

Translation from the original issued in Russian



**Joint Stock Company  
KazTransOil**

Consolidated Financial Statements

*Year ended December 31, 2004  
with Independent Auditor's Report*

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of KazTransOil JSC

We have audited the accompanying consolidated balance sheet of KazTransOil JSC (the "Company") as at December 31, 2004, and the related consolidated statements of income, cash flows and changes in shareholder's equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards adopted in the Republic of Kazakhstan. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2004, its consolidated revenues and expenses and its cash flows for the year then ended in accordance with accounting standards adopted in the Republic of Kazakhstan.

David Wilkes  
Managing Partner  
acting based on the Power of Attorney

Nikolay Demidov  
Audit Manager

For and behalf of  
Ernst & Young Kazakhstan LLP  
State Audit License No.0000007  
Dated October 21, 1999

April 15, 2005  
Almaty

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Annual Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEET

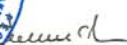
In thousands of Tenge	Note	As at December 31,	
		2004	2003 (restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets, net	5	1,021,837	594,009
Property, plant and equipment, net	6	167,045,068	134,544,090
Investments	7	135,457	728,862
Other non-current assets, net	8, 13	4,203,110	7,466,860
<b>Total non-current assets</b>		<b>172,405,472</b>	<b>143,333,821</b>
<b>Current assets</b>			
Inventories	9	7,032,955	7,094,765
Investments	7	14,631	14,631
Advances given, net	10, 13	6,774,306	3,834,983
Trade accounts receivable, net	11, 13	313,701	112,723
Other current assets, net	12, 13	6,754,322	7,462,589
Corporate income tax advances		1,645,961	1,988,809
Cash	14	66,075,004	40,914,426
<b>Total current assets</b>		<b>88,610,880</b>	<b>61,422,926</b>
<b>TOTAL ASSETS</b>		<b>261,016,352</b>	<b>204,756,747</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
<b>Shareholder's equity</b>			
Share capital	15	32,916,055	32,884,575
Additional unpaid capital		64,059,423	48,808,770
Reserve fund		20,332,755	19,753,220
Other funds		141,219	152,622
Retained earnings		57,046,938	45,381,553
<b>Shareholder's equity</b>		<b>174,496,390</b>	<b>146,980,740</b>
<b>Non-current liabilities</b>			
Long-term loans	16	13,961,173	15,718,505
Corporate bonds	17	39,000,000	21,633,000
Deferred income	18	51,537	475,610
Deferred income tax	27	10,487,147	166,002
<b>Total non-current liabilities</b>		<b>63,499,857</b>	<b>37,993,117</b>
<b>Current liabilities</b>			
Current portion of long-term loan	16	1,928,646	1,303,499
Trade accounts payable	19	6,365,731	5,021,749
Advances received	20	13,120,646	8,235,064
Current portion of deferred income	18	457,854	3,347,050
Other current liabilities	21	1,147,228	1,875,528
<b>Total current liabilities</b>		<b>23,020,105</b>	<b>19,782,890</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>261,016,352</b>	<b>204,756,747</b>

The accounting policies and explanatory notes on pages 5 through 29 form an integral part of these financial statements.

General Director

  
Krymov K. S.

Deputy General Director for  
Economics and Finance

  
Elshibekov S. K.

\* References to the Notes to the Financial Statements

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Annual Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF INCOME

<i>In thousands of Tenge</i>	Note <sup>*</sup>	For the years ended December 31,	
		2004	2003 (restated)
<b>Sales</b>	22	63,773,638	59,863,942
<b>Cost of sales</b>	23	(36,227,682)	(33,545,369)
<b>Gross profit</b>		27,545,956	26,318,573
<b>Period expenses</b>			
General and administrative expenses	24	(10,119,375)	(9,240,197)
Interest expenses	25	(2,753,695)	(3,030,449)
<b>Income from operations</b>		14,672,886	14,047,927
<b>(Loss) / income from other activities, net</b>	26	(1,253,018)	2,002,681
<b>Income before corporate income tax</b>		13,419,868	16,050,608
Corporate income tax expense	27	(5,609,466)	(5,783,835)
<b>Net income</b>		7,810,402	10,266,773

*The accounting policies and explanatory notes on pages 5 through 29 form an integral part of these financial statements.*

General Director

Deputy General Director for  
Economics and Finance



*Krymov K. S.*

*Elishibekov S. K.*

<sup>\*</sup> References to the Notes to the Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of Tenge</i>	For the years ended December 31	
	2004	2003 (restated)
<b>Cash flows from operating activities</b>		
Income before corporate income tax	13,419,868	16,050,608
<b>Adjustments:</b>		
Change in provision for doubtful debts	(377,742)	(554,819)
Depreciation and amortization	11,942,628	10,880,985
Loss on disposal of property, plant and equipment (Note 1B)	949,472	500,253
Loss on sale of notes	732,097	–
Gain from equity investments	(39,946)	(108)
Foreign exchange gain	(2,074,256)	(2,963,584)
Interest expenses	2,753,695	3,030,449
Loss on fixed assets revaluation	4,079,318	–
<b>Income from operating activity before changes in working capital</b>	<b>31,385,134</b>	<b>26,943,784</b>
Decrease in inventories	61,810	149,575
(Increase) / decrease in trade accounts receivable	(142,743)	1,768,421
(Increase) / decrease in advances given	(3,121,327)	1,965,981
Increase in VAT receivable	(1,024,219)	(1,604,085)
Decrease / (increase) in other current and non-current assets	4,765,650	(1,073,244)
Increase / (decrease) in accounts payable	1,743,557	(5,714,963)
Increase in advances received	4,885,582	3,900,722
(Decrease) / increase in current liabilities	(4,259,722)	903,274
<b>Cash flows provided by operating activities</b>	<b>34,293,722</b>	<b>27,239,465</b>
Interest paid	(2,567,858)	(2,626,461)
Corporate income tax paid	(3,780,702)	(7,569,177)
<b>Net cash flows from operating activities</b>	<b>27,945,162</b>	<b>17,043,827</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(23,054,889)	(16,866,411)
Purchase of intangible assets	(543,442)	–
Proceeds from sale of property, plant and equipment	2,728,630	71,881
<b>Net cash flows used in investing activities</b>	<b>(20,869,701)</b>	<b>(16,794,530)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(930,365)	(1,844,349)
Proceeds from loans	–	5,171,161
Repayment of loans	(1,824,555)	(851,830)
Redemption / repurchase of corporate bonds	20,840,037	(4,434,000)
<b>Net cash flows from / (used in) financing activities</b>	<b>18,085,117</b>	<b>(1,959,018)</b>
<b>Net increase / (decrease) in cash</b>	<b>25,160,578</b>	<b>(1,709,721)</b>
<b>Cash at the beginning of the year</b>	<b>40,914,426</b>	<b>42,624,147</b>
<b>Cash at the end of the year</b>	<b>66,075,004</b>	<b>40,914,426</b>

The accounting policies and explanatory notes on pages 5 through 29 form an integral part of these financial statements.

General Director

Deputy General Director for  
Economics and Finance





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Annual Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

<i>In thousands of Tenge</i>	Share capital	Additional unpaid capital	Reserve fund	Other funds	Retained earnings	Total
As at January 1, 2003 (restated, Note 4)	32,884,575	54,852,846	19,753,220	152,622	30,915,053	138,558,316
Net income (restated, Note 4)	-	-	-	-	10,266,773	10,266,773
Amortization of additional unpaid capital	-	(6,044,076)	-	-	6,044,076	-
Dividends paid (see Note 15)	-	-	-	-	(1,844,349)	(1,844,349)
As at December 31, 2003 (restated, Note 4)	32,884,575	48,808,770	19,753,220	152,622	45,381,553	146,980,740
Net income	-	-	-	-	7,810,402	7,810,402
Contribution to the share capital	31,480	-	-	-	-	31,480
Increase in Reserve fund	-	-	579,535	-	(579,535)	-
Disposal of assets	-	-	-	(11,403)	-	(11,403)
Amortization of additional unpaid capital	-	(5,364,883)	-	-	5,364,883	-
Revaluation of property, plant and equipment (net of the related deferred tax)	-	20,615,536	-	-	-	20,615,536
Dividends paid (see Note 15)	-	-	-	-	(930,365)	(930,365)
<b>As at December 31, 2004</b>	<b>32,916,055</b>	<b>64,059,423</b>	<b>20,332,755</b>	<b>141,219</b>	<b>57,046,938</b>	<b>174,496,390</b>

The accounting policies and explanatory notes on pages 5 through 29 form an integral part of these financial statements.

General Director

Deputy General Director for  
Economics and Finance



Raymov K. S.

Shibekov S. K.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the years ended December 31, 2004 and 2003

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#### 1. CORPORATE INFORMATION

On April 2, 1997, in accordance with Resolution # 461 of the Government of the Republic of Kazakhstan (“Government”) the state-owned entities - Yuzhnefteprovod PO (Aktau) and Magistralnye Nefteprovody of Kazakhstan and Central Asia PO (Pavlodar) - were reorganized and merged into a new entity named Kazakhnefteprovod. Subsequently, Kazakhnefteprovod was renamed KazTransOil National Oil Transportation Company CJSC (“KazTransOil NOTC CJSC”).

On May 2, 2001, the Government issued a resolution to create a new closed joint stock company National Company “Transportation of Oil and Gas” (“TNG”) owned by the Government. Based on that resolution, the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan transferred the ownership of KazTransOil NOTC CJSC shares to TNG, and as a result of this KazTransOil NOTC CJSC was re-registered and renamed KazTransOil CJSC (the “Company” or the “Parent”).

On February 20, 2002, based on a resolution of the Government the Company’s shareholder TNG and National Oil and Gas Company “KazakhOil” CJSC, merged. As a result of this merger, a new company, National Company KazMunayGas CJSC (“KMG”), which became the Company’s sole shareholder, was formed. KMG is wholly owned by the Government as represented by the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan.

As at May 31, 2004 the Company was reregistered as KazTransOil JSC.

During 2003 the Company created KTO Service JSC, in which it holds a 100% interest.

On June 29, 2004 the Company together with the Chinese National Corporation for oil and gas exploration and production established the Kazakhstan – Chinese Pipeline LLP (“KCP”). The Company owns a 50% interest in KCP. KCP owns 100% of shares in the KCP subsidiary, KCP Finance B.V., registered in the Netherlands. This entity was established for the purpose of issuing bonds (*Note 17*).

On July 28, 2004 the Company acquired 51% of the shares of the North-West Pipeline Company Munai Tas (“Munai Tas”) from KMG. 49% of the shares of Munai Tas belong to “CNPC International in Kazakhstan” LLP.

The Company’s main business activities include, but are not limited to:

- the coordination and management of crude oil transported within Kazakhstan and for export;
- the transportation of water supplies for the technological, production and economic needs of the Mangistau and Atyrau regions of Kazakhstan;
- cooperation with oil transportation companies of other countries regarding the transportation of oil in accordance with inter-governmental agreements;
- the management of investment activity for the overall development of the main oil pipeline systems within Kazakhstan and other activities as described in the Company’s charter;
- representation of Government interests in the Caspian Pipeline Consortium (“CPC”);
- execution of the trust management of the state share in CPC (19%).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 1. CORPORATE INFORMATION (continued)

On December 24, 2003 the Company concluded an investment contract (“Investment Contract 1”) with the Committee for Investment of the Ministry of Industry and Trade of the Republic of Kazakhstan. On December 24, 2003 Munai Tas concluded a similar contract (“Investment Contract 2”) with the Committee for Investment. On October 13, 2004 KCP concluded an investment contract with the Committee for Investment (“Investment Contract 3”). In accordance with Investment Contracts 1 and 2 the companies have been provided with the following investment tax concessions as stipulated by legislation of the Republic of Kazakhstan concerning investments:

- for corporate income tax purposes the Parent has been provided with the right to deduct the cost of fixed assets entered into operation from aggregate annual income in equal shares for a period of two years (Munai Tas – five years), beginning from January 1 of the year following the year when fixed assets entered in operation;
- an exemption from property tax for a period of three years for fixed assets that were newly entered into operation (Munai Tas – five years), beginning from January 1 of the year following the year when fixed assets entered in operation;
- an exemption from land tax for a period of three years for plots of land purchased and used for the implementation of an investment project (Munai Tas – five years), beginning from January 1 of the year following the year when the fixed assets entered in operation.

Under Investment Contract 3, KCP has been provided with a 1 year exemption from customs duties for the import of equipment and for components that have been imported to implement an investment project. The exemption period may be extended for a period that does not exceed 5 years.

The Company's head office is located in Astana, Kazakhstan at 20 Kabanbay Batyr Avenue. The Company has 2 branches, which are located in Atyrau (Western branch) and Pavlodar (Eastern branch), a scientific-technical center located in Almaty, a Multiaccess computing center in Astana, and representative offices in Moscow, Orsk and Samara in the Russian Federation, and Kiev, Ukraine. During 2003 an Aktobe branch was merged into the Western branch.

As at December 31, 2004 and 2003, the Company had 7,134 and 6,808 employees, respectively.

The accompanying consolidated financial statements were authorized for issue by the General Director and the Deputy General Director for Economics and Finance of the Company on April 15, 2005.

### 2. CURRENT ECONOMIC ENVIRONMENT

#### Political and economic environment

The Kazakhstan economy, while deemed to be of market status from 2002, continues to display certain traits consistent with that of a market economy in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstan economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Meanwhile, the Company's operations and financial position will continue to be affected by Kazakhstan political developments including the application of existing and future legislation and tax regulations. The likelihood of such occurrences and their effect on the Company could have a significant impact on the Company's ability to continue operations. As of December 31, 2004, the Company does not believe that any material matters exist relating to developing markets and the evolving fiscal and regulatory environment in Kazakhstan, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be misleading.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. CURRENT ECONOMIC ENVIRONMENT (continued)

#### Foreign currencies

Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Kazakhstan. Currency exchange rates are established at the Kazakhstan Stock Exchange (hereafter – KASE) and used as the official currency exchange rates in Kazakhstan. The following table summarizes the closing KASE exchange rates for the Kazakhstan Tenge (“Tenge”), to US \$1 for the past two years as at December 31:

<u>As at December 31,</u>	<b>Closing currency exchange rate as per KASE</b>
2004	130.0
2003	144.2

As at April 15, 2005, the closing currency exchange rate was 130.45 Tenge per US \$1.

#### Tariff setting

The Company is considered to be a monopolist, and as such, is regulated by the Agency for the Regulation of Natural Monopolies and the Protection of Competition of the Republic of Kazakhstan (“Antimonopoly Committee”). This agency is responsible for approving the methodology for calculating tariffs and tariff rates, under which the Company derives substantially all of its primary revenues. Tariffs are generally based on the cost of capital for assets used.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The accompanying consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment, and in conformity with accounting standards adopted in the Republic of Kazakhstan (“KAS”).

The Company is required by accounting and tax legislation in Kazakhstan to maintain accounting records and prepare its consolidated financial statements in Tenge.

The preparation of consolidated financial statements in accordance with KAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclose contingent liabilities. Actual results may differ from management’s estimates made at the time these consolidated financial statements were prepared. These consolidated financial statements have been prepared in accordance with KAS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future.

#### Basis of consolidation

Consolidated financial statements comprise the accounts of the Parent company, its subsidiary and jointly controlled companies, after all material intercompany transactions have been eliminated. Subsidiaries are consolidated from the date that the Parent obtains control until such time as control ceases. The financial statements of subsidiaries are prepared for the same reporting period as for the Parent company, using consistent accounting policies. Adjustments are made to ensure that no dissimilar material accounting policies exist.

As discussed in *Note 1*, the Company has control over one subsidiary, KTO Service CJSC, which has been fully consolidated in these consolidated financial statements.

Investments in entities where the Parent company has joint control are consolidated on a pro-rate basis by including the Parent company’s share of each of the assets, liabilities, revenues and expenses of the joint venture on a line-by-line basis with similar items in the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basis of consolidation (continued)

As discussed in *Note 1*, the Company participates in two jointly controlled entities KCP and Munai Tas. The Company acquired MunaiTas shares at par value. This transaction has been accounted for as transactions between entities under common control using the pooling of interest method of accounting. Consequently the consolidated financial statements of the Company for 2004 include all financial data of MunaiTas as if it had been combined from January 1, 2004.

Investments in entities where the Parent company exerts significant influence over the entity are accounted for under the equity method and are carried at the lower of equity or recoverable amount.

Investments in other entities in which the Parent company owns less than a majority interest, and does not have joint control or significant influence, are stated at cost.

Intercompany balances and transactions, including intercompany profits, have been eliminated from the consolidated financial statements.

#### Foreign currency translation

Monetary assets and liabilities that are denominated in currencies other than Tenge are translated at exchange rates prevailing at the balance sheet date. Revenues, costs, non-monetary assets and liabilities are translated at the historical exchange rates prevailing on the transaction dates. Exchange gains and losses arising from the translation of monetary assets and liabilities that are not denominated in Tenge are credited or charged to operations.

#### Intangible assets

Intangible assets, which represent the cost of software acquired, license agreements and other intangible assets are recorded at historical cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful economic life of assets. Intangible assets are generally amortized over five years.

#### Revaluation of property, plant and equipment

The Company periodically engages independent appraisers to revalue property, plant and equipment to their depreciated replacement cost in its principal operating branches. An increase in an asset's carrying amount as a result of a revaluation is recorded in the additional unpaid capital account net of the related deferred tax amount. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.

Additional unpaid capital is amortized on the same basis as the property, plant and equipment which is charged directly to retaining earnings. A transfer from additional unpaid capital to retained earnings is not made through statements of income.

Upon the retirement or disposal of property, plant and equipment the surplus of additional unpaid capital is transferred directly to retained earnings. This transfer is shown in the consolidated statement of changes in equity as a release for the disposals of property, plant and equipment.

#### Property, plant and equipment

Depreciation is provided on a straight-line basis over the estimated useful economic life of the asset, as set out in the following table:

	<b>Years</b>
Buildings and constructions	40 – 50
Machinery and equipment	8 – 12
Pipelines and other transportation assets	10 – 33
Other	5 – 15

The Company capitalizes all direct costs incurred in the construction of property, plant, and equipment. All assets under construction are classified as "Construction in Progress" and are not depreciated. Once projects are completed and put into use they are transferred to assets in service.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment (continued)

Improvements to property, plant and equipment that increase the useful lives of the same are capitalized. Recurring repair and maintenance costs are expensed as incurred. When property, plant and equipment is sold or retired, the cost and related accumulated depreciation are eliminated from accounts, including any revaluation reserve related to the asset being sold or retired. Any resulting gains or losses are included in the determination of net income or loss.

#### Investments

The Company has classified its investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and are included in current assets. Investments with fixed maturity that management intends and is able to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments that are to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, are classified as available-for-sale; these are reported as non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of purchase.

All investments are recognized at cost, being the fair value of the consideration given and including transaction costs.

#### Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs for completion, marketing and distribution. The cost of inventory is determined using the FIFO method.

#### Trade and other accounts receivable

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection on the full amount is no longer probable. Bad debts are written off when the period for allowing claims has expired.

#### Cash

Cash includes cash on hand, cash in banks and cash equivalents. Cash in banks includes time deposits with banks, irrespective of when the deposit matures. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

#### Corporate bonds

Corporate bonds are non-callable registered coupon bonds that are carried at par. The discount is amortized over the period prior to the bonds maturing and includes costs related to issuing the bond and is reflected in other current and non-current assets. In 2002 the Company decided to establish and maintain a special sinking fund to provide for future cash outflow associated with interest payments and bond retirement. In October 2003 the Company redeemed its first emission of corporate bonds.

#### Borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

#### Trade and other accounts payable

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue and expense recognition

Revenues and expenses are accounted for on an accrual basis at the time the actual flow of the related goods or services occurs, regardless of when cash is received or paid, and are reported in the income statement in the period to which they relate. Sales income does not include indirect taxes (excise and VAT).

#### Income tax

Corporate income tax is calculated in accordance with the regulations of the Republic of Kazakhstan and is based on the results reported in the Company's statement of operations prepared in accordance with KAS, after adjustments for tax purposes.

Deferred income tax is provided using the liability method on all timing differences for the year between taxable incomes and accounting profit reported for financial statement purposes.

#### Retirement benefit obligation and social tax

The Company pays social tax to the Kazakhstan budget. The Company also withholds 10% from the salaries of its employees in the form of the employees' contribution to their designated pension funds. According to legislation, employees are responsible for their retirement benefits and the Company has no present or future obligation to pay its employees upon their retirement.

### 4. RESTATEMENT AND RECLASSIFICATIONS OF COMPARABLE PREVIOUS YEAR DATA

#### Restatement of prior year comparative information

As discussed in *Note 1*, on July 28, 2004 the Company acquired 51% of the shares of "MunaiTas", which is jointly controlled together with "CNPC International in Kazakhstan" LLP. Correspondingly, the financial statements of "MunaiTas" were included in the restated consolidated financial statements of the Company for 2003 according to the principle of proportional consolidation of items from "MunaiTas's" financial statements to the corresponding items of the Company's financial statements. The effect of including items from "MunaiTas's" financial statements in the Company's financial statements for the year 2003 has been presented in the table below:

	2003 as shown previously	The effect of the inclusion of "MunaiTas" items	Reclassifications (see below)	2003 Restated
<b>Balance sheet extract:</b>				
Intangible assets, net	593,082	927	–	594,009
Property, plant and equipment, net	120,901,474	13,186,925	455,691	134,544,090
Other non-current assets, net	6,168,551	1,298,309	–	7,466,860
Inventories	7,548,758	1,698	(455,691)	7,094,765
Prepaid income tax	1,950,588	38,221	–	1,988,809
Other current assets, net	6,996,780	465,809	–	7,462,589
Cash	39,815,534	1,098,892	–	40,914,426
Long-term loan	(1,277,744)	(14,440,761)	–	(15,718,505)
Current portion of long-term loan	(851,830)	(451,669)	–	(1,303,499)
Trade accounts payable	(4,884,147)	(137,602)	–	(5,021,749)
Advances received	(7,971,427)	(263,637)	–	(8,235,064)
Other current liabilities	(1,868,221)	(7,307)	–	(1,875,528)
Retained earnings	(44,591,748)	(789,805)	–	(45,381,553)
<b>Extract from the income statement:</b>				
Sales	(58,424,521)	(1,439,421)	–	(59,863,942)
Cost of sales	33,328,722	216,647	–	33,545,369
General and administrative expenses	8,923,939	316,258	–	9,240,197
Interest expenses	2,544,518	485,931	–	3,030,449
Income from other activities, net	(1,169,602)	(833,079)	–	(2,002,681)
Income tax expense	5,493,297	290,538	–	5,783,835
Net Income	(9,303,647)	(963,126)	–	(10,266,773)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. RESTATEMENT AND RECLASSIFICATIONS OF COMPARABLE PREVIOUS YEAR DATA (continued)

#### Restatement of prior year comparative information (continued)

	2003 as shown previously	The effect of the inclusion of "MunaiTas" items	Reclassifications (see below)	2003 Restated
<b>Extract from the cash flow statement:</b>				
Income before corporate income tax	14,796,944	1,253,664	–	16,050,608
Depreciation and amortization	10,658,710	222,275	–	10,880,985
Loss on disposal of property, plant and equipment, net	500,413	(160)	–	500,253
Foreign exchange loss (gain)	793,376	(909,464)	(2,847,496)	(2,963,584)
Interest expense	2,544,518	485,931	–	3,030,449
Decrease in inventories	149,623	(48)	–	149,575
Decrease in advances given	1,377,089	588,892	–	1,965,981
Increase in VAT receivable	(1,053,450)	(550,635)	–	(1,604,085)
Increase in other current and non-current assets	(1,141,298)	68,054	–	(1,073,244)
Decrease in accounts payable	(4,594,531)	(1,120,432)	–	(5,714,963)
Increase in advances received	3,637,086	263,636	–	3,900,722
Increase in other current liabilities	901,342	1,932	–	903,274
Corporate income tax paid	(7,242,237)	(326,940)	–	(7,569,177)
Purchase of property, plant and equipment	(12,071,805)	(4,794,606)	–	(16,866,411)
Proceeds from loans	–	5,171,161	–	5,171,161
Effects of exchange rate changes on cash and cash equivalents	(2,847,496)	–	2,847,496	–
Net decrease in cash	(2,062,981)	353,260	–	(1,709,721)
Cash at the beginning of the year	41,878,515	745,632	–	42,624,147
Cash at the end of the year	39,815,534	1,098,892	–	40,914,426
<b>Extract from the statement of changes in shareholder equity":</b>				
Retained earnings of prior years	(31,088,374)	173,321	–	(30,915,053)
Net income for 2003	(9,303,647)	(963,126)	–	(10,266,773)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. RESTATEMENT AND RECLASSIFICATIONS OF PRIOR YEAR COMPARATIVE INFORMATION (continued)

#### Reclassifications of prior year comparative information

Certain reclassifications were made to 2003 amounts so that they complied with the presentation of the 2004 consolidated financial statements. These reclassifications have been summarized below:

<i>In thousands of Tenge:</i>	<b>Amount</b>
<b>Consolidated balance sheet:</b>	
Line-fill oil was separated from inventories and included in the cost of property, plant and equipment	455,691
<b>Consolidated cash flow statement:</b>	
Effects of exchange rate changes on cash and cash equivalents were included in foreign exchange gains.	2,847,496

None of the above reclassifications impacted the Group's net income or equity.

### 5. INTANGIBLE ASSETS, NET

The movement of intangible assets for the year ended December 31, 2004 was as follows:

<i>In thousands of Tenge</i>	<b>Licenses</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
Balance as at January 1, 2004, net of accumulated depreciation (restated)	2,230	586,117	5,662	594,009
Additions	2,305	509,183	31,954	543,442
Disposals	-	(472)	-	(472)
Depreciation charge	(332)	(113,657)	(1,153)	(115,142)
<b>Balance as at December 31, 2004, net of accumulated depreciation</b>	<b>4,203</b>	<b>981,171</b>	<b>36,463</b>	<b>1,021,837</b>
<b>Balance as at January 1, 2004 (restated)</b>				
At cost	2,635	831,043	5,662	839,340
Accumulated depreciation	(405)	(244,926)	-	(245,331)
<b>Net book value</b>	<b>2,230</b>	<b>586,117</b>	<b>5,662</b>	<b>594,009</b>
<b>Balance as at December 31, 2004</b>				
At cost	4,940	1,339,754	37,616	1,382,310
Accumulated depreciation	(737)	(358,583)	(1,153)	(360,473)
<b>Net book value</b>	<b>4,203</b>	<b>981,171</b>	<b>36,463</b>	<b>1,021,837</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. PROPERTY, PLANT AND EQUIPMENT, NET

The movement of property, plant and equipment for the year ended December 31, 2004 was as follows:

<i>In thousands of Tenge</i>	Land	Buildings	Machinery and equipment	Pipelines and other transportation assets	Other	CIP	Total
Balance as at January 1, 2004, net of accumulated depreciation (restated)	363,632	22,590,028	41,868,651	49,465,179	1,293,314	18,963,286	134,544,090
Additions	56,973	200,360	1,661,774	498,791	666,819	21,024,427	24,109,144
Disposals	(24,457)	(3,220,887)	(1,187,349)	(563,276)	(334,521)	(219,127)	(5,549,617)
Transfer from construction in progress	–	5,228,941	12,881,917	8,202,473	97,308	(26,410,639)	–
Revaluation increases	–	1,620,433	4,339,926	34,799,176	39,669	–	40,799,204
Revaluation decreases	–	(988,669)	(2,885,253)	(11,508,556)	(45,279)	–	(15,427,757)
Depreciation charge	–	(864,236)	(6,608,441)	(4,169,097)	(185,160)	–	(11,826,934)
Depreciation on disposals	–	148,215	174,739	60,567	13,417	–	396,938
<b>Net book value as at December 31, 2004</b>	<b>396,148</b>	<b>24,714,185</b>	<b>50,245,964</b>	<b>76,785,257</b>	<b>1,545,567</b>	<b>13,357,947</b>	<b>167,045,068</b>

Construction in progress (“CIP”) mainly includes pump stations, tanks and transportation assets under construction.

As permitted by KAS 6 “Accounting of fixed assets”, the fixed assets of the Company were revalued on the basis of an independent appraisal performed as of December 31, 2004, and the resulting movement was recorded as an addition to additional unpaid capital and as a loss from the revaluation of fixed assets in the income statement amounting to 29,450,767 thousand Tenge (see *Note 15*) and 4,079,318 thousand Tenge (see *Note 26*), respectively.

Accumulated depreciation of revalued assets was eliminated against the gross carrying amount of the assets and the net amount restated to the revalued amount of the asset.

The carrying amount of each class of property, plant and equipment that would have been included in the consolidated financial statements had the assets been carried at cost less any accumulated depreciation was as follows at December 31:

<i>In thousands of Tenge</i>	Land	Buildings	Machinery and equipment	Pipelines and other transportation assets	Other	CIP	Total
2003	363,632	22,590,028	11,984,078	30,540,982	1,293,314	18,963,286	85,735,320
<b>2004</b>	<b>396,148</b>	<b>24,082,421</b>	<b>22,191,522</b>	<b>36,650,519</b>	<b>1,551,177</b>	<b>13,357,947</b>	<b>98,229,734</b>

In 2003 and 2002 the Company entered into agreements with Intergas Central Asia JSC, EuroAsia Air JSC and KazTransCom JSC, the Company’s related parties, to construct offices in Astana, apartment houses in Atyrau and to modernize communication systems that are financed on a share basis. In September 2004 the office buildings that were constructed together with Intergas Central Asia JSC were completed and the property, valued at 2,398,016 thousand Tenge, was transferred to Intergas Central Asia JSC. Likewise, in 2004 part of the joint project with KazTransCom JSC to modernize the communication system, valued at 341,294 thousand Tenge, was completed and transferred to KazTransCom JSC. As of December 31, 2004, the share of the construction costs, attributable to the related parties, amounting to 44,767 thousand Tenge, was included in the above balance of buildings and construction-in-progress (2003: 2,739,310 thousand Tenge). Once all the required documentation is prepared and signed by all parties of the agreements, the above-mentioned amounts will be offset with advances received and property will be transferred to related parties, according to the terms of agreements (see *Note 18*).

Disposals of property, plant and equipment that occurred in 2004 also include apartments given to Company employees with a carrying amount of 769,655 thousand Tenge, disposal of social sphere assets with a carrying amount of 483,101 thousand Tenge and other disposals and write-offs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

Interest expenses capitalized to the cost of fixed assets in 2004 amounted to 55,269 thousand Tenge (2003: 85,712 thousand Tenge).

As of December 31, 2004 the Company had fully depreciated fixed assets with a cost of 2,913,985 thousand Tenge (2003: 1,884,567 thousand Tenge).

### 7. INVESTMENTS

As at December 31, 2004 and 2003 investments comprised:

<i>In thousands of Tenge</i>	2004		2003	
	Ownership interest	Book Value	Ownership interest	Book Value
<b>Equity method</b>				
Accumulative Pension Fund of the Halyk Bank of Kazakhstan JSC	10.0%	134,817	–	–
<b>Cost method</b>				
Accumulative Pension Fund of the Halyk Bank of Kazakhstan JSC	–	–	5.0%	63,391
Rest Home Zeren LLP	100.00%	14,631	100.0%	14,631
Komak Invest JSC	10.0%	640	10.0%	640
Eurobonds		–		664,831
		<b>150,088</b>		<b>743,493</b>
Current portion of investment		<b>(14,631)</b>		<b>(14,631)</b>
		<b>135,457</b>		<b>728,862</b>

In September 2004 the Company received additional shares of the Accumulative Pension Fund of the Halyk Bank of Kazakhstan JSC (the “Pension Fund”) from KMG in the form of a contribution to the Company’s share capital (see *Note 15*), effectively increasing its ownership in the Pension Fund to 10%. Accordingly, the investment was consolidated under the equity method in 2004.

In 2002 the Company purchased some of its own Eurobonds, issued in 2001, for 717 million Tenge (see *Note 17*). The Company’s Eurobonds were recorded as a long-term financial investment. All the Eurobonds were re-sold in 2004 (see *Note 17*).

### 8. OTHER NON-CURRENT ASSETS, NET

As at December 31, 2004 and 2003 other non-current assets comprised:

<i>In thousands of Tenge</i>	2004	2003 (restated)
Due from related parties (see <i>Note 28</i> )	149,419	2,968,329
VAT receivable	3,226,382	3,523,441
Loans to employees	556,788	677,415
Non-current portion of unamortized discount on corporate bonds	256,985	109,053
Financial aid to Trans Petroleum	300,118	300,118
Other	733,346	201,970
	<b>5,223,038</b>	<b>7,780,326</b>
Less - allowance for bad debts	<b>(1,019,928)</b>	<b>(313,466)</b>
	<b>4,203,110</b>	<b>7,466,860</b>

The Company estimated that VAT of 3,226,382 thousand Tenge will only be recovered subsequent to 2004. Accordingly, the above VAT was classified as a non-current asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 8. OTHER NON-CURRENT ASSETS, NET (continued)

As of December 31, 2004 due from related parties mainly included receivables from KMG Trade House JSC of 146,512 thousand Tenge. As of December 31, 2003 due from related parties included 3,993,069 thousand Tenge of long-term receivables for construction equipment and inventory substantially sold during 2001 to KazStroiService CJSC, of which 1,353,682 thousand Tenge represented the current portion of the receivable. In 2004 KazStroiService CJSC repaid and settled the debt in cash and by issuing notes. The Company re-sold the notes to Halyk Bank of Kazakhstan at a 8.5% discount incurring losses of 732,097 thousand Tenge (*Note 26*).

In 2003 and 2002 the Company granted a number of loans to its employees that are payable over fifteen years.

Other non-current receivables include amounts due for oil transportation, advances paid for construction work and other prepayments.

At December 31, 2004 and 2003, other non-current assets were denominated in KZT.

### 9. INVENTORIES

As at December 31, 2004 and 2003, inventories comprised:

<i>In thousands of Tenge</i>	<b>2004</b>	2003 (restated)
Construction and other materials	<b>5,185,881</b>	5,370,211
Spare parts	<b>1,402,006</b>	1,244,620
Fuel	<b>431,085</b>	469,916
Other	<b>13,983</b>	10,018
	<b>7,032,955</b>	7,094,765

As at December 31, 2004, construction and other materials included materials for construction worth 544,970 thousand Tenge (2003: 2,761,763 thousand Tenge), which were bought by the Company in order to modernize the communication system and to implement the dispatcher control system. As at December 31, 2004, construction and other materials also included materials and supplies of 210,439 thousand Tenge (2003: 593,698 thousand Tenge) as strategic stock for possible emergency situations.

### 10. ADVANCES GIVEN, NET

As at December 31, 2004 and 2003, advances to suppliers comprised:

<i>In thousands of Tenge</i>	<b>2004</b>	2003 (restated)
Advances for work and services	<b>4,573,867</b>	2,433,454
Advances for inventory	<b>2,193,371</b>	1,548,963
Advances given to related parties ( <i>Note 28</i> )	<b>7,068</b>	34,841
	<b>6,774,306</b>	4,017,258
Less allowance for bad debts ( <i>Note 13</i> )	<b>–</b>	(182,275)
	<b>6,774,306</b>	3,834,983

At December 31, 2004 advances given in the amount of 3.3 billion Tenge were denominated in US Dollars (2003 – 3.2 billion Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 11. TRADE ACCOUNTS RECEIVABLE, NET

As at December 31, 2004 and 2003, trade accounts receivable comprised:

<i>In thousands of Tenge</i>	<b>2004</b>	2003 (restated)
Receivables from water transportation	<b>97,859</b>	68,971
Receivables from related parties (see Note 28)	<b>19,008</b>	60,752
Receivables from crude oil transportation	<b>195,689</b>	45,816
Receivables from storage services	<b>349</b>	41,845
Other receivables	<b>1,190</b>	1,435
	<b>314,095</b>	218,819
Less allowance for bad debts	<b>(394)</b>	(106,096)
	<b>313,701</b>	112,723

At December 31, 2004 and 2003, trade accounts receivable were mainly denominated in KZT.

### 12. OTHER CURRENT ASSETS, NET

As at December 31, 2004 and 2003, other current assets comprised:

<i>In thousands of Tenge</i>	<b>2004</b>	2003 (restated)
VAT receivable	<b>5,368,455</b>	4,047,177
Accounts receivable from related parties (see Note 28)	<b>588,966</b>	2,866,897
Transportation costs, reimbursable by customers	<b>6,142</b>	305,277
Prepaid insurance	<b>15,709</b>	269,159
Current portion of unamortized discount on corporate bonds	<b>68,876</b>	68,876
Financial aid	<b>28,245</b>	62,490
Other	<b>733,503</b>	754,581
	<b>6,809,896</b>	8,374,457
Less allowance for bad debts	<b>(55,574)</b>	(911,868)
	<b>6,754,322</b>	7,462,589

At December 31, 2004 and 2003, other current assets were mainly denominated in KZT.

### 13. ALLOWANCE FOR BAD DEBTS

As at December 31, 2004 and 2003, allowance for bad debts comprised:

<i>In thousands of Tenge</i>	<b>Other non-current assets</b>	<b>Trade account receivable</b>	<b>Advances given</b>	<b>Other current assets</b>	<b>Total</b>
Allowance for bad debts at December 31, 2002	–	241,352	887,817	1,036,238	2,165,407
Charge for the year	313,466	–	–	–	313,466
Reversal of a provision for bad debts	–	(135,256)	(608,659)	(124,370)	(868,285)
Write offs of receivables	–	–	(96,883)	–	(96,883)
Allowance for bad debts at December 31, 2003	313,466	106,096	182,275	911,868	1,513,705
Charge for the year	307,126	9,221	–	–	316,347
Reversal of a provision for bad debts	(26,592)	(91,046)	(136)	(576,315)	(694,089)
Reclassifications	485,709	(23,591)	(182,139)	(279,979)	–
Write offs of receivables	(59,781)	(286)	–	–	(60,067)
<b>Allowance for bad debts at December 31, 2004</b>	<b>1,019,928</b>	<b>394</b>	<b>–</b>	<b>55,574</b>	<b>1,075,896</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 14. CASH

As at December 31, 2004 and 2003, cash comprised:

<i>In thousands of Tenge</i>	<b>2004</b>	2003 (restated)
Time deposits and other cash equivalents	<b>59,975,845</b>	30,084,187
Foreign currency bank accounts	<b>2,243,333</b>	7,072,474
Tenge bank accounts	<b>3,831,724</b>	3,736,396
Cash on hand	<b>24,102</b>	21,369
	<b>66,075,004</b>	40,914,426

Cash receipts from one of the Company's customers served as collateral for a bank loan obtained from NordKap Bank (former ABB Export Bank) (see Note 16).

As of December 31, 2004, a time deposit of 1.6 billion Tenge (2003: 2.6 billion Tenge) served as collateral for the construction of a pipeline and a bank guarantee issued to the supplier of equipment on behalf of Intergas Central Asia JSC. The deposit was placed for a short period less than one year, conditional upon payment schedule of Intergas Central Asia JSC, and has an interest rate of 9%. As of December 31, 2003 the Company also had a time deposit of 11.8 billion Tenge with an interest rate of 6.85% that served as collateral for a loan given to MunaiTas by Halyk Bank Kazakhstan for the construction of a pipeline (see Note 16). Intergas Central Asia JSC is a related party of the Company.

As of December 31, 2004 and 2003, foreign currencies were mainly represented by US dollars, current accounts in Kazakhstan banks carried interest at 2% per annum. As of December 31, 2004 and 2003 time deposits were denominated in US dollars and carried interest at rates between 3% and 9% and between 2.5% and 9% per annum, respectively.

### 15. SHAREHOLDER EQUITY

#### Share capital

The share capital of the Company as of December 31, 2004 and 2003 comprised the following:

	<b>Authorized</b>	<b>Issued and fully paid</b>	<b>Par value, Tenge</b>	<b>Amount, thousand Tenge</b>
December 31, 2003	32,884,575	32,884,575	1,000	32,884,575
Issue of additional shares	31,480	31,480	1,000	31,480
<b>December 31, 2004</b>	<b>32,916,055</b>	<b>32,916,055</b>	<b>1,000</b>	<b>32,916,055</b>

In September 2004 the Company issued an additional 31,480 shares that were fully paid by KMG at par by shares of the Pension Fund (see Note 7).

As at December 31, 2004 and 2003, all outstanding shares of the Company were owned by KMG.

#### Additional unpaid capital

Additional unpaid capital was formed based on a revaluation of property, plant and equipment performed by an independent appraisal firm for certain groups of assets as at December 31, 2004 and January 1, 2000 (see Note 3). The movement of additional unpaid capital for the years ended December 31, 2004 and 2003 was as follows:

<i>In thousands of Tenge</i>	<b>2004</b>	2003
Balance as at January 1	<b>48,808,770</b>	54,852,846
Amortization	<b>(5,364,883)</b>	(6,044,076)
Revaluation increase	<b>40,799,204</b>	–
Revaluation decrease	<b>(11,348,439)</b>	–
Deferred income tax from revaluation of property, plant and equipment	<b>(8,835,229)</b>	–
Balance at December 31	<b>73,187,448</b>	48,808,770

Revaluation increase includes uplift revaluation of own pipeline-fill oil by 30,426,750 thousand Tenge.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 15. SHAREHOLDER EQUITY (continued)

#### Reserve fund

As stated in the charter, the Company is required to maintain a general reserve fund of not less than 15% of its share capital. In addition to that, the Company reserves other amounts depending on its net income.

#### Other funds

Other funds were created following the formation of the Company and represent the difference between the estimated cost of assets transferred to the Company on the basis of Government Resolutions and the share capital of the Company.

#### Retained earnings

Dividends are accrued and paid at the discretion of the shareholder.

The Company neither declared nor accrued dividends for 2004. Dividends for 2001 of 470,589 thousand Tenge were declared and accrued on March 25, 2003, and paid on April 4, 2003. Dividends for 2002 of 1,373,760 thousand Tenge were declared and accrued on August 21, 2003, and paid on August 28, 2003. Dividends for 2003 of 930,365 thousand Tenge were declared and accrued on July 12, 2004, and paid on August 27, 2004.

### 16. LONG-TERM LOAN

As at December 31, 2004 and 2003, long-term bank loans were as follows:

	Date of contract	Maturity	Annual interest rate	2004		2003 (restated)	
				USD	000's KZT	USD	000's KZT
<b>Long term loans</b>							
NordKap Bank	April 2001	April 2006	LIBOR+3.75%	8,859,691	1,151,760	14,766,151	2,129,574
Halyk Bank Kazakhstan	June 2002	June 2011	9.0%	—	—	45,880,377	6,616,868
Citibank	December, 2002	December, 2011	8.8%	60,134,736	7,817,515	55,544,431	8,010,618
ABN AMRO Bank	December, 2003	December, 2007	LIBOR+3%	11,526,000	1,498,380	1,837,086	264,944
EBRD	July, 2004	July, 2014	LIBOR+2.25%	41,708,953	5,422,164	—	—
				<b>122,229,380</b>	<b>15,889,819</b>	118,028,045	17,022,004
<b>Current portion of long term loans</b>				<b>(14,835,742)</b>	<b>(1,928,646)</b>	(9,038,267)	(1,303,499)
				<b>107,393,638</b>	<b>13,961,173</b>	108,989,778	15,718,505

#### *NordKap Bank*

On April 23, 2001, the Company entered into an agreement for a US \$43 million credit facility with the ABB Export Bank (renamed in 2003 as NordKap Bank) to purchase materials and equipment from ABB Process Industries GmbH. On October 21, 2002 the Company changed the terms of the facility, reducing the credit amount to US \$25.8 million. The principal is to be repaid quarterly in equal installments of US \$1.5 million. Cash receipts to a current bank account from one of the Company's customers are used as collateral for the loan. The loan funds may only be used to finance the capital project performed by the supplier. Under the terms of the loan agreement, the Company's total debt should not exceed US \$550 million.

#### *Halyk Bank*

As at December 31, 2003 the Company's share in liabilities with respect to a loan received from Halyk Bank amounted to 6,616,868 thousand Tenge. On June 21, 2002 Munai Tas entered into an agreement for a US\$ 81,600 thousand credit facility with Halyk Bank Kazakhstan. The principal and interest for each tranche is to be repaid quarterly after an exemption period of two years. The maturity date is June 21, 2011. As a guarantee the Parent deposited amounts equal to the outstanding amount of the loan. Under this deposit the Bank pays interest to the Company of 6.85% per annum.

In 2004 Munai Tas redeemed the loan ahead of schedule. Halyk Bank did not accrue any fines for the early repayment of the loan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 16. LONG-TERM LOAN (continued)

#### *Citibank*

As at December 31, 2004 the Company's share in liabilities on a loan received from Citibank N.A. (Singapore branch) amounted to 7,817,515 thousand Tenge (2003: 8,010,618 thousand Tenge). On December 4, 2002 Munai Tas entered into an agreement on a US\$ 80,000 thousand credit facility with Citibank N.A., acting through its Singapore branch. On June 30, 2003 Citibank agreed to increase the facility limit to US\$ 102,000. The principal and accrued interest should be repaid on December 4, 2011. Under the terms of the loan agreement, Munai Tas should not sell, lease, transfer or otherwise dispose of all or any part of its revenues or its assets, which have a book value of 20% or more of the book value of all assets.

#### *ABN AMRO Bank*

As at December 31, 2004 the Company's share in liabilities on a loan received from ABN AMRO Bank amounted to 1,498,380 thousand Tenge (2003: 264,944 thousand Tenge). On December 12, 2003 Munai Tas entered into an agreement for a US \$23 million credit facility with ABN AMRO Bank. The principal and interest is to be repaid on December 12, 2007. Munai Tas should also pay commission of 0.1% per annum for any unused amounts of the credit line. The collateral for this loan is a guarantee letter from KMG for 3,342 million Tenge.

#### *EBRD*

As at December 31, 2004 the Company's share in liabilities on a loan received from EBRD amounted to 5,422,164 thousand Tenge. On July 29, 2004 Munai Tas entered into an agreement for a US\$ 81,600 thousand credit facility with EBRD with an annual interest rate of LIBOR+2,25% and maturity on July 14, 2014. The purpose of this loan is to repay Munai Tas liabilities to Halyk Bank.

### 17. CORPORATE BONDS

As at December 31, 2004 and 2003, corporate bonds comprised:

<i>In thousands of Tenge</i>	<b>2004</b>	2003 (restated)
Corporate bonds - first issue	–	–
Corporate bonds - second issue	<b>19,500,000</b>	21,633,000
KCP corporate bonds	<b>19,500,000</b>	–
	<b>39,000,000</b>	21,633,000

#### **Corporate bonds first issue**

On October 23, 2000, the Company issued 300,000 unsecured corporate bonds with a par value of US \$100 each, for a total amount of US \$30 million. All bonds were redeemed in full on October 23, 2003. The bonds bore 9% annual interest on par value, payable twice a year, in April and October.

#### **Corporate bonds second issue**

On July 6, 2001, the Company issued 150,000,000 unsecured Eurobonds with a par value of US \$1 each, for a total amount of US \$150 million. Net proceeds amounted to US \$148.97 million. As at December 31, 2001, all bonds had been sold, whereas in September 2002 the Company redeemed its bonds with a value of 717 million Tenge (see Note 7). In January 2004 the Company redeemed its bonds with a value of 665 million Tenge and re-sold all previously redeemed bonds in April 2004 for 1,340 million Tenge. The Eurobonds mature on July 6, 2006 and pay 8.5% annual interest on par value, payable twice a year, in January and July.

#### **KCP corporate bonds**

As at December 31, 2004 the Company's share in liabilities on KCP bonds amounted to 19,500,000 thousand Tenge. In 2004 KCP issued bonds worth US\$ 300 million with an interest rate of 7% for the period between June 22, 2005 and December 22, 2008, and with an annual interest rate of 8.8% between December 22, 2008 and December 22, 2019. The bonds mature on December 22, 2019. The bonds were issued through the subsidiary KCP Finance B.V. against a guarantee from CNPC. The change in the interest rate from December 22, 2008 until the bonds mature is due to the guarantee issued by CNPC expiring.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 18. DEFERRED INCOME

As at December 31, 2004 and 2003, deferred income comprised:

<i>In thousands of Tenge</i>	<b>2004</b>	2003 (restated)
Deferred income (see Note 28)	<b>509,391</b>	3,822,660
Current portion of deferred income	<b>(457,854)</b>	(3,347,050)
	<b>51,537</b>	475,610

During 1998 and 1997, Tengizchevroil LLP, a related party of the Company, paid for the construction and repair of crude oil storage tanks. In return, the customer has the right to use the storage tanks free of charge for a period of 15 years. The cost of these tanks is included in property, plant and equipment and amounts paid by the customer for the construction work are recorded as deferred income and are recognized as income over 15 years from the date they were placed in service. Income recognized in 2004 amounted to 40.4 million Tenge (2003: 40.4 million Tenge). Income to be recognized in 2005 has been included in current liabilities and any remaining deferred income is reflected as non-current.

During 2002 Munai Impex CJSC, a related party of the Company, paid for the construction of a discharge jetty. In return, the related party has the right to use the discharge jetty free of charge for a period of 5 years. The cost of the jetty is included in property, plant and equipment and amounts paid by the related party for the construction work are recorded as deferred income and are recognized as income over 5 years from the date it was placed into service. Income recognized in 2004 amounted to 44.7 million Tenge (2003: 32.0 million Tenge). Income to be recognized in 2005 has been included as current liabilities and the remaining deferred income is reflected as non-current. In 2003 Munai Impex CJSC delegated this right to KMG Trade House JSC.

Deferred income also includes cash advances of 44,767 thousand Tenge received from KazTransCom JSC, a related party of the Company, to modernize a communication system that is financed on a share basis (2003: 301,560 thousand Tenge) (see Note 6). As of December 31, 2003 deferred income also included cash advances of 2,658,026 thousand Tenge received from Intergas Central Asia JSC, EuroAsia Air JSC for the construction of offices in Astana and apartment houses in Atyrau (see Note 6). This deferred income was released when the constructed assets were sold to the related parties, effectively reducing the loss on disposal of assets.

Income to be recognized in 2005 has been included within current liabilities and the remaining deferred income is reflected as non-current.

At December 31, 2004 and 2003, deferred income was denominated in KZT.

### 19. TRADE ACCOUNTS PAYABLE

As at December 31, 2004 and 2003, trade payables comprised:

<i>In thousands of Tenge</i>	<b>2004</b>	2003 (restated)
Commodity loan	<b>795,682</b>	1,166,568
Due to related parties (see Note 28)	<b>2,792,715</b>	978,792
Payables for construction services	<b>658,760</b>	1,067,599
Payables for supplies	<b>1,441,294</b>	724,298
Payables for transportation services	<b>5,938</b>	101,174
Payables for other services	<b>671,342</b>	983,318
	<b>6,365,731</b>	5,021,749

On June 8, 2001 the Company entered into an agreement to modernize a telecommunication network with Sumitomo-Fujikura Consortium for a value of US \$32 million. In accordance with the agreement, inventories and equipment related to the construction are purchased in 20 equal quarterly installments starting from February 2003, along with interest accrued at the rate of 3 month LIBOR + 3.75%. The amount due to be paid within the twelve month period following December 31, 2004 is 287,190 thousand Tenge (2003: 346,128 thousand Tenge).

At December 31, 2004 trade accounts payable of 1,6 billion Tenge (2003: 1 billion Tenge) were denominated in US Dollars. Other payables were denominated in Tenge.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. ADVANCES RECEIVED

As at December 31, 2004 and 2003, advances received from customers comprised:

<i>In thousands of Tenge</i>	<b>2004</b>	2003 (restated)
Advances for oil and water transportation	<b>3,969,983</b>	3,362,928
Advances for oil transportation coordination services	<b>3,132,993</b>	2,232,689
Advances from related parties (see Note 28)	<b>5,776,706</b>	2,230,801
Other	<b>240,964</b>	408,646
	<b>13,120,646</b>	8,235,064

As at December 31, 2004 advances received in the amount of 326 million Tenge were denominated in US Dollars. At December 31, 2004 and 2003, other advances received from customers were mainly denominated in KZT.

### 21. OTHER CURRENT LIABILITIES

As at December 31, 2004 and 2003, other current liabilities comprised:

<i>In thousands of Tenge</i>	<b>2004</b>	2003(restated)
Liability to related parties (see Note 28)	<b>8,140</b>	682,080
Taxes payable (other than corporate income tax)	<b>293,238</b>	427,669
Salaries payable	<b>438,021</b>	421,620
Payable to pension funds	<b>109,547</b>	87,260
Interest payable (bonds)	<b>36,490</b>	2,898
Other	<b>261,792</b>	254,001
	<b>1,147,228</b>	1,875,528

At December 31, 2004 and 2003, other current liabilities were mainly denominated in KZT.

### 22. SALES

The composition of sales for the years ended December 31, 2004 and 2003 was as follows:

<i>In thousands of Tenge</i>	<b>2004</b>	2003 (restated)
Crude oil transportation	<b>60,721,943</b>	57,715,567
Water transportation	<b>1,803,284</b>	1,374,352
Expedition services	<b>716,975</b>	620,527
Income from the sale of crude oil and oil products	<b>188,565</b>	–
Oil storage services	<b>134,051</b>	138,340
Other	<b>208,820</b>	15,156
	<b>63,773,638</b>	59,863,942

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 23. COST OF SALES

The composition of the cost of sales for the years ended December 31, 2004 and 2003 was as follows:

<i>In thousands of Tenge</i>	<b>2004</b>	<b>2003 (restated)</b>
Depreciation	<b>11,567,845</b>	10,680,051
Payroll and staff costs	<b>9,443,683</b>	8,110,377
Overhaul	<b>5,153,373</b>	5,030,574
Materials and fuel	<b>3,418,520</b>	3,211,360
Energy	<b>1,599,013</b>	1,365,123
Communication services	<b>1,055,306</b>	1,010,727
Diagnostics	<b>585,750</b>	856,326
Security services	<b>878,289</b>	789,455
Air services	<b>750,048</b>	697,125
Insurance	<b>353,579</b>	461,075
Other	<b>1,422,276</b>	1,333,176
	<b>36,227,682</b>	33,545,369

### 24. GENERAL AND ADMINISTRATIVE EXPENSES

The composition of general and administrative expenses for the years ended December 31, 2004 and 2003 was as follows:

<i>In thousands of Tenge</i>	<b>2004</b>	<b>2003 (restated)</b>
Bonuses and other employee compensation and related costs	<b>3,027,465</b>	2,499,345
Taxes, except income tax and VAT	<b>1,999,517</b>	2,167,817
Management fees	<b>1,200,000</b>	1,764,000
Social sphere expenses	<b>630,055</b>	355,711
Charity expenses	<b>418,855</b>	847,393
VAT expenses	<b>1,266,639</b>	664,956
Office maintenance	<b>160,208</b>	278,060
Bank costs	<b>241,874</b>	152,326
Depreciation and amortization	<b>374,783</b>	200,934
Other	<b>1,177,721</b>	864,474
	<b>10,497,117</b>	9,795,016
Change of provision for doubtful debts	<b>(377,742)</b>	(554,819)
	<b>10,119,375</b>	9,240,197

### 25. INTEREST EXPENSES

The composition of interest expenses for the years ended December 31, 2004 and 2003 was as follows:

<i>In thousands of Tenge</i>	<b>2004</b>	<b>2003 (restated)</b>
Corporate bonds	<b>1,732,714</b>	2,252,782
Bank loans	<b>956,223</b>	651,781
Commodity loans	<b>64,758</b>	125,886
	<b>2,753,695</b>	3,030,449

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 26. (LOSS) / INCOME FROM OTHER ACTIVITIES, NET

The composition of results from other activities for the years ended December 31, 2004 and 2003 was as follows:

<i>In thousands of Tenge</i>	2004	2003 (restated)
Interest income on time deposits with banks	3,003,337	1,884,395
Income on operational services	206,600	114,472
Loss on the revaluation of property, plant and equipment (see Note 6)	(4,079,318)	–
Loss from sale of notes (Note 8)	(732,097)	–
Loss from other activities, net	(39,802)	392,093
Foreign exchange gains, net	1,231,558	95,553
Income from the write off of accounts payable	106,176	16,421
Loss on the disposal of property, plant and equipment, net	(949,472)	(500,253)
	<b>(1,253,018)</b>	<b>2,002,681</b>

### 27. INCOME TAX EXPENSE

The Company, its subsidiary and jointly controlled companies are subject to corporate income tax at the prevailing statutory rate of 30%. Income tax expenses for the years ended December 31, 2004 and 2003 were as follows:

<i>In thousands of Tenge</i>	2004	2003 (restated)
Current corporate income tax	4,580,258	5,146,483
Prior year income tax benefits	(456,707)	–
Deferred corporate income tax	1,485,915	637,352
	<b>5,609,466</b>	<b>5,783,835</b>

Prior year income tax benefits recognized in 2004 mainly represent income taxes that were overpaid in prior years due to VAT deductions not being taken and classing other expenses as deductible expenses for the calculation of prior year corporate income taxes. In 2004 the Company was permitted to charge these expenses to deductions.

Current corporate income tax expenses are based on the taxable income of the Company prepared in accordance with the requirements of Kazakhstan tax legislation. As of December 31, 2004 and 2003 the reconciliation of income tax expenses recorded in financial statements, and income prior to taxation multiplied by the statutory tax rate of 30%, is as follows:

<i>In thousands of Tenge</i>	2004	2003 (restated)
<b>Income before corporate income tax</b>	<b>13,419,868</b>	<b>16,050,608</b>
	<b>30%</b>	<b>30%</b>
<b>Income tax expense computed on financial income before tax at statutory rate of 30%</b>	<b>4,025,960</b>	<b>4,815,182</b>
Add tax effect of:		
Loss on disposal of property, plant and equipment	275,654	280,801
Foreign exchange loss, net	114,711	330,638
Tax expenses (other than VAT)	257,278	186,091
VAT non-deductible	260,346	95,461
Interest expenses	213,268	101,244
Other permanent differences	255,886	(55,366)
<b>Unrecognized temporary difference</b>	<b>(34,512)</b>	<b>29,784</b>
<b>Revision of the tax base of property, plant and equipment</b>	<b>240,875</b>	<b>–</b>
<b>Income tax expense</b>	<b>5,609,466</b>	<b>5,783,835</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 27. INCOME TAX EXPENSE (continued)

Deferred corporate income taxes are provided for all temporary differences between the financial statement and tax basis of the Company's assets and liabilities. As at December 31, 2004 and 2003, the Company's net deferred tax position comprised the following:

<i>In thousands of Tenge</i>	<b>2004</b>	<b>2003 (restated)</b>
<b>Deferred tax assets:</b>		
Allowance for bad debts	<b>322,769</b>	454,112
Property, plant and equipment	–	64,029
Loss carry-forward	<b>31,457</b>	–
Other	<b>263</b>	–
Allowance for unrecognized DTA	<b>(29,517)</b>	(64,029)
	<b>324,972</b>	454,112
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	<b>(10,812,119)</b>	(620,114)
<b>Net deferred tax liabilities</b>	<b>(10,487,147)</b>	(166,002)

As of December 31, 2004, for financial reporting purposes, deferred tax assets of 29,517 thousand Tenge (2003: 29,784 thousand Tenge), in accordance with the concept of prudence, were not recognized due to the fact that it is probable that these deferred tax assets may not be realized.

Aggregate deferred tax relating to items charged (credited) to shareholder equity due to the revaluation of fixed assets consisted of the following for the years ended December 31:

<i>In thousands of Tenge</i>	<b>2004</b>	<b>2003 (restated)</b>
Deferred tax related to the revaluation of property, plant and equipment	<b>8,835,229</b>	–

### 28. RELATED PARTIES

In 2004 and 2003 the Company concluded the following significant transactions with related parties:

#### Sales

<i>In thousands of Tenge</i>	<b>2004</b>	<b>2003</b>
Exploration and Production KMG JSC (UzenMunaiGas OJSC and EmbaMunaiGas OJSC)	<b>18,411,045</b>	16,324,123
Trade House KMG JSC (Munai Impex CJSC)	<b>2,634,750</b>	2,989,210
TengizChevrOil LLP	<b>678,519</b>	1,050,067
Arman JV	–	583,317
KazakhTurkMunai LLP	<b>776,838</b>	552,836
KazakhOil-Aktobe LLP	<b>963,715</b>	407,386
EmbaVedOil LLP	<b>26,858</b>	25,939
KazMunayGas-Telf CJSC	–	23,616
KazStroiService CJSC	<b>14,444</b>	9,186
KazTransCom JSC	<b>359,111</b>	4,979
Tenge JV	<b>36,416</b>	290
KazTransGas JSC	<b>17,838</b>	–
	<b>23,919,534</b>	21,970,949

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 28. RELATED PARTIES (continued)

#### Income from other activities, net

<i>In thousands of Tenge</i>	2004	2003
KazStroiService CJSC	–	25,181
KazTransCom JSC	–	19,780
EurAsia Air JSC	114	–
Exploration and Production KMG JSC	31,357	–
Kazakhstan Oil and Gas Institute JSC	2,086	–
KMG Service LLP	89	–
KazMunaiGas Consulting JSC	14	–
KazTransGas	139,176	–
KMG	29,467	–
Other	–	1,212
	<b>202,303</b>	<b>46,173</b>

#### Services received

<i>In thousands of Tenge</i>	2004	2003
KazStroiService CJSC	3,741,567	1,861,457
KMG (management services)	1,200,042	1,764,043
KazTransCom JSC (communication services)	961,685	905,981
KMG Trade House JSC	924,427	840,825
KMG Service LLP	160,238	109,856
TengizChevroil LLP	317,495	64,508
Kazakhstan-British Technical University JSC	15	52,053
NIPi Kaspiymunaigas JSC	–	21,580
Atyrau Oil Refinery LLP	–	2,140
EurAsia Air JSC (air transportation services)	788,195	262
Exploration and Production KMG JSC (UzenMunaiGas OJSC and EmbaMunaiGas OJSC)	44,601	40,212
International airport Atyrau	14	–
KazRosGas CJSC	176	–
Kazakhstan Oil and Gas Institute JSC	108,396	–
KMG Consulting JSC	51,905	–
KazTransGas JSC (purchase of natural gas)	269,051	–
	<b>8,567,807</b>	<b>5,662,917</b>

As a result of the above transactions, the Company had the following balances with related parties of KMG as at December 31, 2004 and 2003:

#### Non-current assets

<i>In thousands of Tenge</i>	2004	2003
KazStroiService CJSC (sale of equipment and materials)	–	2,639,387
KazMorTransFlot JSC	2,907	–
Semser JSC (sale of equipment and materials, rent)	–	323,763
NIPi Kaspiymunaigas JSC	–	5,179
KMG Trade House JSC (Munai Impex CJSC) - sale of equipment and materials	146,512	–
	<b>149,419</b>	<b>2,968,329</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 28. RELATED PARTIES (continued)

#### Advances given

<i>In thousands of Tenge</i>	2004	2003
Exploration and Production KMG JSC (UzenMunaiGas OJSC and EmbaMunaiGas OJSC)	–	20,762
TengizChevrOil LLP	4,144	11,977
KazTransGas LLP	29	–
Kazakhstan Oil and Gas Institute CJSC	2,895	–
EurAsia Air JSC	–	2,072
Other	–	30
	<b>7,068</b>	<b>34,841</b>

#### Trade accounts receivable

<i>In thousands of Tenge</i>	2004	2003
Exploration and Production KMG JSC (UzenMunaiGas OJSC and EmbaMunaiGas OJSC)	11,706	50,474
KazStroiService CJSC	47	6,049
Intergas Central Asia JSC	–	2,560
KazTransGas JSC	6,967	–
KazTransCom JSC	5	–
TengizChevroil LLP	283	–
Other	–	1,669
	<b>19,008</b>	<b>60,752</b>

#### Current assets

<i>In thousands of Tenge</i>	2004	2003
KazStroiService CJSC (sale of equipment and materials, miscellaneous services)	414	1,853,102
Kazakhstan Oil and Gas Institute JSC	32,668	350,310
KazTransGas JSC	171,202	206,326
Semser JSC (sale of equipment and materials, rent)	–	175,092
MunaiTas NWPC CJSC (technical documentation)	–	126,347
KazTransCom JSC (communication services)	137,975	114,316
EurAsia Air JSC (miscellaneous services)	21	24,159
KMG Trade House JSC (miscellaneous services)	238,191	8,923
TengizChevrOil LLP	–	4,670
Exploration and Production KMG JSC (UzenMunaiGas OJSC and EmbaMunaiGas OJSC)	1,326	–
KazakhTurkMunai LLP	39	–
EmbaVedOil LLP	32	–
KazMorTransFlot JSC (financial aid)	–	2,907
KMG	7,098	–
Other	–	745
	<b>588,966</b>	<b>2,866,897</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 28. RELATED PARTIES (continued)

#### Deferred income

<i>In thousands of Tenge</i>	2004	2003
Intergas Central Asia JSC	–	2,856,518
TengizChevrOil LLP	<b>384,804</b>	426,039
KazTransCom JSC	<b>44,767</b>	415,876
KMG Trade House JSC (Munai Impex CJSC)	<b>78,153</b>	122,813
EurAsia Air JSC	–	–
Other	<b>1,667</b>	1,414
	<b>509,391</b>	3,822,660

#### Trade accounts payable

<i>In thousands of Tenge</i>	2004	2003
KazStroiService CJSC (construction services)	<b>2,055,144</b>	553,083
Kazakhstan Oil and Gas Institute CJSC	<b>72,417</b>	101,301
KazTransCom JSC (communication services)	<b>99,253</b>	96,647
KazTransGas JSC (natural gas purchase)	<b>18,049</b>	91,449
EurAsia Air JSC (air transportation services)	<b>90,653</b>	67,500
Semser JSC (guard services)	–	52,533
KMG Service LLP	<b>14,975</b>	11,859
KMG Consulting JSC	<b>40,220</b>	–
Exploration and Production KMG JSC (UzenMunaiGas OJSC and EmbaMunaiGas OJSC)	<b>7,405</b>	1,688
KazMorTransFlot JSC	<b>269,708</b>	–
KazRosGas CJSC	<b>61</b>	–
KMG Trade House JSC (Munai Impex CJSC)	<b>124,830</b>	–
Atyrau Oil Refinery LLP	–	1,623
Other	–	1,109
	<b>2,792,715</b>	978,792

#### Advances received from customers

<i>In thousands of Tenge</i>	2004	2003
KMG Trade House JSC	<b>5,468,768</b>	1,923,307
KazakhTurkMunai LLP	<b>153,414</b>	133,345
TengizChevrOil LLP	<b>75,185</b>	72,622
KazakhOil – Aktobe LLP	<b>65,560</b>	81,153
Arman JV	–	12,096
KazStroiService CJSC	<b>4,067</b>	2,479
Embavedoil LLP	<b>4,697</b>	1,747
Tenge JV	<b>1,378</b>	–
Kazakhstan Oil and Gas Institute CJSC	<b>6</b>	–
Exploration and Production KMG JSC (UzenMunaiGas OJSC and EmbaMunaiGas OJSC)	<b>3,631</b>	–
Other	–	4,052
	<b>5,776,706</b>	2,230,801

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 28. RELATED PARTIES (continued)

#### Other current liabilities

<i>In thousands of Tenge</i>	2004	2003
KMG (management services)	–	682,080
KazStroiService CJSC	2,748	–
KMG Service LLP	5,256	–
KazTransCom JSC	136	–
	<b>8,140</b>	<b>682,080</b>

### 29. FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

#### Taxation

The various legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of local tax inspectors and officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Kazakhstan law are severe. Fines are generally 50% of any taxes additionally assessed and interest is assessed at rates 18.75% per annum. As a result, fines and interest can amount to multiples of any unreported taxes.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, fines and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2004. Although, such amounts are possible and may be material, it is the opinion of Company management that these amounts are either not probable, not reasonably determinable, or both.

The Company's operations and financial position may be affected by Kazakhstan political developments, including the application of existing and future legislation and tax regulations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Kazakhstan.

#### Investment commitments

In accordance with Investment contract 1 (*Note 1*) total investments in fixed assets during the project to construct the Alibekmola-Kenkiyak pipeline is 1,410 million Tenge. In 2004 the Company fully discharged its investments liabilities under this project. In accordance with Investment contract 2 (*Note 1*) total investments in fixed assets under the project to construct the Kenkiyak-Atyrau pipeline is 18,834 million Tenge. In accordance with Investment contract 3 (*Note 1*) KCP should make investments (purchase equipment for a pipeline) in fixed assets of 14,375 million Tenge.

#### Capital commitments

The Company generally enters into fixed fee contracts for communication services on an annual basis and for the completion of construction projects. As at April 15, 2005 the Company had entered into contracts related to various types of construction work and total overhaul that result in contractual obligations approximating US \$78 million. Contractual obligations of jointly controlled entities amounted to US \$11 million.

#### Crude oil held on custody

The Company holds approximately 75 thousand tons of crude oil that was received from oil-and-gas companies in the 1990's and that is currently used as pipeline-fill oil. Should suppliers demand the return of this crude oil, it would cost the Company approximately 1,271 million Tenge (at current crude oil prices on the local market) to fulfill its contingent liability to return the borrowed volumes of crude oil.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 29. FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES (continued)

#### **Environmental matters**

The Company is subject to various environmental laws and regulations of the Republic of Kazakhstan. While management believes that substantial compliance with such laws and regulations has been achieved, there can be no assurances that contingent liabilities do not exist.

#### **Legal issues**

In the ordinary course of business, the Company can be subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

#### **Insurance matters**

In 2003 and through July 2004 the Company had full insurance coverage including business interruption and third party environmental liability coverage for its pipeline facilities.

### 30. SUBSEQUENT EVENTS

On March 1, 2005 the Company obtained full insurance coverage including business interruption and third party environmental liability coverage for its pipeline facilities through March 1, 2006.

In January, 2005 the Company received 2,452,026 thousand Tenge in cash in the form of VAT recovered from the state budget.