production commenced.

	Pre-development expenditures	Capitalized infrastructure costs	Development (Akshabulak)	Development (Aksai)	Total
At cost:					
Balance as of December 31, 2004	39,134	—	37,116	2,189	78,439
Capitalized costs	—	31,200	—	—	31,200
Balance as at December 31, 2005	39,134	31,200	37,116	2,189	109,639
Accumulated amortization:					
Opening balance	36,201	—	37,116	—	73,317
Amortization expenses	2,933	843	—	—	3,776
Closing balance	39,134	843	37,116	—	77,093
Net book value					
December 31, 2005	—	30,357	—	2,189	32,546
Net book value					
December 31, 2004	2,933	—	—	2,189	5,122

In February 2005, the Partnership received a claim filed by the Kyzylorda Regional Oblast Akimat (''Akimat'') for failure to fulfill infrastructure obligations contained in the Partnership's Foundation Document, supplementary agreements, and subsequent amendments to these agreements. The claim was for approximately 102,000 thousand USD, with 31,200 thousand USD relating to infrastructure obligations and the remainder being interest charges.

In May 2005, a settlement was reached whereby a one time payment of 31,200 thousand USD would be made to the Akimat to satisfy all of the existing infrastructure obligations.

The Partnership has capitalized infrastructure costs of 31,200 thousand USD at the date of the payment. These costs will be amortized using the straight-line method over the remaining period of the Foundation Document.

10. Fixed Assets, Net

	Land	Buildings & constructions	Machinery & equipment	Transport	Other	Total
At cost:						
Opening balance	19	81,528	56,614	16,397	1,638	156,196
Transfer from construction in progress	—	11,754	31,368	336	432	43,890
Disposals	—	—	(336)	(36)	(248)	(620)
Transfer to construction in progress	—	(5,372)	—	—	—	(5,372)
Closing balance	19	87,910	87,646	16,697	1,822	194,094
Accumulated depreciation:						
Opening balance	—	23,177	36,900	7,377	1,138	68,592
Depreciation expenses	—	10,798	6,122	1,402	367	18,689
Disposals	—	—	(303)	(36)	(246)	(585)
Closing balance	—	33,975	42,719	8,743	1,259	86,696
Net book value						
December 31, 2005	19	53,935	44,927	7,954	563	107,398
Net book value						
December 31, 2004	19	58,351	19,714	9,020	500	87,604

11. Intangible Assets, Net

	December 31, 2005	December 31, 2004
At cost:		
Opening balance	6,534	5,797
Additions	1,486	826
Disposals	—	(89)
Closing balance	8,020	6,534
Accumulated amortization:		
Opening balance	2,049	1,666
Amortization expense	662	472
Disposals	—	(89)
Closing balance	2,711	2,049
Intangible assets, net	5,309	4,485

Intangible assets consist of software licenses and the rights to use the Kyzylorda-Kumkol road.

12. Accounts Payable

	December 31, 2005	December 31, 2004
Payable to related parties (see note 15):		
EEG	1,830	5,069
RWE DEA	304	504
PKKR	1,415	354
Other suppliers	4,054	3,934
Total accounts payable	7,603	9,861

13. Long-Term Debt

The loan from the Government of Kazakhstan relates to exploration and development work performed by Yuzhkazgeologiya, a state-owned enterprise, on the Akshabulak, Nuraly and Aksai fields prior to the formation of KGM. The original principal amount of 11,500,000 USD was agreed to in the Foundation Documents. A subsequent agreement was signed on December 5, 1997 confirming the principal amount of the loan. The loan bears interest at LIBOR plus 3%. Accrued interest is added to the principal on a semi-annual basis. No payments of principal or interest have been made to the Government in relation to the above debt and as at December 31, 2005, the balance owing is 28,768 thousand USD.

In accordance with clauses 8.1 and 8.2 of the Foundation Document, an additional 100,000 USD is added to the principal amount of the loan for each well that was drilled before April 30, 1993. Such increase shall be effective at the date of commencement of commercial usage of the well In 1998, an additional 100,000 USD, and in 2003 an additional 400,000 USD, were added to the principal amount of the loan.

14. Charter Fund

	%	December 31, 2005 and 2004
PKKR	50.0	500
RWE DEA	25.0	250
EEG	17.5	175
IFC	7.5	75
Total charter fund	100.0	1,000

15. Related Party Transactions

Services provided by related parties to the Partnership

In addition to the balances outstanding from and due to related parties disclosed in Notes 4, 6 and 12, the Partnership had the following related party transactions during the years ended December 31, 2005 and 2004:

	December 31, 2005	December 31, 2004
Services provided by EEG to KGM	5,983	5,228
Services provided by RWE DEA to KGM	1,636	2,377
Services provided by PKKR to KGM	5,901	1,377
Total services provided by related parties	13,520	8,982

The services from the Partners include mainly management personnel expenses, project development expenses, geological and geophysical works, works related to the construction of oil and gas assets and field development costs and other expenses.

The services provided by the head offices of EEG and RWE DEA are valued at the direct cost to the related parties of providing these services, plus an overhead charge of 20% by EEG and 20% by RWE DEA of the personnel costs and services. The overhead charge is included in the amounts shown above.

The services rendered by PetroKazakhstan Kumkol Resources (''PKKR'') and branches of EEG and RWE DEA are denominated in Tenge and translated using average exchange rates.

Crude Oil sold by the Partnership to PKKR

	December 31, 2005	December 31, 2004
Oil sold to PKKR, tons	40,000	19,000
Oil sold to PKKR, USD	8,400,000	2,919,833
Average selling price (USD per tonne)	210	154

Oil products sold by the Partnership to PKKR

	December 31, 2005	December 31, 2004
Oil products sold to PKKR, tons	96,890	—
Oil products sold to PKKR, USD	24,677,733	—
Average selling price (USD per tonne)	255	—

Crude oil sold by the Partnership to PetroKazakhstan Oil Products (''PKOP'')

	December 31, 2005	December 31, 2004
Oil sold to PKOP, tons	17,362	85,204
Oil sold to PKOP, USD	2,712,275	10,738,780
Average selling price (USD per tonne)	156	126

Crude oil sold by the Partnership to PetroKazakhstan Marketing Limited (''PKML'')

	December 31, 2005	December 31, 2005
Oil sold to PKML, tons	20,977	78,391
Oil sold to PKML, USD	7,444,344	13,271,605
Average selling price (USD per tonne)	355	169

16. Commitments and Contingencies

Taxation

The taxation system in the Republic of Kazakhstan is constantly changing and subject to inconsistent application, interpretation and enforcement. There have been many new tax and investment laws and related regulations introduced in recent years, which are not always clearly written and whose interpretation and application is subject to the opinions of the local tax authorities. Non-compliance with Kazakhstan laws and regulations can potentially lead to the imposition of penalties and fines, the amounts of which can be significant.

Tax liabilities

Starting September 2003 up to the date of these financial statements, the following significant tax audits have been performed by the tax authorities on the Partnership's records:

- Complete *tax audit covering fiscal years 2001 and 2002;*
- Additional *tax audit covering fiscal years 2001 and 2002;*
- *Tax audit covering transfer pricing issue in fiscal year 2003;*
- *Tax audit covering corporate income tax related to amortization deductions in 1998-2002;*
- Complete *tax audit covering fiscal years 2003 and 2004.*

As a result of the audits, following additional taxes were assessed by the tax authorities:

Complete *tax audit covering fiscal years 2001 and 2002* — In accordance with the Act of Tax audit dated September 19, 2003, the Partnership was assessed to pay additional taxes and penalties of 223,977,783 Tenge or 1,674 thousand USD at 133.77 Tenge/USD exchange rate as at December 31, 2005. Additional tax assessments included corporate income tax, value added tax and royalty. As a result of the appeal process, value added tax and royalty of 141,091,677 Tenge or 1,055 thousand USD have been eliminated from the assessment. No provision has been made in these financial statements for the remaining balance of the assessment.

Additional tax audit covering fiscal years 2001 and 2002 — In accordance with the Act of Tax audit dated November 21, 2003, the Partnership was assessed to pay additional taxes and penalties of 1,074,272,072 Tenge or 8,031 thousand USD at 133.77 Tenge/USD exchange rate as at December 31, 2005. Additional tax assessments included corporate income tax, value added tax, royalty, social tax and vehicles acquisition tax. KGM submitted appeals against the amounts assessed. As at the date of these financial statements the Partnership received a Supreme Court decision in relation to social and vehicles acquisition taxes based on which it paid 68,517,867 Tenge or 512 thousand USD at 133.77 Tenge/USD exchange rate as at December 31, 2005. Additionally assessed value added tax and royalty tax amounts of 165,344,259 Tenge or 1,236 thousand USD at 133.77 Tenge/USD exchange rate as at December 31, 2005 were successfully defended by the Partnership. The Partnership has accepted 223,000,000 Tenge or 1,667 thousand USD of the assessment which has been accrued in these financial statements. The Partnership is appealing the remaining assessments and no provision has been made in these financial statements for those amounts still under appeal.

Tax audit covering transfer pricing issue in fiscal year 2003 — In accordance with the Act of Tax audit issued in December 2004 the Partnership was assessed to pay corporate income tax of 337,147,269 Tenge or 2,520 thousand USD and royalty tax of 168,573,634 Tenge or 1,260 thousand USD at 133.77 Tenge/USD exchange rate as at December 31, 2005. In addition, the Partnership was obliged to pay penalties of 62,041,905 Tenge or 464 thousand USD at 133.77 Tenge/USD exchange rate as at December 31, 2005. The final resolution of the tax authorities was issued in December 2005. As a result of the appeal to the Tax Committee of the Ministry of Finance, the tax assessments were reduced and the outstanding amount of tax is 260,056,000 Tenge or 1,944 thousand USD and outstanding amount of penalties equals 31,243,711 Tenge or 234 thousand USD at 133.77 Tenge/USD exchange rate as at December 31, 2005. As of the date of these financial statements, the remaining tax assessments are under the consideration of the court of Astana city based upon the appeal filed by the Partnership. No provision has been made in these financial statements for those amounts still under appeal.

Tax audit covering corporate income tax related to amortization deductions in 1998-2002 — In accordance with Notification # 21 from the tax authorities dated May 11, 2005, the Partnership was assessed additional taxes of 1,281,421,589 Tenge or 9,579 thousand USD and a fine of 543,195,847 Tenge or USD 4,061 thousand USD at 133.77 Tenge/USD exchange rate as at December 31, 2005. Additional taxes assessed from the revision of depreciation deductions due to the disputed issue over commencement of commercial production at the Partnerships' Akshabulak field. The Partnership submitted appeals against the amounts assessed to the court of Astana city and further to the Supreme Court. As at the date of these financial statements, both courts issued unfavourable resolutions. On September 20, 2005 a special meeting regarding establishing the date of the commencement of commercial production was held between representatives of the Ministry of Energy and Mineral Resources, Ministry of Economic and Budget Planning, Ministry of Finance and Ministry of Justice. The final resolution from the Ministry of Energy and Mineral Resources, dated November 2005, provides that the commercial production date for the Akshabulak deposit is October 1998. Based on this, KGM appealed to the Supervisory Board of the Supreme Court to renew the court hearings on the case. The Supervisory Board of the Supreme Court refused to re-new the court hearings, but issued a ruling which provides that the Expert Opinion constitutes ''newly found circumstances'' that have not been considered by the courts. Based on this the Partnership appealed to the Astana city court to initiate new court hearings based on the above ''newly found circumstances''. No provision has been made in these financial statements for those amounts still under appeal.

Complete tax audit covering fiscal years 2003 and 2004 — In accordance with Notification # 31 from the tax authorities dated September 30, 2005 the Partnership was assessed additional taxes in the total amount of 228,608,654 Tenge or 1,709 thousand USD and a fine of 54,040,254 Tenge or 404 thousand USD at 133.77 Tenge/USD exchange rate as at December 31, 2005. Additional taxes include corporate income tax, value added tax and personal income tax of 79,328,372 Tenge or 593 thousand USD and associated fines of 15,367,462 Tenge or 115 thousand USD at 133.77 Tenge/USD exchange rate as at December 31, 2005 that have been accepted by the Partnership and accrued in these financial statements. The balance of the assessment has been appealed to the Astana court. No provision has been made in these financial statements for those amounts still under appeal.

Environmental matters

The Partnership believes it is currently in compliance with all existing Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations may change in the future. The Partnership is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require the Partnership to modernize technology to meet more stringent standards.

Concentration of business risk — see Note 4.

17. Subsequent Events

Aksai Field Status

In accordance with the Foundation Documents, the Company had until 23 February 2006 to establish whether or not they had made a commercial discovery at the Aksai field. If so, then by this date they were to apply to the relevant authorities to have Aksai's status transferred from development to production stage. If not, then the Partnership could ask for an extension of the Exploration phase or hand the Aksai field license back to the Government. Prior to the above date the Partnership has requested the Committee who is responsible for initially evaluating the field development plan (required to be submitted upon requesting a change in field status) for a deadline extension until March/April 2006. In addition to the above the Partnership is preparing the required documents to have Aksai approved for commercial gas extraction. No formal approval from the Committee has been received by the Partnership for extending the deadline for receipt of the change in field status request. The Partnership's management believes that the approval of their gas extraction plans will be forthcoming and that a gas production license will be granted which would then expire in April 2023, applying the terms contained in the Foundation Document.

Notes for Shareholders in Kazakhstan

Note 1

The Company, pursuant to the Law of the Republic of Kazakhstan ''On Joint Stock Companies'' dated 13 May 2003, as amended, specifies that only the Shareholders and GDR Holders included in the list of shareholders having the right to vote at the EGM to be prepared as of 6 March 2007 shall have the right to vote at the EGM of KMG EP on 12 April 2007. Only the Shareholders with Shares in nominee holding whose identity has been disclosed to and recorded in the record system of the central depositary of the Republic of Kazakhstan shall be included on the list of Shareholders having the right to vote at the EGM. In order to be entitled to vote, Shareholders (or their duly authorised representatives) must also be registered for participation in the meeting prior to opening of the EGM on 12 April 2007.

If after 6 March 2007 a person included in the list of the shareholders having the right to participate and vote at the general meeting of shareholders, has sold his voting shares, the right to participate in the general meeting of shareholders shall be acquired by the new shareholder. In that case, documents must be submitted by such new shareholder to confirm the right of ownership to the shares.

Note 2

A shareholder entitled to attend and vote at the Extraordinary General Meeting (the ''EGM'') is entitled to appoint a representative to attend and vote instead of such shareholder. The shareholder's representative need not also be a member of the Company, provided, however, that none of the members of the management board of the Company may be appointed as a shareholder's representative.

Note 3

Shareholders are able to vote in person or through a duly authorised representative. A representative of a shareholder must be authorised to vote by the company's corporate documents or powers of attorney. A power of attorney issued by a Kazakhstan company must be stamped and signed by a duly authorised person. A power of attorney issued by an individual must be notarised. If the corporate documents or powers of attorney are not originally in Russian or Kazakh, a notarised translation will be required. Copies of non-Kazakh company documents, powers of attorney issued and translations made outside of Kazakhstan must be notarised and legalised/apostilled. The documents confirming the authority of the representative must be presented to KMG EP when registered for participation in the meeting prior to opening of the Extraordinary General Meeting on 12 April 2007.

Note 4

In the case of joint holders, the signature of any one holder is sufficient.

Note 5

Any alteration made to a power of attorney should be confirmed by a corporate seal of a Kazakhstan legal entity or notarised (and legalised/apostilled if notarised outside of Kazakhstan) or confirmed by a corporate seal of a legal entity.

Note 6

Voting at a general meeting of shareholders shall be carried out on the principle of 'one share — one vote', except that one vote is granted to each person who has the right to vote at the general meeting of shareholders for voting on procedural issues of conducting the general meeting of shareholders.

Note 7

Any proxy validly appointed will have the same rights as a shareholder to speak at the EGM.

Note 8

A representative appointment which is not delivered or received in accordance with these notes and the KMG EP's Charter shall be invalid. When two or more representative appointments are presented to KMG EP to represent the same shareholder, the one which was executed last shall be treated as replacing and revoking the others as regards that shareholder.

Note 9

Unless the context otherwise requires, terms used in this EGM Notice have the meanings ascribed to them in the section headed ''Definitions'' of the Circular issued by the Company dated 15 March 2007.

NOTICE

REGARDING CONVENING OF AN EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS OF JSC ''KAZMUNAIGAS'' EP''

NOTICE is hereby given that an Extraordinary General Meeting of Joint Stock Company ''KazMunaiGas'' Exploration Production'' (the ''Company'') will be held at: Building 2, Street 1, 10th Floor, Left Bank, 010000, Astana (the address of the executive body of the Company) on 12 April 2007 at 10:00 a.m. (Astana Time).

The extraordinary general meeting of shareholders of the Company is called by the Board of Directors of the Company.

The registration of representatives of shareholders entitled to participate at the shareholders' meeting of the Company will start on 12 April 2007 at 9:00 a.m.

In case the first meeting is not quorate, the re-convened shareholders' meeting will be held at 10:00 a.m. (Astana time) on 13 April 2007 with the same agenda at the same address.

The list of shareholders entitled to participate and vote in the extraordinary general shareholders' meeting of the Company will be prepared as of 6 March 2007.

The shareholders may familiarise themselves with the materials related to the issues on the agenda at the offices of the Company at the following address: Building 2, Street 1, office 1006, 10th Floor, Left Bank, Astana starting from 15 March 2007 on working days from 9:00 a.m. through 6:00 p.m. and on the web-site: www.kmgep.kz.

Below is the agenda for the shareholders' meeting:

1. On granting a share option for participation in the initial public offering of the Company to certain members of the Board of Directors.

2. On the Board of Directors of the Company.

3. On the counting commission of the Company.

4. On approval of the acquisition by the Company of a 50% participating interest in JV Kazgermunai LLP from JSC NC KazMunayGas.

5. On conclusion by the Company of the interested party transactions:

   a) Transaction with JSC NC KazMunayGas on the acquisition of a 50% participating interest in JV Kazgermunai LLP;

   b) other transactions.

6. Granting authority to the General Director (the Chairman of the Management Board) of the Company to take all necessary actions for completion of the acquisition by the Company of a 50% participating interest in JV Kazgermunai LLP.

7. On determination of the auditors of the Company.

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