KazMunaiGas Exploration Production Joint Stock Company

Consolidated Financial Statements

For the year ended December 31, 2007

Contents

Page

Independent Auditors' Report

Consolidated Financial Statements

Consolidated Balance Sheet ---------------- 1
Consolidated Statement of Income ---------------- 2
Consolidated Statement of Cash Flows ---------------- 3
Consolidated Statement of Changes in Equity ---------------- 4
Notes to the Consolidated Financial Statements ---------------- 5-33

ERNST & YOUNG

■ Ernst & Young LLP
Furmanov Street, 240 G
Almaty 050059, Kazakhstan
Tel.: 7 (727) 258-5960
Fax: 7 (727) 258-5961
www.ey.com/kazakhstan

■ ТОО "Эрнст энд Янг"
Казахстан, 050059 Алматы
ул. Фурманова, 240 Г
Тел.: 7 (727) 258-5960
Факс: 7 (727) 258-5961

Independent Auditors' Report

To the shareholders and management of Joint Stock Company KazMunaiGas Exploration Production

We have audited the accompanying consolidated financial statements of Joint Stock Company KazMunaiGas Exploration Production and its subsidiaries ("the Company"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

February 29, 2008

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Balance Sheet

Tenge thousands

	Notes	As at December 31, 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	5	246,673,657	259,333,372
Other financial assets	7	1,953,799	102,841,401
Receivable from jointly controlled entity	8	18,478,228	–
Intangible assets	6	5,548,240	7,921,252
Investments in associates and joint ventures	8	102,999,132	2,884,207
Other assets		4,045,763	3,843,312
Total non-current assets		**379,698,819**	**376,823,544**
Current assets			
Inventories	10	11,583,258	15,131,619
Taxes prepaid and VAT recoverable		5,378,089	11,690,358
Prepaid and deferred expenses		4,845,333	4,952,828
Trade and other receivables	7	50,083,867	37,356,601
Other financial assets	7	378,603,924	226,523,024
Cash and cash equivalents	7	21,658,451	62,459,415
Total current assets		**472,152,922**	**358,113,845**
Total assets		**851,851,741**	**734,937,389**
EQUITY			
Share capital	11	259,365,914	259,276,481
Other equity		580,988	92,249
Retained earnings		386,494,710	266,383,385
Equity holders of the Company		646,441,612	525,752,115
Minority interest		–	5,700
Total equity		**646,441,612**	**525,757,815**
LIABILITIES			
Non-current liabilities			
Borrowings	13	14,135,480	37,972,387
Deferred tax liability	17	7,784,439	10,715,701
Provisions	14	48,157,460	52,155,874
Total non-current liabilities		**70,077,379**	**100,843,962**
Current liabilities			
Borrowings	13	18,713,954	21,695,307
Income taxes payable		59,356,770	25,551,751
Trade and other payables		35,184,485	40,457,729
Provisions	14	22,077,541	20,630,825
Total current liabilities		**135,332,750**	**108,335,612**
Total liabilities		**205,410,129**	**209,179,574**
Total liabilities and equity		**851,851,741**	**734,937,389**

The notes on pages 5 to 33 are an integral part of these consolidated financial statements.

Consolidated Statement of Income

Tenge thousands

	Notes	For the year ended 2007	2006
Revenue	15	486,974,879	412,207,787
Operating expenses	16	(210,834,485)	(193,397,788)
Profit from operations		**276,140,394**	**218,809,999**
Interest income		27,030,779	11,615,497
Interest expense		(5,787,911)	(7,595,468)
Foreign exchange loss		(8,042,582)	(4,060,138)
Gain (loss) on sale of subsidiaries	9	859,828	(75,772)
Share of result of associates and joint ventures		17,429,850	(327,788)
Profit before tax		**307,630,358**	**218,366,330**
Income tax expense	17	(150,511,277)	(95,805,113)
Profit for the year		**157,119,081**	**122,561,217**
Attributable to:			
Equity holders of the Company		157,119,081	122,561,334
Minority interest		–	(117)
		157,119,081	**122,561,217**
EARNINGS PER SHARE			
Attributable to equity holders of the Company – basic and diluted	12	2.12	2.26

The notes on pages 5 to 33 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Tenge thousands

	Notes	For the year ended December 31, 2007	2006
Cash flows from operating activities			
Receipts from customers		469,700,718	410,468,348
Payments to suppliers and employees		(186,511,021)	(160,982,545)
Income tax paid		(110,228,229)	(127,275,342)
Net cash generated from operating activities		**172,961,468**	**122,210,461**
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)		(40,095,396)	(49,285,538)
Proceeds from sale of PPE		65,759	829,906
Purchases of intangible assets		(26,464)	(8,838,611)
Purchases of joint venture interests and loan receivable from jointly controlled entity		(137,157,588)	–
Dividends received from joint ventures and associates		36,179,141	–
Purchases of financial assets held-to-maturity, net		(138,309,725)	(170,235,221)
Purchase of available for sale financial assets, net		(6,767,606)	–
Loans granted to related parties		–	(118,250,000)
Loan repayments received from related parties		97,540,000	37,011,854
Proceeds related to disposal of subsidiaries	9	10,346,935	3,653,483
Interest received		13,546,118	6,724,660
Net cash used in investing activities		**(164,678,826)**	**(298,389,467)**
Cash flows from financing activities			
Issue of shares		–	151,880,637
Transaction costs related to the issue of shares		–	(7,300,142)
Purchase of treasury shares		–	(3,818,100)
Proceeds from the issue of bonds		–	94,792,000
Transaction costs related to the issue of bonds		–	(721,328)
Proceeds from borrowings		1,995,378	7,681,060
Repayment of borrowings		(8,174,960)	(1,695,391)
Dividends paid to Company's shareholders		(35,705,178)	(17,631,460)
Interest paid		(3,089,296)	(3,927,652)
Net cash (used in) generated from financing activities		**(44,974,056)**	**219,259,624**
Net change in cash and cash equivalents		(36,691,414)	43,080,618
Cash and cash equivalents at beginning of the year	7	62,459,415	20,187,588
Exchange losses on cash and cash equivalents		(4,109,550)	(808,791)
Cash and cash equivalents at end of the year	7	**21,658,451**	**62,459,415**

The notes on pages 5 to 33 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Tenge thousands

	Attributable to equity holders of the Company					
	Share capital	**Treasury stock**	**Other reserves**	**Retained earnings**	**Minority interest**	**Total equity**
As at January 1, 2006	**11,792,208**	**–**	**–**	**161,860,819**	**79,536**	**173,732,563**
Issue of shares	251,302,373	–	–	–	–	251,302,373
Purchase of treasury stock	–	(3,818,100)	–	–	–	(3,818,100)
Recognition of share-based payments	–	–	92,249	–	–	92,249
Changes in ownership of subsidiaries	–	–	–	–	(73,719)	(73,719)
Other distribution to owners	–	–	–	(13,243)	–	(13,243)
Dividends	–	–	–	(18,025,525)	–	(18,025,525)
Profit for the year	–	–	–	122,561,334	(117)	122,561,217
As at December 31, 2006	**263,094,581**	**(3,818,100)**	**92,249**	**266,383,385**	**5,700**	**525,757,815**
Disposal of subsidiaries	–	–	–	–	(5,700)	(5,700)
Foreign currency translation	–	–	(655,350)	–	–	(655,350)
Recognition of share-based payments	–	–	1,579,975	–	–	1,579,975
Exercise of employee options	–	89,433	–	–	–	89,433
Net loss on available-for-sale financial investments	–	–	(435,886)	–	–	(435,886)
Dividends	–	–	–	(37,007,756)	–	(37,007,756)
Profit for the year	–	–	–	157,119,081	–	157,119,081
As at December 31, 2007	**263,094,581**	**(3,728,667)**	**580,988**	**386,494,710**	**–**	**646,441,612**

The notes on pages 5 to 33 are an integral part of these consolidated financial statements.

1. Organization and principal activities

KazMunaiGas Exploration Production Joint Stock Company (the "Company") has been incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company's direct majority shareholder is Joint Stock Company National Company KazMunaiGas ("NC KMG" or the "Parent Company"), which represents the state's interests in the Kazakh oil and gas industry and which holds 57.95% of the Company's outstanding shares as at December 31, 2007 (2006: 56.77%). From June 2006 NC KMG was 100%-owned by Samruk State Holding which is in turn 100% owned by the government of the Republic of Kazakhstan (the "Government").

The Company conducts its principal operations through the UzenMunaiGas and EmbaMunaiGas production divisions. In addition the Company has a 50% interest in a jointly controlled oil and natural gas producer and a receivable from a jointly controlled entity (Note 8). These consolidated financial statements reflect the financial position and results of operations of those divisions, jointly controlled entities and certain other controlling and non-controlling interests in predominantly non-core entities. Such other interests represented approximately 2% of the Company's net assets at December 31, 2007 (2006: 3%). The Company plans to dispose of the remaining non-core businesses by the end of 2008.

These consolidated financial statements were authorized for issue by the Company's Chief Executive Officer, Chief Financial Officer and Financial Controller on February 29, 2008.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except for financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Adopted accounting standards and interpretations

The Company has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures, including in some cases revision, to accounting policies.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amended – Presentation of Financial Statements
- IAS 23 Amended – Borrowing costs
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IAS 1 Amended – Presentation of Financial Statements

This standard requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies, and processes for managing capital. These new disclosures are shown in Note 19.

IAS 23 Amended – Borrowing costs

This standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This standard has no effect on the financial position or performance of the Company.

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share option plan, the interpretation had no impact on the financial position of the Company.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Company has no embedded derivatives, the interpretation had no impact on the financial position or performance of the Company.

IFRIC 10 Interim Financial Reporting and Impairment

The Company adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company has no impairment losses previously recognized, the interpretation had no impact on the financial position or performance of the Company.

New accounting developments

The following IFRS and IFRIC interpretations are not yet in effect as at December 31, 2007:

- IFRS 3 Business Combinations – amendment
- IFRS 8 Operating Segments
- IAS 27 Consolidated and Separate Financial Statements – amendment
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction

Management does not expect the above standards and interpretations to have a material impact on the Company's financial position or results of operations.

2. Summary of significant accounting policies (continued)

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are no longer consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are consistent with those of the Company.

Associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company’s investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Company’s share of its associates’ post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in equity is recognised in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Interests in joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

The Company recognizes its interest in joint ventures using the equity method. The financial statements of the joint ventures are prepared for the same reporting period as the parent company, using consistent accounting policies.

When the Company contributes or sells assets to the joint ventures, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Company purchases assets from the joint ventures, the Company does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

2.3 Foreign currency translation

The consolidated financial statements are presented in Kazakhstan Tenge (“Tenge”), which is the Company's functional and presentation currency. Each subsidiary, associate and joint venture of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

2. Summary of significant accounting policies (continued)

2.3 Foreign currency translation (continued)

The assets and liabilities of foreign operations are translated into Tenge at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

2.4 Oil and natural gas exploration and development expenditure

Exploration license costs

Exploration license costs are capitalized within intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. If no future activity is planned, the remaining balance of the license costs is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'), amortization ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized within property, plant and equipment (construction work-in-progress) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, except for expenditure related to development or delineation wells which do not find commercial quantities of hydrocarbons and are written off as dry hole expenditures in the period, is capitalized within property, plant and equipment.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of any decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and natural gas properties are depreciated using a unit-of-production method over proved developed reserves. Certain oil and gas property with useful lives less than the remaining life of the fields are depreciated on a straight-line basis over useful lives of 4-10 years.

Other property, plant and equipment principally comprise buildings and machinery and equipment which are depreciated on a straight-line basis over average useful lives of 24 years and 7 years respectively.

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognized.

2.6 Impairment of non-financial assets

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.7 Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include expenditure on acquiring licenses for oil and natural gas exploration and computer software. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

The expected useful lives of the assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Computer software costs have an estimated useful life of 3 to 7 years.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

2.8 Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held to maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement trade and other receivables are carried at amortized cost using the effective interest method less any allowance for impairment.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value on a first-in first-out ("FIFO") basis. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortization ("DD&A") and overheads based on normal capacity. Net realizable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale. Materials and supplies inventories are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

2.10 Value added tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT recoverable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

2.12 Share capital

Share Capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

2. Summary of significant accounting policies (continued)

2.12 Share capital (continued)

Treasury Shares

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until they are cancelled or reissued. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

2.13 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

2.15 Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Employee benefits

Pension scheme

The Company withholds 10% from the salary of its employees as the employees' contribution to their designated pension funds. The pension deductions are limited to 75 minimal monthly salary levels of 9,752 Tenge per month in 2007 (2006: 9,200 Tenge). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits.

2. Summary of significant accounting policies (continued)

2.17 Revenue recognition

The Company sells crude oil under short-term agreements priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. Title typically passes and revenues are recognized when crude oil is physically placed onboard a vessel or offloaded from the vessel, transferred into pipe or other delivery mechanism depending on the contractually agreed terms.

The Company's crude oil sale contracts generally specify maximum quantities of crude oil to be delivered over a certain period. Crude oil shipped but not yet delivered to the customer is recorded as inventory in the balance sheet.

2.18 Income taxes

Excess profit tax (EPT) is treated as an income tax and forms part of income tax expense. In accordance with the subsoil agreements, the Company accrues and pays EPT, at a rate of 30% of after tax profit which has been adjusted for specific deductions in accordance with the applicable subsoil agreements, when certain internal rates of return are exceeded.

The internal rate of return is calculated based on the cash flows from each subsoil agreement, adjusted for the national inflation rate. Deferred tax is calculated with respect to both corporate income tax (CIT) and EPT. Deferred EPT is calculated on temporary differences for assets allocated to contracts for subsoil use at the expected rate of EPT to be paid under the contract.

3. Significant non-cash transactions

During 2007 the Company settled in crude oil 18,173,826 thousand Tenge due under the terms of a pre-export financing agreement (2006: 17,503,720 thousand Tenge).

These non-cash transactions are excluded from the consolidated statement of cash flows.

4. Significant accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Company's computation of DD&A. The Company estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under SPE methodology, the Company uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

4. Significant accounting estimates and judgments (continued)

Oil and gas reserves (continued)

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A. The Company has included in proved reserves only those quantities that are expected to be produced during the initial license period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Company's license periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The Company calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company reviews site restoration provisions at each balance sheet date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 12.7% and 9.4% of the provision at December 31, 2007 and 2006 relates to final closure costs, respectively. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the balance sheet obligation at December 31, 2007 were 5.0% and 7.9% respectively (2006: 5.0% and 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 14.

Environmental remediation

The Company also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

4. Significant accounting estimates and judgments (continued)

Environmental remediation (continued)

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan. Pursuant to a memorandum of understanding ("MOU") signed with the Ministry of the Environment in July 2005, the Company agreed to take responsibility for remediation of certain soil contamination and oil waste disposal which resulted from oil extraction dating back to the commencement of production. As at the date of these financial statements the scope and timing of the remediation plan has not been formally agreed with the Government. Accordingly, the liability has not been discounted. Because the original terms of the liability have not yet been established and management reasonably expects to execute the remediation plan over a period of up to ten years, the Company has classified this obligation as non-current except for the portion of costs, agreed with the relevant authorities, expected to be incurred in 2008. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology.

Further uncertainties related to environmental remediation obligations are detailed in Note 21. Movements in the provision for environmental remediation obligations are disclosed in Note 14.

Taxation

In assessing tax risks, management considers to be probable obligations for known areas of tax positions which the Company would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Company's subsoil agreements, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for tax risks disclosed in Note 14 relates mainly to the Company's application of Kazakhstan transfer pricing legislation to export sales of crude oil. Further uncertainties related to taxation are detailed in Note 21.

5. Property, plant and equipment

	Oil-and-gas properties	Other assets	Construction work-in-progress	Total
2006				
Opening net book amount at January 1, 2006	187,745,316	45,500,229	9,886,289	243,131,834
Additions	22,185,359	6,591,217	29,711,178	58,487,754
Disposals	(5,288,152)	(4,285,597)	(3,803,098)	(13,376,847)
Transfers from work-in-progress	22,551,461	2,846,849	(25,398,310)	–
Depreciation charge	(24,523,824)	(4,385,545)	–	(28,909,369)
Closing net book amount at December 31, 2006	**202,670,160**	**46,267,153**	**10,396,059**	**259,333,372**
At December 31, 2006				
Cost	275,486,339	51,924,906	10,396,059	337,807,304
Accumulated depreciation	(72,816,179)	(5,657,753)	–	(78,473,932)
Net book amount	**202,670,160**	**46,267,153**	**10,396,059**	**259,333,372**
2007				
Opening net book amount at January 1, 2007	202,670,160	46,267,153	10,396,059	259,333,372
Additions	1,436,403	4,055,418	34,691,848	40,183,669
Change in ARO estimate	(2,204,963)	–	–	(2,204,963)
Disposal of subsidiaries	–	(8,526,860)	–	(8,526,860)
Disposals	(3,253,513)	(4,232,607)	(2,788,893)	(10,275,013)
Transfers from work-in-progress	34,384,609	4,584,445	(38,969,054)	–
Depreciation charge	(26,581,417)	(5,255,131)	–	(31,836,548)
Closing net book amount at December 31, 2007	**206,451,279**	**36,892,418**	**3,329,960**	**246,673,657**
At December 31, 2007				
Cost	304,590,605	47,139,649	3,329,960	355,060,214
Accumulated depreciation	(98,139,326)	(10,247,231)	–	(108,386,557)
Net book amount	**206,451,279**	**36,892,418**	**3,329,960**	**246,673,657**

As at December 31, 2007, construction work-in-progress included a net book value of exploration and evaluation assets in the amount of 467,479 thousand Tenge (2006: 734,513 thousand Tenge). Additions of these assets during 2007 amounted to 666,300 thousand Tenge (2006: 1,312,855 thousand Tenge) and disposals amounted to 933,334 thousand Tenge (2006: 1,490,485 thousand Tenge).

6. Intangible assets

	2007	2006
At January 1		
Opening net book amount	**7,921,252**	**1,340,657**
Additions	1,074,150	9,413,856
Disposals	(27,337)	(4,757)
Amortization charge	(3,419,825)	(2,828,504)
Closing net book amount at December 31	**5,548,240**	**7,921,252**
At December 31		
Cost	11,938,752	10,908,011
Accumulated amortization	(6,390,512)	(2,986,759)
Net book amount	**5,548,240**	**7,921,252**

7. Financial assets

Other financial assets

	2007	2006
Loan receivable from NC KMG	–	100,786,068
Other	1,953,799	2,055,333
Total non-current	**1,953,799**	**102,841,401**
US dollar-denominated term deposits	187,559,204	90,461,651
Tenge-denominated term deposits	184,767,036	131,995,651
Available-for-sale financial assets	6,277,414	–
Other	270	4,065,722
Total current	**378,603,924**	**226,523,024**
	380,557,723	**329,364,425**

The weighted average interest rate on US dollar-denominated term deposits in 2007 was 8.5% (2006: 7.6%). The weighted average interest rate on Tenge-denominated term deposits in 2007 was 9.1% (2006: 8.1%). Available for sales investments comprised USD denominated notes whose fair value is determined by reference to published price quotations in an active market.

On July 10, 2006, the Company's finance subsidiary, Munaishy Finance B.V., issued US$800 million of 6.5% fixed rate senior notes due in 2009 and loaned the proceeds from the issue to NC KMG. The interest rate for the loan was fixed at 6.6% per annum. On April 17, 2007 the Company's Parent, NC KMG exercised its right to early repayment of the loan and paid to the Company 99.3 billion Tenge, which fully discharged NC KMG's loan obligation and accrued interest as at that date.

Trade and other receivables

	2007	2006
Trade receivables	51,213,760	37,273,438
Other	511,192	3,378,453
Allowance for doubtful receivables	(1,641,085)	(3,295,290)
	50,083,867	**37,356,601**

As of December 31, 2007 US dollar-denominated trade and other receivables represented 98% of total receivables (2006: 89%). The remaining balances are Tenge-denominated. Trade receivables are non-interest bearing and are generally on 30 days' terms.

The ageing analysis of trade receivables is as follows as at:

	2007	2006
Current	48,927,795	35,906,820
0 – 30 days overdue	1,125,816	398,049
30 – 60 days overdue	-	891,297
60 – 90 days overdue	30,256	160,435
	50,083,867	**37,356,601**

Cash and cash equivalents

	2007	2006
Tenge-denominated term deposits with banks	19,824,415	58,399,928
US dollar denominated term deposits with banks	818,040	–
Cash in bank and on hand	1,015,996	4,059,487
	21,658,451	**62,459,415**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

7. Financial assets (continued)

Cash and cash equivalents (continued)

The weighted average interest rate on US dollar-denominated deposits in 2007 was 4.1% (2006: 5.6%). The weighted average interest rate on Tenge-denominated deposits in 2007 was 5.7% (2006: 5.6%). Approximately 5% of total cash and cash equivalents at year end 2007 are US dollar-denominated (2006: 23%). The remaining balances are Tenge-denominated.

8. Investments in and receivables from associates and jointly controlled entities

Investments in associates and jointly controlled entities

	2007	2006
Interest in JV Kazgermunai LLP ("Kazgermunai")	100,757,096	–
Other	2,242,036	2,884,207
	102,999,132	**2,884,207**

Acquisition of Kazgermunai joint venture

On April 24, 2007 the Company acquired from NC KMG a 50% participation interest in Kazgermunai, which is involved in oil and natural gas production in south central Kazakhstan. These consolidated financial statements include the results of Kazgermunai for the period from acquisition date.

The fair value of the identifiable assets and liabilities of Kazgermunai as at the date of acquisition, April 24, 2007 and the corresponding carrying amounts immediately before the acquisition were:

	Share of previous carrying values as at April 24, 2007	Share of fair values as at April 24, 2007	Share of the assets and liabilities as at December 31, 2007
Cash	33,127,485	33,127,485	7,212,286
Current assets	10,136,420	12,265,313	12,811,469
Non-current assets	14,071,248	152,923,501	88,230,317
	57,335,153	198,316,299	108,254,072
Current liabilities	3,349,764	3,349,764	5,785,528
Non-current liabilities	18,359,233	75,288,657	1,711,448
	21,708,997	78,638,421	7,496,976
Net assets	**35,626,156**	**119,677,878**	**100,757,096**

The adjustments to the carrying values relate to the allocation of the acquisition costs to the fair values of assets, liabilities and contingent liabilities.

The total acquisition cost of 119,677,879 thousand Tenge comprised a cash payment of 118,250,000 thousand Tenge and costs of 1,427,878 thousand Tenge directly attributable to the acquisition.

The difference of 84,051,722 thousand Tenge between the consideration and the carrying value of the net assets acquired has been primarily attributed to the value of the license of Kazgermunai based on its proved reserves. The license will be amortized over the total proved reserves of the joint venture using the unit-of-production method.

8. Investments in and receivables from associates and jointly controlled entities (continued)

Investments in associates and jointly controlled entities (continued)

Acquisition of Kazgermunai joint venture (continued)

The share of results of the joint venture included into the consolidated financial statements of the Company is:

Revenues	56,436,402
Operating expenses	(26,625,703)
Profit from operations	29,810,699
Finance costs, net	821,556
Profit before tax	30,632,255
Income tax expense	(12,720,687)
Profit for the period	**17,911,568**
Foreign currency translation loss recognized directly in equity	**(655,350)**

The profit for the period from acquisition to December 31, 2007 of 17,911,568 thousand Tenge includes an adjustment to the Company's share of profit for the period reported by Kazgermunai of 27,609,278 thousand Tenge to reflect the effect of the fair valuation of inventory of 2,128,893 thousand Tenge, amortization of the fair valuation of the license of 12,828,503 thousand Tenge and an increase to the deferred tax benefits of 5,259,686 thousand Tenge.

On November 22, 2007 the partners of Kazgermunai declared a 600 million US dollar dividend, which was based on Kazgermunai's results of operations for nine months and financial position as at September 30, 2007. The Company received its 50% share of the above dividend on November 28, 2007, which equated to 300 million US dollar (36,177,000 thousand Tenge).

Receivable from jointly controlled entity

	2007	2006
Receivable from CITIC Canada Energy Limited ("CCEL")	18,478,228	–

Acquisition of CCEL

On November 8, 2007 the Company signed an agreement for the purchase ("PA") of a 50% interest in a holding company, CCEL, whose investments are involved in oil and natural gas production in western Kazakhstan. On December 12, 2007 the Company completed the acquisition and received from State Alliance Holdings Limited (a holding company ultimately belonging to CITIC Group, a company listed on the Hong Kong stock exchange) a 50% participation interest in CCEL for fifty US cents.

The summary of the Company's share of the aggregated assets and liabilities of CCEL as at the date of acquisition, December 12, 2007 and as at the reporting date is provided below:

	Share of the assets and liabilities as at December 12, 2007	Share of the assets and liabilities as at December 31, 2007
Current assets	24,426,658	25,027,434
Non-current assets	143,050,062	143,461,763
	167,476,720	168,489,197
Current liabilities	38,040,173	39,639,111
Non-current liabilities	129,436,547	128,850,086
	167,476,720	168,489,197
Net assets	**0**	**0**

8. Investments in and receivables from associates and jointly controlled entities (continued)

Receivable from jointly controlled entity (continued)

Acquisition of CCEL (continued)

This jointly controlled entity and its subsidiaries are contractually obliged to declare dividends based on available distributable equity. In addition, under the terms of the PA, the Company has obtained the right to receive cash flows from a financial asset but assumed an obligation to pay these cash flows, in excess of a guaranteed payment of 26.2 million US dollars until 2020, to CITIC under a "pass through arrangement" up to 782.5 million US dollars (94,106,228 thousand Tenge) as at December 31, 2007. This obligation represents the original obligation plus interest on that amount of Libor plus 1.45% per annum. The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from the jointly controlled entity. Accordingly, this right and obligation are not recognized on the Company's balance sheet. The note receivable of 150 million US dollars (18,045,000 thousand Tenge) represents the portion of the financial asset that has not been derecognized as a result of the "pass through arrangement".

Additionally, the Company has the right in the event of certain conditions precedent, as stipulated by the PA, to exercise a put option and return the investment to CITIC and receive back the 150 million dollars plus interest of 8% less the cumulative amount of any of the 26.2 million US dollar payments received.

The effective interest rate on the receivable is 14% per annum.

9. Disposal of subsidiaries

As part of the Company's plan to dispose of non-core businesses by the end of 2008, the Company sold five subsidiaries during 2007 (2006: two non-material entities sold) with net assets of 9,836,172 thousand Tenge for cash consideration of 10,696,000 thousand Tenge resulting in a gain of 859,828 thousand Tenge. The cash disposed of related to the disposal of the subsidiaries amounted to 349,065 thousand Tenge. The summary of aggregated assets and liabilities of the disposed subsidiaries as at the dates of disposals is provided below:

Current assets	2,145,821
Non-current assets	8,526,860
	10,672,681
Current liabilities	836,509
Non-current liabilities	–
	836,509
Net assets disposed of	**9,836,172**

10. Inventories

	2007	2006
Materials	7,666,214	10,053,765
Crude oil	3,917,044	5,077,854
	11,583,258	**15,131,619**

11. Share capital

	Shares outstanding (number of shares)				
	Common shares	Preferred shares	Common shares	Preferred shares	Total share Capital
As at January 1, 2006	**43,051,132**	**4,117,699**	**10,762,783**	**1,029,425**	**11,792,208**
Issue of shares	27,169,803	18,408	251,297,771	4,602	251,302,373
Treasury stock	(341,530)	–	(3,818,100)	–	(3,818,100)
As at December 31, 2006	**69,879,405**	**4,136,107**	**258,242,454**	**1,034,027**	**259,276,481**
Reduction of treasury stock due to exercise of share options	8,431	–	89,433	–	89,433
As at December 31, 2007	**69,887,836**	**4,136,107**	**258,331,887**	**1,034,027**	**259,365,914**

11.1 Share capital

Authorized shares

The total number of authorized ordinary and preferred shares is 70,220,935 (2006: 70,220,935) and 4,136,107 (2006: 4,136,107), respectively. Ordinary and preferred shares of the Company have no par value.

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognized as distributions to equity holders during the period amounted to 500 Tenge per share (2006: 382 Tenge per share) for both of the outstanding ordinary and preferred shares as at December 31, 2006.

11.2 Employee share option plan

The expense recognized for share option plan related to employee services received during the year is 1,579,975 thousand Tenge (2006: 92,249 thousand Tenge).

The share option plans are described below.

Employee option plans

Under the employee option plan 1 (“EOP 1”), an award of global depositary receipt (“GDR”) options with an exercise price equal to the market value of GDRs at the time of award was made to executives. The exercise of options is not subject to performance conditions and vests 1/3 each year over 3 years and is exercisable till the fifth anniversary from the vesting date.

In 2007 there have been modifications to the employee option plan. Under the employee option plan 2 (“EOP 2”), share options are granted to incentivise and reward key employees, senior executives and members of the Board of Directors of the Company, except for independent directors. The exercise price of the options is equal to the market price of GDRs on the date of grant. The exercise of these options is not subject to the attainment of performance conditions. Options granted on or after July 1, 2007 vest on the third anniversary of the date of the grant and are exercisable till the fifth anniversary from the vesting date.

Initial public offering (“IPO”) plan

Following the Company’s 2006 IPO a one off award of zero exercise price GDRs was made to key employees, senior executives and directors to reward them for contributions towards a successful IPO. The grant date for the IPO award was December 29, 2006. The options vested on December 29, 2007 and the entire allotment was exercised within one month of their vesting.

11. Share capital

11.2 Employee share option plan (continued)

Movement in the year

The following table illustrates the number of GDR's (No.) and weighted average exercise prices in US dollars per GDR (WAEP) of, and movements in, share options during the year:

	2007		2006	
	No.	WAEP	No.	WAEP
Outstanding at January 1	926,595	9.09	–	–
Granted during the year	502,825	25.39	926,595	9.09
Exercised during the year	(50,584)	14.64	–	–
Expired during the year	(38,050)	13.02	–	–
Outstanding at December 31	1,340,786	14.88	926,595	9.09
Exercisable at December 31	490,617	4.28	–	–

The weighted average remaining contractual life for share options outstanding as at December 31, 2007 is 5.31 years (2006: 6 years).

The weighted average fair value of options granted during the year was $4.97 US dollars per GDR (2006: $16.81).

The range of exercise price for options outstanding at the end of the year was $0 -$26.47 US dollars per GDR (2006: $0 - $14.64).

The following table lists inputs to the model used for share option plans for the years ended December 31, 2007 and 2006:

	2007		2006	
	EOP 1	EOP 2	EOP 1	IPO plan
Dividend yield (%)	4	1	0.7	0.7
Expected volatility (%)	17.42	16.5	17.42	17.42
Risk-free interest rate (%)	4.5	3.4	4.5	4.5
Expected life of option (years)	6	5	6	6
Weighted average share price ($)	19.3	26.47	14.64	24.46
Model used	Black-Scholes-Merton	Black-Scholes-Merton	Black-Scholes-Merton	Black-Scholes-Merton

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The EOP 1, EOP 2 and IPO plan are equity settled plans and the fair value is measured at the grant date.

12. Earnings per share

	2007	2006
Weighted average number of all shares outstanding	74,015,512	54,119,532
Profit attributable to equity holders of the Company	157,119,081	122,561,334
Basic and diluted earnings per share	2.12	2.26

The above presentation includes both ordinary and preferred shares as preferred shareholders have cumulative participating rights which result in identical earnings per share for both classes of shares.

13. Borrowings

	2007	2006
Fixed interest rate borrowings	32,849,434	53,947,580
Weighted average interest rates	5.74%	5.83%
Floating interest rate borrowings	–	5,720,114
Weighted average interest rates	–	5.44%
Total borrowings	**32,849,434**	**59,667,694**
Tenge-denominated borrowings	8,874	664,257
US dollar-denominated borrowings	32,840,560	59,003,437
Total borrowings	**32,849,434**	**59,667,694**
Long-term borrowings	14,135,480	37,972,387
Current portion of long-term borrowings	18,713,954	21,695,307
Undrawn facilities at fixed rate:		
Expiring within one year	–	**2,514,098**

The Company's fixed rate borrowings (2007: 30,774,074 thousand Tenge, 2006: 51,094,758 thousand Tenge), primarily relate to a pre-export financing arrangement which expires in 2009 and requires settlement in crude oil.

14. Provisions

	Environmental remediation	Taxes	Asset retirement obligation	Other	Total
At January 1, 2006	**31,033,730**	**23,519,488**	**18,046,348**	**2,542,299**	**75,141,865**
Additional provisions	–	974,524	805,286	868,694	2,648,504
Unused amounts reversed	–	(4,915,889)	(35,118)	–	(4,951,007)
Unwinding of discount	–	–	1,431,075	–	1,431,075
Changes in estimate	–	–	2,186,862	–	2,186,862
Used during the year	(1,014,767)	(1,792,643)	(677,185)	(186,005)	(3,670,600)
Current portion	1,619,352	17,785,480	1,026,968	199,025	20,630,825
Non-current portion	28,399,611	–	20,730,300	3,025,963	52,155,874
At December 31, 2006	**30,018,963**	**17,785,480**	**21,757,268**	**3,224,988**	**72,786,699**
Additional provisions	–	2,815,319	307,825	534,291	3,657,435
Unused amounts reversed	–	(2,963,176)	(283,311)	–	(3,246,487)
Unwinding of discount	–	–	1,725,248	–	1,725,248
Changes in estimate	–	–	(2,229,477)	–	(2,229,477)
Used during the year	(1,776,114)	–	(499,302)	(183,001)	(2,458,417)
Current portion	2,813,003	17,637,623	1,427,890	199,025	22,077,541
Non-current portion	25,429,846	–	19,350,361	3,377,253	48,157,460
At December 31, 2007	**28,242,849**	**17,637,623**	**20,778,251**	**3,576,278**	**70,235,001**

15. Revenue

	2007	2006
Export:		
Crude oil	437,551,117	359,386,708
Domestic (Note 21):		
Crude oil	37,401,142	37,087,091
Refined products	–	7,618,461
Gas products	4,804,395	3,623,586
Other sales and services	7,218,225	4,491,941
	486,974,879	**412,207,787**

16. Operating expenses

	2007	2006
Transportation	48,247,039	44,060,096
Employee benefits	39,389,555	37,512,548
Depreciation, depletion and amortization	34,663,502	30,843,711
Repairs and maintenance	20,496,194	18,988,262
Royalties	17,948,868	15,850,891
Materials and supplies	13,878,706	11,661,063
Management fees and commissions (Note 18)	8,002,198	7,678,179
Energy	7,633,700	7,009,945
Other taxes	4,830,875	8,088,268
Social projects	3,660,170	7,850,402
Loss on disposal of fixed assets	2,992,114	2,062,402
Fines and penalties	2,735,535	363,994
Release of environmental fine	–	(11,427,595)
Other	6,356,029	12,855,622
	210,834,485	**193,397,788**

17. Income taxes

Income tax expense comprised the following for the years ended December 31:

	2007	2006
Corporate income tax	99,361,566	76,823,975
Excess profit tax	54,080,973	41,105,194
Excess profit tax of prior years	–	(18,642,077)
Current income tax	**153,442,539**	**99,287,092**
Corporate income tax	(1,598,601)	(1,046,070)
Excess profit tax	(1,332,661)	(2,435,909)
Deferred income tax	**(2,931,262)**	**(3,481,979)**
Income tax expense	**150,511,277**	**95,805,113**

The following table provides a reconciliation of the Kazakhstan income tax rate (30% in 2007 and 2006) to the effective tax rate of the Company on profit before tax and minority interest.

	2007	2006
Profit before tax	307,630,358	218,366,330
Income tax	150,511,277	95,805,113
Effective tax rate	**49%**	**44%**
		% of profit before tax
Statutory income tax	30	30
Increase (decrease) resulting from		
Excess profit tax	17	20
Excess profit tax of prior years	–	(9)
Non-taxable income	(2)	(2)
Movement in provisions	–	(2)
Non-deductible expenses	4	7
Income tax expense	**49**	**44**

17. Income taxes (continued)

The movements in the deferred tax liability relating to CIT and EPT were as follows:

	Fixed assets	Provisions	Other	Total
At January 1, 2006	**23,873,409**	**(2,637,133)**	**(7,038,596)**	**14,197,680**
Income statement effect	(5,609,303)	1,261,990	865,334	(3,481,979)
At December 31, 2006	**18,264,106**	**(1,375,143)**	**(6,173,262)**	**10,715,701**
Income statement effect	(1,980,363)	(988,784)	37,885	(2,931,262)
At December 31, 2007	**16,283,743**	**(2,363,927)**	**(6,135,377)**	**7,784,439**

18. Related party transactions

	2007	2006
Sales of goods and services (Note 15)		
Entities under common control	385,216,748	320,729,981
Parent Company	–	3,856,643
Other state-controlled entities	21,235	307,094
Joint ventures	155,780	–
Associates	2,490	16,217
Purchases of goods and services (Note 16)		
Entities under common control	39,052,967	41,402,813
Parent Company	7,819,477	7,489,949
Other state-controlled entities	1,633,186	2,324,486
Joint ventures	1,754	–
Associates	432,979	668,736
Halyk Bank of Kazakhstan affiliates	525,214	395,883
Interest earned on financial assets		
Halyk Bank of Kazakhstan	1,225,246	1,204,307
Average interest rate on deposits	4.44%	3.25%
Parent Company	2,933,230	3,589,287
Trade and other receivables (Note 7)		
Entities under common control	41,302,095	31,996,067
Parent Company	–	–
Other state-controlled entities	147,874	–
Joint ventures	18,509,130	–
Associates	7,254	226
Halyk Bank of Kazakhstan affiliates	–	273,492
Trade payables		
Entities under common control	823,812	1,725,051
Parent Company	2,439,600	2,114,180
Other state-controlled entities	104,525	–
Associates	215,036	293,088

18. Related party transactions (continued)

	2007	2006
Cash and cash equivalents (Note 7)		
Halyk Bank of Kazakhstan	–	35,697,194
Salaries and other short-term benefits		
Members of the Board of Directors	166,525	198,915
Members of the Management Board	273,003	375,162
Share-based payments		
Members of the Board of Directors	131,987	6,024
Members of the Management Board	265,838	25,252
Loans receivable		
Entities under common control	–	94,185
Parent Company (Note 7)	–	100,786,068
Loans payable (Note 13)		
Parent Company	–	5,720,113
Financial assets (Note 7)		
Halyk Bank of Kazakhstan	–	26,085,624

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to KMG group entities. Export sales to related parties represented 5,559,108 tons of crude oil in 2007 (2006: 4,972,199 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 62,404 Tenge in 2007 (2006: 55,430 Tenge). In addition, the Company supplies oil and oil products to the local market at the directive of the Kazakhstan government, the ultimate controlling shareholder of the Parent Company. These supplies to the domestic market represented 2,230,463 tons of crude oil production in 2007 (2006: 2,541,685 tons). Prices for the local market sales are determined by agreement with NC KMG. For deliveries to the local market in 2007 the Company received an average price per produced crude oil ton of around 16,710 Tenge (2006: 15,748 Tenge). Trade and other receivables from related parties principally comprise amounts related to export sales transactions.

At December 31, 2007 the Company had commitments under a government directive to deliver 2.2 million tons of crude oil to local markets in 2008 (2.2 million tons in 2007).

Purchases and payables

Management fees to the Parent Company amounted to 7,490,000 thousand Tenge in 2007 (2006: 7,000,000 thousand Tenge). Agency commissions for crude oil sales amounted to 512,198 thousand Tenge in 2007 (2006: 678,179 thousand Tenge). Transportation services related to the shipment of 7,478,521 tons of crude oil in 2007 (2006: 7,649,026 tons) were purchased from a KMG group entity for 32,772,537 thousand Tenge in 2007 (2006: 32,024,409 thousand Tenge). The remaining services purchased from KMG group entities include primarily payments for demurrage, sales commissions and electricity.

Loans

In 1996 a predecessor entity of the Company received from the Parent Company a facility of US $109,000 thousand for the rehabilitation of the Uzen oil field. Amounts drawn in 2007 and 2006 totaled US $15,499 thousand and US $10,007 thousand, respectively (1,920,378 thousand Tenge in 2007 and 1,231,227 thousand Tenge in 2006). During 2007, the Company repaid the entire loan of US $64,195 thousand or 7,912,425 thousand Tenge, including principal and accrued interest.

18. Related party transactions (continued)

Short-term benefits paid to senior management

In compliance with the Rules on remuneration of labour, which were approved by the Board of Directors' decision #7 dated June 24, 2004, the Management Board decided to accrue and pay certain bonuses relating to performance in 2006 (the "premia") to members of management of the Company, including the Chief Executive Officer certain members of the Management Board and other managers. The premia were paid in September 2007. The aggregate amount paid as premia to fifty three managers was 314,161 thousand Tenge. Additionally the Chief Executive Officer and four other members of the Management Board received premia amounts of 44,517 thousand Tenge and 139,179 thousand Tenge in aggregate, respectively.

The Board of Directors meeting scheduled for 3 April 2008 has on the agenda to amend the Rules on remuneration of labour with immediate effect to confirm that any decision on the payment of any premia or any other compensation or remuneration to any member of the Management Board will be taken solely by the Board of Directors taking into account the recommendations of the Remuneration Committee. The above proposed change to the approval process has the support of the Parent company. Decisions on any compensation or remuneration for members of the Board of Directors will continue to be taken by the Shareholders meeting.

Share based payments to members of the Management Board

Share based payments to members of the Management Board represents the amortization of share based payments over the vesting period. Additionally during 2007 the Company granted 80,302 options (2006: 282,125) at an average exercise price of, US dollars 25.10 or 3,020 Tenge (2006: US dollars 10.40 or 1,327 Tenge) during the year. See Note 11.

19. Financial risk management objectives and policies

The Company's principal financial liabilities comprise bank loans, payables to Government for geological information, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as trade receivables, investments in available for sale securities, short and long-term deposits and cash and cash equivalents.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and commodity price risk. The Company's management reviews and agrees policies for managing each of these risks which are summarized below.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this, the Company enters into fixed interest rate swaps on a portion of its debt, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount.

For the floating rate debts, which are tied to the amount of LIBOR, the management monitors the changes in current and forecasted LIBOR and considers interest rate hedging only when the floating rate appears to be entering an upward trend or is significantly below that which the Company has on its fixed rate debts.

19. Financial risk management objectives and policies (continued)

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings) and the Company's equity (due to changes in fair value of the available-for-sale financial assets):

	Increase/ decrease in basis points	Effect on profit before tax	Effect on equity
2007			
US dollar	+ 50	–	32,219
US dollar	- 50	–	(32,219)
2006			
US dollar	+ 50	(28,165)	–
US dollar	- 50	28,165	–

Foreign currency risk

As a result of investment denominated in US dollars the Company's consolidated balance sheet can be affected by movements in the US exchange rates. The Company seeks to mitigate the effect of its currency exposure by reducing or increasing exposure to the US dollar in its investment portfolio based on the management expectations on movements in the short and medium term US dollar to Tenge exchange rates.

The Company also has transactional currency exposures. Such exposure arises from sales of crude oil in currencies other than the Company's functional currency. Approximately 90% of the Company's sales are denominated in US dollars, whilst almost all of costs are denominated in Tenge. The majority of the sales receipts are received within thirty days of sale. Therefore, exposure to movement in the exchange rate on these amounts is limited at any one time to one month of sales and management monitors but historically has not taken action to mitigate this exposure.

When determining the composition of the investment portfolio, with respect to settlement currency, management takes into consideration the next three to six months of budgeted Tenge cash outflows and ensures that minimum Tenge assets are held to settle these amounts as they materialize or come due.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in USD to Tenge exchange rate	Effect on profit before tax
2007		
US dollar	+ 5%	12,462,850
US dollar	- 5%	(12,462,850)
2006		
US dollar	+ 5%	9,161,979
US dollar	- 5%	(9,161,979)

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Company does not offer credit terms. The Company's concentration risk is significant. Based on the past practice and taking into account that the most significant customer is the Parent company the management believes that risk of credit default is low.

19. Financial risk management objectives and policies (continued)

Credit risk (continued)

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, available-for-sale financial investments and loan notes, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company is exposed to credit risk from its operating activities and certain investing activities. With regard to investing activities, the Company mostly places deposits with Kazakhstan banks. The Company's management reviews credit ratings of these banks periodically and transacts with the resident and non-resident banks that have at least a credit rating of BB on long-term US dollar deposits from Standard and Poor's rating agency.

The table below shows the balances of investments and cash held in banks at the balance sheet date using the Standard and Poor's credit rating symbols.

Banks	Location	Rating[1]			
		2007	2006	2007	2006
Halyk Bank	Kazakhstan	BB+ (negative)	BB+ (stable)	187,796,433	61,086,931
Kazkommertsbank	Kazakhstan	BB (negative)	BB+ (stable)	145,970,795	126,821,476
Bank Turan Alem	Kazakhstan	BB (negative)	BB (positive)	33,746,693	39,349,108
ATF Bank	Kazakhstan	BB+ (stable)	B+ (positive)	16,123,771	47,722,187
HSBC	Kazakhstan	AA-	AA-	7,778,425	–
ING Bank	The Netherlands	AA	AA	354,524	3,577,528
Other	Kazakhstan			1,198,054	2,300,000
				392,968,695	**280,857,230**

Liquidity risk

The Company monitors its liquidity risk using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term deposits in local banks.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2007 based on contractual undiscounted payments:

Year ended December 31, 2007	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	5,021,473	15,196,143	14,054,260	1,425,215	35,697,091
Trade and other payables	35,184,485	–	–	–	–	35,184,485
	35,184,485	**5,021,473**	**15,196,143**	**14,054,260**	**1,425,215**	**70,881,576**

Year ended December 31, 2006	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	5,426,128	19,503,304	39,253,531	1,639,495	65,822,458
Trade and other payables	40,457,729	–	–	–	–	40,457,729
	40,457,729	**5,426,128**	**19,503,304**	**39,253,531**	**1,639,495**	**106,280,187**

[1] Source: Interfax – Kazakhstan, Factivia, official sites of the banks

19. Financial risk management objectives and policies (continued)

Commodity price risk

The Company is exposed to the effect of fluctuations in price of crude oil, which is quoted in US dollars on the international markets. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

The Company does not hedge its exposure to the risk of fluctuations in the price of crude oil.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

20. Financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments:

	Carrying amount		Fair value	
	2007	**2006**	**2007**	**2006**
Financial assets				
Cash and cash equivalents	21,658,451	62,459,415	21,658,451	62,459,415
Loans receivable from NC KMG	–	100,786,068	–	100,786,068
Available-for-sale financial assets	6,277,414	–	6,277,414	–
US dollar-denominated term deposits	187,559,204	90,461,651	187,559,204	90,461,651
Tenge-denominated term deposits	184,767,036	131,995,651	184,767,036	131,995,651
Receivable from jointly controlled entity	18,478,228	–	18,478,228	-
Other financial assets	1,954,069	6,121,055	1,954,069	6,121,055
Financial liabilities				
Borrowings with floating rate interest	–	5,720,114	–	5,720,114
Borrowings fixed rate interest	32,849,434	53,947,580	32,849,434	53,947,580

Market values have been used to determine the fair value of available-for-sale financial assets. The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loan notes and other financial assets have been calculated using market interest rates.

21. Commitments and contingencies

Political and economic environment

Whilst there have been certain improvements in the Kazakhstani economy, such as an increase in the gross domestic product, the Republic of Kazakhstan continues to implement economic reforms and improve development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

21. Commitments and contingencies (continued)

Local market obligation

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. While the price for such additional supplies of crude oil is agreed with the Company's Parent, this price may be materially below international market prices and may even be set at the cost of production. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Company's business, prospects, financial condition and results of operations. During the current year, in accordance with their obligations, the Company delivered 2,230,463 tons of oil (2006: 2,541,685 tons) and their joint venture Kazgermunai has delivered 370,000 tons of oil on the domestic market.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2007. As at December 31, 2007 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained, except as provided for in these consolidated financial statements (Note 14).

Environment

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Other than those amounts provided for in provisions (Note 14) management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Company's financial position, statement of income or cash flows.

Legal proceedings

During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. There are no current legal proceedings or claims outstanding which management believes could have a material effect on the Company's financial position, statement of income or cash flows and which have not been accrued or disclosed in these consolidated financial statements.

Oilfield licenses

The Company is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation. The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, statement of income or cash flows.

The Company's oil and gas fields are located on land belonging to the Mangistau and Atyrau regional administrations. Licenses are issued by the Ministry of Energy and Mineral Resources of Kazakhstan and the Company pays royalties and excess profits tax to explore and produce oil and gas from these fields.

21. Commitments and contingencies (continued)

Oilfield licenses (continued)

The principle licenses of the Company and their expiry dates are:

Field	Contract	Expiry date
Uzen (8 fields)	No. 40	2021
Emba (1 field)	No. 37	2021
Emba (1 field)	No. 61	2017
Emba (23 fields)	No. 211	2018
Emba (15 fields)	No. 413	2020

Oilfield licenses and contracts

Year	Capital expenditures	Operational expenditures
2008	43,085,510	5,468,760
2009	858,000	3,832,420
2010	841,000	3,831,819
2011	841,000	3,831,819
2012	–	3,831,819
2013-2021	–	26,391,847
Total	**45,625,510**	**47,188,484**

Crude oil supply commitments

Under the provisions of a pre-export financing agreement the Company has committed to deliver 150,000 tons of crude oil per month to the lender until September 2009 for fair value consideration determined at the date of shipment. The Company has further obligations to supply oil and oil products to the local market under government directives (Note 18).

Commitments of joint ventures

The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2007:

Year	Capital expenditures
2008	9,692,381
Total	**9,692,381**

22. Subsequent events

On January 24, 2008 the partners of Kazgermunai agreed to distribute 150 million US dollars (18,045,000 thousand Tenge at exchange rate as at December 31, 2007) as a dividend payment (9,022,500 thousand Tenge to each partner). The Company expects to receive its 50% share of the above dividend amount during the first quarter of 2008.

In order to meet gas utilization program obligations, on January 5, 2008 the joint venture Kazgermunai concluded a contract with OGCC KazStroyService amounting to 17,779,860 thousand Tenge for the expansion of existing gas treatment facilities at their Akshabulak field, and construction of the oil and gas facilities at their Nuraly field. The project is expected to be completed by March 31, 2009.

This report has been signed below by the following persons on behalf of the Company and in the capacities indicated on February 29, 2008:

Chief Executive Officer	Balzhanov A.K.
Chief Financial Officer	Bekezhanova Zh.D.
Financial Controller	Drader Sh., CA

Contact information

The Company's registered office is:

KazMunaiGas Exploration Production Joint Stock Company

Left Bank, Tauelsizdik street, Building 2

Astana 010000

Republic of Kazakhstan

Telephone: +7 (7172) 977 401

Fax: +7 (7172) 977 403

www.kmgep.kz