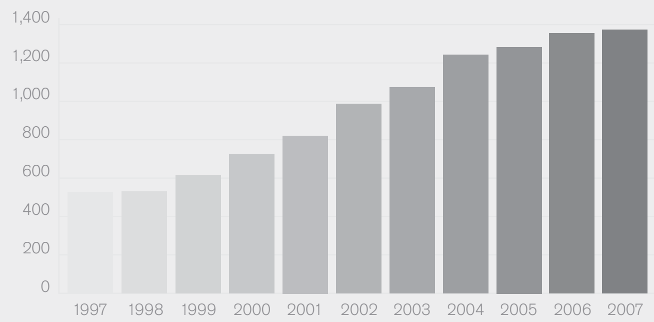
STRONG FOUNDATION FOR FUTURE GROWTH

ҚазМұнайГаз
БАРЛАУ ӨНДІРУ АКЦИОНЕРЛІК ҚОҒАМЫ

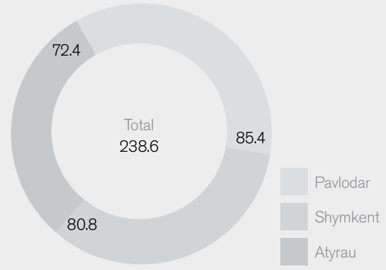
Annual Report 2007

KAZAKHSTAN OIL AND GAS INDUSTRY

Oil production in Kazakhstan, kbopd



Oil refining in Kazakhstan in 2007, kbopd



KAZAKHSTAN OIL AND GAS INDUSTRY

At an estimated 40 billion barrels, Kazakhstan is the second-largest holder of oil reserves outside the OPEC member countries. With sufficient export options, Kazakhstan could become one of the world's largest oil producers and exporters in the next decade. Projected growth in oil production and exports is believed to continue to be one of the major drivers of the country's wealth accumulation and the continued improvement of the living standards.

- Estimated proved oil reserves 40 bn bbl, gas reserves 3,0 trillion cm.
- Crude oil production in 2007 was 67 million tonnes (1.3 million bopd).
- Oil output is projected to reach 120-130 mmtpa (2.4 – 2.6 mmbopd) by 2015.
- Refining in 2007 was 12 million tonnes (240 kbopd) – approx. 65% primary capacity utilisation.
- There are more than 200 oil and gas fields in Kazakhstan. Major fields: Kashagan, Tengiz, Karachaganak, Uzen.
- The Uzen – Atyrau – Samara (UAS) pipeline is a 17.5 mmtpa (350 kbopd) link connecting producing fields in Western Kazakhstan with the Russian oil pipeline system Transneft and providing access to Western markets.
- Caspian Pipeline Consortium (CPC). This 1,510 km pipeline is the shortest link to a Russian port of Novorossiysk on the Black Sea. Its current capacity is approximately 30 mtpa (600 kbopd) whith the expansion plans targeting the capacity of 67 million tonnes (1.3 mmbopd). The pipeline is owned by a consortium which includes Russia, Kazakhstan, Oman and a number of oil companies. The CPC pipeline is the most attractive export route for KMG EP and the Company increased shipments via this route in 2007.
- The Kazakhstan-China pipeline (KCP) was put in operation in 2006. This is the first pipeline to provide the FSU crude oil producers access to the dynamic Chinese market. The initial capacity of the KCP is 10 million tonnes per year (200 kbopd) which can be doubled with implementation of phase 2 of the project. Kazgermunai, 50%-owned by KMG EP is one of the companies using the KCP.
- Sea port of Aktau offers marine access to other Caspian states, including Azerbaijan, where the Baku-Tbilisi-Ceyhan (BTC) pipeline originates.

COUNTRY FACTS

Population 15.56 million.

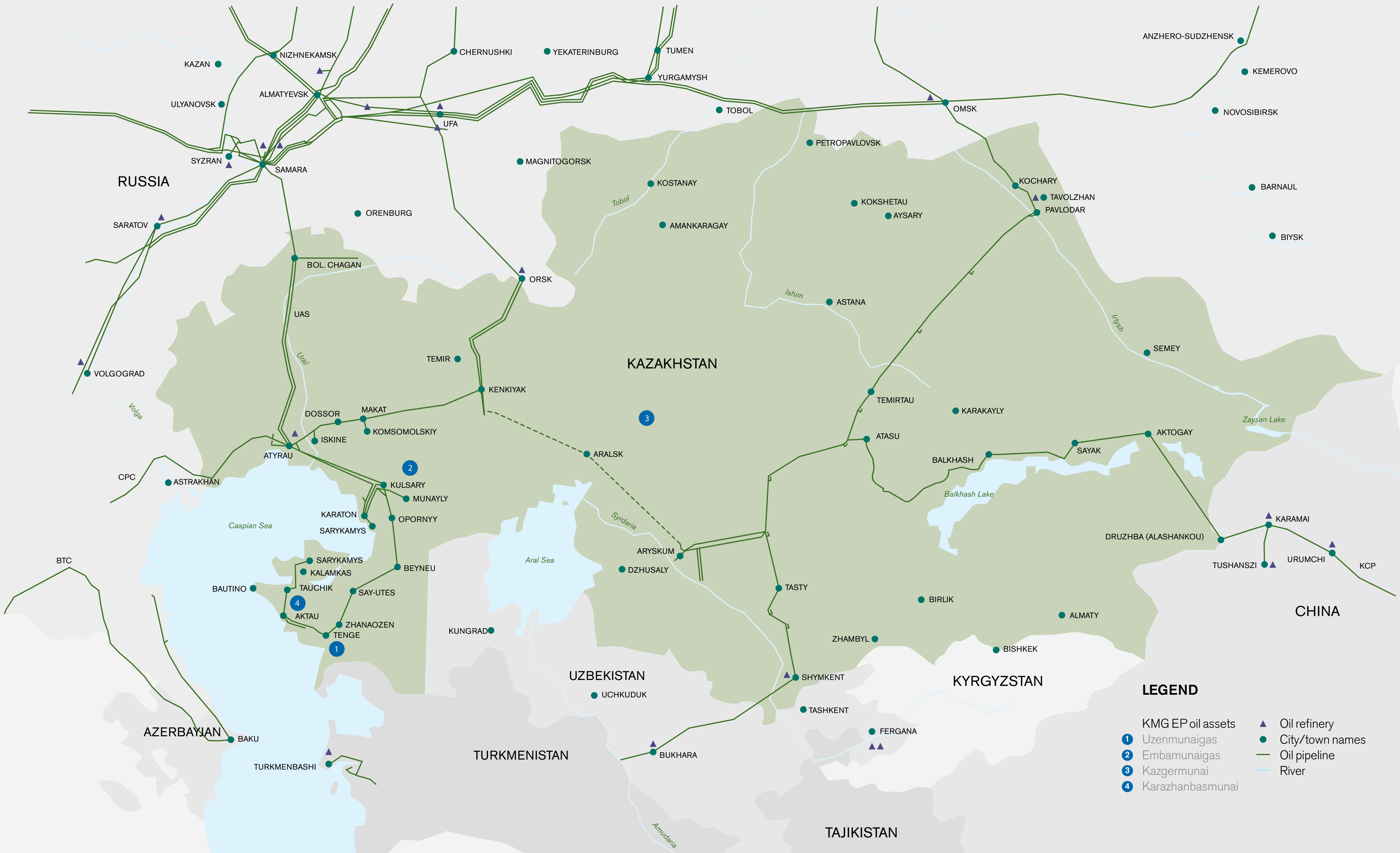
Area 2.7 million square kilometers (# 9 in the world, representing 1.8% of the world's total)

GDP (2007) - 12,726 billion tenge (US$103.8 bn). GDP growth: 8.5% (2007), 9.6% (average in 2002–2007).

National currency: Tenge (exchange rate was 120,30 KZT per US$ at December 31, 2007, average exchange rate in 2007 was 122.55 KZT per US$).

Capital city: Astana (moved from Almaty in 1997).

Sources: National Bank of Kazakhstan, MEMR, BP Statistical Review of World Energy, NC KMG.



KMG EP is a dual-listed subsidiary of NC KMG, the national oil and gas company of Kazakhstan. Following the success of its IPO at the end of 2006, the Company has established a strong foundation for future growth through implementing its selective, high impact acquisition strategy, continued investment in its core producing fields, and an effective cost rationalization programme.

CONTENTS

FINANCIAL HIGHLIGHTS

PERCENTAGE GROWTH

FINANCIAL HIGHLIGHTS	PERCENTAGE GROWTH
2P RESERVES Billions of barrels **2007: 2,14[1]** 2006: 1,51	+43%
CRUDE OIL PRODUCTION Million tonnes (thousands of barrels per day) **2007: 10,6 (215)[2]** 2006: 9,5 (192)	+12%
REVENUE Billions of KZT (US$ billion dollars) **2007: 487 (3,97)** 2006: 412 (3,27)	+18%
NET INCOME Billions of KZT (US$ billion dollars) **2007: 157 (1,28)** 2006: 123 (0,97)	+28%
DIVIDEND PER SHARE KZT per share (US$ per GDR) **2007: 563 (0,78)[3]** 2006: 500 (0,68)	+13%

[1] Includes reserves of KMG EP, KGM (50%), KBM (50%) estimated as at 31.12.07, 31.09.06 and 31.12.06 respectively.

[2] Includes production of KGM (50%) and KBM (50%) from the dates of acquisition of these assets by KMG EP in April and December 2007 respectively.

[3] Recommendation of the Board of Directors, subject to approval by General Meeting of Shareholders on 28.05.2008.

KAZMUNAIGAS EXPLORATION PRODUCTION AT A GLANCE

ACQUISITIONS

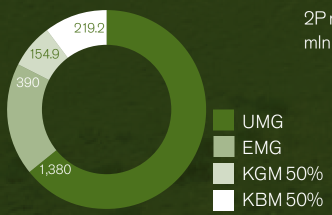
WHAT WE DO

Acquisition of new assets is a central element of the Company's strategy that has been implemented since IPO. A strong relationship with the parent company coupled with significant financial resources gives KMG EP clear competitive advantages in Kazakhstan's M&A market.

KEY FACTS

- Two major acquisitions in 2007: a 50% share in Kazgermunai in April and a 50% share in CCEL (Karazhanbasmunai) in December.
- Impact of the 2 acquisitions: daily oil production + 25%, 2P reserves + ~20%.
- KGM contribution to P&L in 2007: $225 mn less $79 mn of non-cash IFRS adjustments.

KEY FIGURES



KEY GOALS

Near-term targets: a 33% stake in PetroKazakhstan, a 50% stake in Kazakhoil-Aktobe, a 51% stake in Kazakhturkmunai.
To continue to seek attractive acquisition targets in Kazakhstan, both producing assets and exploration blocks.
Potential opportunities outside Kazakhstan.

RESERVES

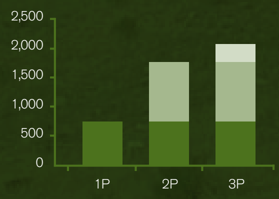
WHAT WE DO

Significant residual reserves in the existing portfolio with relatively low geological risks. Optimisation of the development of mature fields and improvement in oil recovery rates.

KEY FACTS

- 46 core fields in Western Kazakhstan.
- Uzen field is the biggest in the existing portfolio.
- Reserves replacement ratio in 2007: 490% (2P, excluding acquisitions).

KEY FIGURES



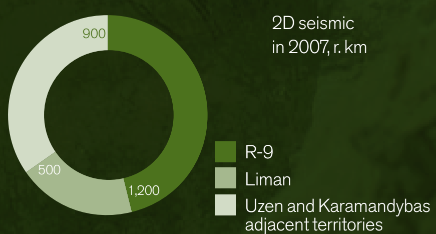
KEY GOALS

Implement the updated Uzen field development plan in order to achieve an increased reserves recovery ratio of 45.9% compared to 42.2% envisaged previously.
Optimisation of development of other fields.

EXPLORATION

Extensive exploration program in Western Kazakhstan with the current focus on deep, subsalt exploration on blocks Liman and R-9. Acquisition of new exploration blocks.

- Exploration blocks: Liman, R-9, Taisoigan.
- 2D seismics in 2007 – 2,600 r.km.
- Exploration drilling in 2007 – 6,060 m.
- Depth of subsalt horizons at Liman, R-9 is more than 5,000 meters.

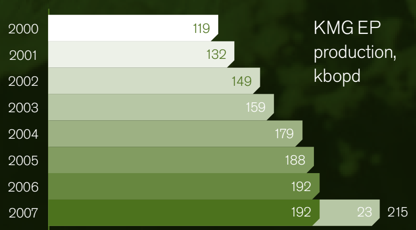


Continue seismic studies at existing exploration blocks.
Start drilling 2 exploration wells targeting subsalt structures on blocks Liman and R-9 in 2009.
Look for additions to the Company's exploration portfolio using NC KMG's right for direct negotiations with the Government for new exploration licenses.

PRODUCTION

Following strong production growth in 2000-2005, oil output at the existing fields is currently maintained at an optimal level. Production and cost optimisation initiatives are being implemented. Production enhancement technologies are applied.

- Second-largest oil producer in Kazakhstan.
- Production 192 kbopd at core assets.
- 215 kbopd – average production in 2007.
- 6,000 active production wells in 2007.

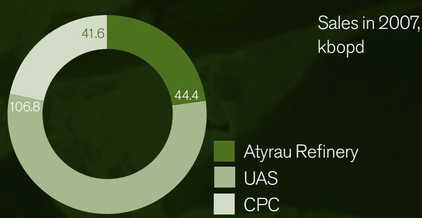


Maintain production at the optimal level.
Reduce impact of inflation on production costs by implementing efficiency improvement initiatives.
Comply with HSE standards.

TRANSPORTATION AND SALES

Strong relations with the parent company provide KMG EP with reliable access to pipeline infrastructure. The UAS and CPC pipelines are key outlets for the Company's exports. KMG EP is the largest supplier to Atyrau refinery. Kazgermunai supplies crude oil to China via Kazakhstan-China pipeline.

- CPC is the most profitable route with netback at US$63.65 per bbl in 2007, with 15.2 mln bbl of supplied volume.
- UAS is the main export outlet with netback at US$59.55 per bbl in 2007, with 39 mln bbl of supplied volume.
- Domestic supply obligation at reduced prices: 1.9 mtpa.



Optimize use of available transportation routes for exports.
Achieve higher value of domestic shipments.

CHAIRMAN'S STATEMENT

Since the country achieved independence in 1991, our economy has been developing according to the long-term "Kazakhstan – 2030" strategy and the country continues to attract foreign investors whose interest is fuelled by the vast energy resources of Kazakhstan. It is the oil industry that contributes most to the economic growth of Kazakhstan and to investment into improvements in the infrastructure and the wellbeing of the people of Kazakhstan in general.

Meanwhile, the State also gives the investors the opportunity to participate in the development of the rich hydrocarbon resources of the Republic of Kazakhstan while, of course, protecting its national interests. I am pleased that the government's and National Company KMG's position in this respect is understood by the key international audiences. The majority of overseas investors also show due appreciation of our growing presence in the global oil and gas industry.

Last year was successful for the KMG group in general and for KMG EP in particular. In our 2007 Annual Report we give special attention not just to Kazakhstan's natural resources but also to the people of KMG EP, whose efforts continue to contribute to our notable success.

I am also pleased to report that, since the LSE & KASE IPOs, the name of KMG EP has grown in recognition both locally and internationally. The Company has achieved significant financial and strategic progress and laid a strong foundation for future growth.

KMG EP continues to be the flag carrier of the Kazakhstan oil industry and is now firmly established as an international player, having introduced best practice international standards. It is a true ambassador for the country, and the relationships with the parent company are based on the joint principles of business partnership and mutual trust.

We can proudly say that we have delivered on the promises given to our shareholders at the start of 2007. Acquisitions of a 50% interest in Kazgermunai and of 50% of Karazhanbasmunai proved to be shrewd business decisions, whilst we also maintained production levels on our core fields, made progress with our cost reduction programme, and continued our investment in key exploration projects.
According to a report by Gaffney, Cline & Associates, the independent energy consulting firm, the Company's proved and probable reserves are 240 million tonnes (1.8 billion barrels), excluding the interests in Kazgermunai and Karazhanbasmunai. This represents an increase of over 18% compared to the start of 2007, which is largely attributable to the revision of the Uzen Development Plan. According to the Plan, the production plateau at our core assets will be extended through the use of modern technologies, additional drilling and the use of the new flooding system.

In addition to the core assets, the 2P estimates attributed to KMG EP from the recently acquired assets are 20.3 million tonnes (155 million barrels) and 32.8 million tonnes (219 million barrels) respectively.

Having transformed the Company through the IPO process at the end of 2006, we have now successfully built a strong foundation for future growth. From time to time we face obstacles of various kinds, including problems relating to severe weather conditions which impacts on our operational activity, issues relating to government regulation of the oil and gas industry in general and possible infrastructure restrictions.

However we believe that the level of professionalism of our personnel and their experience in finding solutions to the most difficult questions, the flexibility provided by our strong financial position and a well chosen strategy will allow us to overcome possible difficulties. This will ensure the future growth and development of KMG EP, and I would like to thank everyone in our Company, from the managers to the workers in the field, for their determined efforts and hard work which enables our consistent operational and financial success.

I would like also to thank the Board and the Independent Non-Executive Directors. Their leadership and dedication to the growth of the Company ensures that KMG EP maintains a culture of following the best international practices and regulations as it continues to build long-term shareholder value.

Uzakbay Karabalin
Chairman of KMG EP's Board of Directors

> I am very pleased that in its first full year as a listed company KMG EP made significant progress both financially and in terms of its strategic development. The Company continues to record successive increases in its revenues, reserves, production and profits.

Uzakbay Karabalin, Chairman of KMG EP's Board of Directors

CHIEF EXECUTIVE'S STATEMENT

In our first year as a listed company we have taken large steps forward and achieved excellent results. Our main goal was to establish strong foundations for future growth, and this was successfully achieved. The Company has become the second largest oil producer in Kazakhstan, producing over 240 thousand barrels per day. In 2007 our 2P reserves, excluding new acquisitions, increased by 18% and new assets added another 23%. Net profit of the Company increased by 28%, a record level for the Company. The name and the reputation of KMG EP has reached new levels and become known to a wide circle of international experts.

There are a number of factors that have contributed to our success. Firstly, our close relationship and cooperation with the NC KMG plays a key role in the realisation of our acquisition strategy and gives us a clear advantage when considering new opportunities for business development. Secondly, it is the high level of professionalism and productivity of our colleagues, from the men in the field to Board members. Thirdly, one of the contributing factors to our success is the current price of oil which gives KMG EP an opportunity to exploit existing market conditions to the full.

In 2007 we made two large acquisitions of 50% interests in both Kazgemunai and Karazhanbasmunai. The deals were finalised in April and December 2007 respectively. From the closing of the respective transactions to the end of 2007 our share of oil production at Kazgermunai was 1,062 thousand tonnes and our share of Karazhanbasmunai was 48 thousand tonnes. In total, our acquisitions account for 25% of the production from our core assets.

To continue our acquisition strategy we are considering the purchase of a number of attractive assets in 2008. Among them: a 33% interest in PetroKazakhstan Inc., a 50% interest in Kazakhoil Aktobe and a 51% in Kazakhturkmunai. As a result of all the completed and potential acquisitions daily production of oil will increase by 60 thousand barrels per day thus consolidating our status as a leader of the oil industry in Kazakhstan.

The Company is also prepared to consider other attractive possibilities as they arise. However, we always need to be sure that new assets will expand our operational and resource base, and will increase shareholder value.

Maintaining production levels at our core fields and extending our production plateau is also one our priorities. At the moment Uzenmunaigas and Embamunaigas have a production life of 28 and 18 years respectively. Today we are successfully dealing with this task and our review of Uzen Development plan raises the prospect of extending the Uzen production plateau by 10 years. I am happy to note that the high level of technical expertise of our staff enables us to improve the effectiveness of oil production at our core assets.

I am sure that my colleagues agree with me that our main asset is our people. KMG EP continues to invest in its staff and the regions where they work. Our staff participate in numerous educational programmes aimed at improving their qualifications and skills. As one of the highest taxpayers in the country, the Company remains committed to the principle of social responsibility. In 2007 KMG EP contributed about US$30 million (3.7 billion tenge) to social projects. We are pleased to say that the Company has the status of a desirable employer and people take pride in working for us.

We are proud of our history and are keen to promote the image of our country abroad. Last year our project 'The Energy of the Past' was very successful. The project involved the production of a book of photography, a series of documentaries and exhibitions of photographs in London and in Astana. Our oil-workers have made a significant contribution to the development of our culture and heritage.

In conclusion, I would like to say that the significant resources of the Company, the high level of management competence and the cooperation and support of the NC KMG and the government of Kazakhstan help us to successfully realise our growth strategy. This gives me confidence that we are on the way to continued success for the benefit of our shareholders and our country.

Askar Balzhanov
Chief Executive Officer of KMG EP

In 2007 the Company made significant strides forward in becoming a recognised player on the international oil market. We successfully launched implementation of our acquisition strategy, continued to develop our existing assets and achieved excellent financial results. The foundations have been built for sustained future growth to benefit our country and our shareholders.

Askar Balzhanov, Chief Executive Officer of KMG EP

BOARD OF DIRECTORS

The Company operates with two boards, the Board of Directors and a separate Management Board (the executive body). The Chief Executive Officer, who heads the Management Board, is also a director of the Company. He is the only representative of the Company's management on the Board of Directors. The Board of Directors therefore only contains one executive member of the Company's management. At the time of the IPO three Independent Non-Executive Directors were elected, being Christopher Mackenzie, Paul Manduca and Edward Walshe. The other four members of the Board of Directors, including its Chairman, Uzakbay Karabalin, are representatives of NC KMG.

01 **Uzakbay Karabalin**
Chairman of the Board of Directors and Non-Executive Director. Has been the President of NC KMG since March 2003 and a member of KMG EP's Board of Directors since 24 November 2006. On 28 November 2006 he was elected as Chairman. Mr. Karabalin is a graduate of the Gubkin Russian State University of Oil and Gas and a candidate of technical sciences (PhD). He has occupied senior executive positions with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan. He is the Chairman of the Nominations Committee.

02 **Askar Balzhanov**
Chief Executive Officer. Was appointed CEO of the Company on 7 June 2006 and was elected as a member of KMG EP's Board of Directors on 12 June 2006. Prior to this, he was General Director of JSC KazMunaiTeniz, a subsidiary of NC KMG specializing in off-shore oil and gas operations. After graduating from the Gubkin Russian State University of Oil and Gas, he has gained broad experience in the oil and gas field working in various positions in a range of hydrocarbon enterprises including Embaneft PA, KazakhstanNefteGas SE, KazakhstanMunayGas SE, KazRosGas CJSC, and NC KMG.

03 **Kenzhebek Ibrashev**
Non-Executive Director. Mr. Ibrashev is the Vice-President of NC KMG, was elected as a member of KMG EP's Board of Directors on 30 October 2007. He graduated from Gubkin Russian State University of Oil and Gas, specializing in drilling of oil and gas wells. He has great experience in the petroleum industry, including various executive positions. Starting from 2003 was working as a Director of Business Development in the Republic of Kazakhstan in Agip Kazakhstan North Caspian Operating NV, as First Deputy General Director and later as CEO in Offshore Oil Company KazMunaiTeniz.

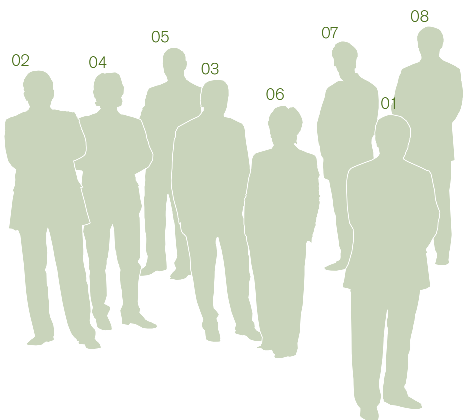
04 **Christopher Mackenzie**
Independent Non-Executive Director. Has broad international experience in mergers and acquisitions and investment banking, having worked for companies such as JP Morgan, GE Capital and Brunswick Capital in UK, US, Japan and Russia. He holds a Master's degree from University of Oxford (Jurisprudence and Modern Languages) and an MBA from INSEAD. He was elected an Independent Non-Executive Director on 28 August 2006. Christopher is the Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees.

05 **Paul Manduca**
Independent Non-Executive Director. Has extensive asset and investment management experience having worked as CEO for companies such as Threadneedle Asset Management, Rothschild Asset Management, Deutsche Asset Management in UK and Europe starting from 1973. Mr. Manduca has served on a number of boards as an independent director in the last 10 years and at various points he has headed audit, remuneration and appointment committees. He holds a Master's degree from University of Oxford (Modern Languages). He was elected an Independent Non-Executive Director on 28 August 2006. Paul is the Chairman of the Audit Committee and a member of the Remuneration Committee.

06 **Zhannat Satubaldina**
Non-Executive Director. Appointed Managing Director for Economics and Finance of NC KMG in December 2007, Zhannat Satubaldina was elected to the Board of Directors of KMG EP on 23 January 2008. Over the last four years, Zhannat Satubaldina has worked as Vice-President of NC Kazakhstan Temir Zholy JSC and as Managing Director for Finance, then as CFO of KazTransOil JSC. Zhannat Satubaldina graduated from Almaty National Economy Institute specializing in industry planning and New York Institute of Finance. She holds a Ph.D. in Economics from Moscow State University.

07 **Edward Walshe**
Independent Non-Executive Director. Has over 35 years experience in the oil and gas sector. Mr. Walshe has worked in various senior roles at British Petroleum and British Gas including activities of these companies in Nigeria, Abu-Dhabi, Central Asia and South-East Asia. Mr. Walshe has a PhD in Solid State Chemistry from the University of Dublin. He was elected an Independent Non-Executive Director on 28 August 2006. Edward is the Chairman of the Strategic Planning Committee and a member of the Audit, Nominations and Remuneration Committees.

08 **Yerzhan Zhangaulov**
Non-Executive Director. Was appointed Managing Director of NC KMG on 6 June 2006 and was elected as a member of KMG EP's Board of Directors on 12 June 2006. Prior to this appointment he was Executive Director on Legal Support of NC KMG. He also headed the legal service and HR department in the Administration of the President of Kazakhstan and was the adviser to the Vice-President in NC KMG. He obtained a law degree in Karaganda State Institute.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COMPANY MANAGEMENT

Management of the Company consists of skilled oil industry professionals with diverse and complementary training and work experience. Many of the managers are highly respected oil experts in Kazakhstan. Their professional experience stems from their work at various prominent projects in Kazakhstan including the Company's core fields of Embamunaigaz and Uzenmunaigaz.

Askar Balzhanov
Was appointed CEO of the Company on 7 June 2006 and was elected as a member of KMG EP's Board of Directors on 12 June 2006. Prior to this, he was General Director of JSC KazMunaiTeniz, a subsidiary of NC KMG specializing in off-shore oil and gas operations. After graduating from the Gubkin Russian State University of Oil and Gas, he has gained broad experience in the oil and gas field working in various positions in a range of hydrocarbon enterprises including Embaneft PA, KazakhstanNefteGas SE, KazakhstanMunayGas SE, KazRosGas CJSC, and NC KMG. Chairman of the Executive Board.

Vladimir Miroshnikov
Appointed First Deputy General Director of the Company in April 2004. Mr. Miroshnikov has been working in the oil and gas industry since 1973. His first job was as an oil and gas operator at Uzenneft where he was subsequently promoted to Chief Engineer. Before joining KMG EP he worked in various managerial positions at MangystauMunaiGaz and Karakudukmunai and as a Managing Director on the Technological Development at NC KazMunayGas JSC since 2002. He is a member of the Executive Board.

Zhanneta Bekezhanova
Appointed Deputy Director General on economy and finance (Chief Financial Officer) in April 2004. She has over 10 years of experience in the oil and gas industry and previously worked in various positions at the Kazakhstan Trade House in Hong Kong, at the National Foreign Trade Association Kazakhintorg, and as the Financial Director and Deputy General Director on economy and finance at KazTransOil JSC. She is a member of the Executive Board.

Kairolla Yerezhepov
Started at the Company in August 2004 as Head of Human Resources and was appointed Managing Director for Personnel and Social Policy in September 2006. He started his career as a Drilling Operator Assistant. Mr. Yerezhepov has extensive managerial experience of working for government authorities and large companies. He was a member of the Kazakhstan Parliament and was awarded the state order of Parasat, as well as other state awards. He holds a PhD in Economics. Member of the Executive Board.

Murat Kurbanbayev
Has been working as the Director of the Uzenmunaigas production branch since April 2004. He started his career in 1973 as oil and gas production operator, progressing up to the CEO of Uzenmunaigas OJSC. He has received a number of state awards, including the state order of Kurmet and Honourable Explorer Award of Kazakhstan. He is a member of the Regional Council, a professor of KazNTU, and a member of the Company's Executive Board.

Bagitkali Biseken
Has been working as the Director of the Embamunaigas production branch since January 2007. Mr. Biseken has gained extensive experience in the oil and gas industry, starting in 1975 as an oil and gas production operator in OGPU. Prior to KMG EP, Mr. Biseken held managerial positions at companies such as Kazakhstan-China Pipeline LLP, MunaiTas CJSC, NC KazMunayGas CJSC, and Tengizmunaigas OJSC. He is a member of the Company's Executive Board.

Dastan Abdulgafarov
Worked as an advisor to the General Director since June 2006 and was appointed Managing Director for Business Development in September 2006. Mr. Abdulgafarov held various managerial positions at KazMunaiTeniz JSC, NC KazMunayGas JSC, and the Kazakh International Finance and Investment Company. He holds a Masters in Petroleum Business.

Seitzhagipar Artygalin
Has been working as Managing Director on Information Technologies since November 2006. He holds PhD from Moscow State University. He has over 20 years of experience of working in IT, including 5 years in the oil and gas industry. He held managerial positions at KazTransCom JSC and NC KazMunayGas JSC.

Rustem Bekturov
Has been Deputy General Director on Oil Refining and Petrochemical Operations of the Company since July 2004. Previously, Mr. Bekturov held managerial positions at companies such as Kazkommertsbank JSC, NC Kazakhstan Aeue Zholy, AirKazakhstan CJSC, Pavlodar Petrochemical Plant CJSC, Alautransgas JSC, and KazRosGas CJSC. He was also the Chairman of the Board of Directors at KazTransTasDistribution JSC since its foundation, and a member of the Board of Directors at Atyrau Petrochemical Plant. He holds a PhD in Economics.

Shane Drader
Was appointed the Company Financial Controller in January 2007. Mr. Drader has extensive international experience working in Kazakhstan, Russia, Uzbekistan, the USA, Serbia and Croatia. Most recently he was a Partner in Deloitte Oil & Gas Audit Practice, and before that he also worked for Arthur Andersen, Ernst &Young and British American Tobacco as Finance Director and Head of Internal Audit. He holds a Bachelor of Commerce degree from the University of Calgary, and is a Chartered Accountant with the Canadian Institute of Chartered Accountants.

Alexander Gladyshev, CFA
Joined the Company in 2006, currently Managing Director for IR and information policy. After graduation from Moscow Institute of Physics and Technology and Moscow Institute of International Relations gained extensive oil and gas as well as investment research experience with companies such as Yukos in Russia and Merrill Lynch in the UK.

Aika Jaxybai
Company Secretary since May 2006. Ms. Jaxybai graduated from the Department of Economics of Moscow State University and holds an MBA degree from Fuqua School of Business of Duke University. She brings extensive experience of working with international companies including Arthur Andersen and Conoco/Dupont de Nemour.

Arkadiush Kowalewski
Has been working as the Head of the Internal Audit since 2007. Mr. Kowalewski has 12 years of experience in international companies in the areas of finance, internal audit as well as risk management consulting. Mr. Kowalewski holds an Executive MBA from Carlson School of Management of the University of Minnesota and the Certified Internal Auditor designation from the Institute of Internal Auditors.

Lyailya Kusherova
Was appointed Managing Director for Geology and Operations Development in September 2006. Her professional portfolio includes various strategic posts in companies such as KazMunaiTeniz JSC, the NC KazMunayGas JSC, Caspian Energy Research and NIPIneftegaz. She holds Masters Degree in Petroleum Engineering from Aktau Polytechnic University.

Yerbulat Nasymbayev
Started as Executive Director, Legal in July 2006, and was appointed Managing Director, Legal in September 2006. Mr. Nasymbayev gained an extensive experience by taking managerial legal support positions in various commercial companies and state authorities such as the Ministry of Foreign Affairs of Kazakhstan, the Ministry of State Revenues of Kazakhstan, Kazakhtelecom JSC, OKIOC, PetroKazakhstan and Mercury LLP.

Abat Nurseitov
Joined the Company in 2006 and has been working as Managing Director for Production since January 2008. Prior to this, he worked as the Head of Production Management Department at the Company. He has been working in the oil and gas industry since 1986, starting his career as an oil well operator and progressing up to the Head of Zhetybaineft. He held various managerial posts at NIPIneftegaz, Turgai-Petroleum CJSC, and the Kazakh branch of LukOil Overseas Service.

Eldan Salimov
Joined the Company as a Commercial Director in April 2004 and has been working as Managing Director of Logistics and Contracts since September 2006. He has extensive managerial experience, including in the oil and gas sector. Previously, he worked as Deputy General Director for KazMunaiGas CJSC Trading House.

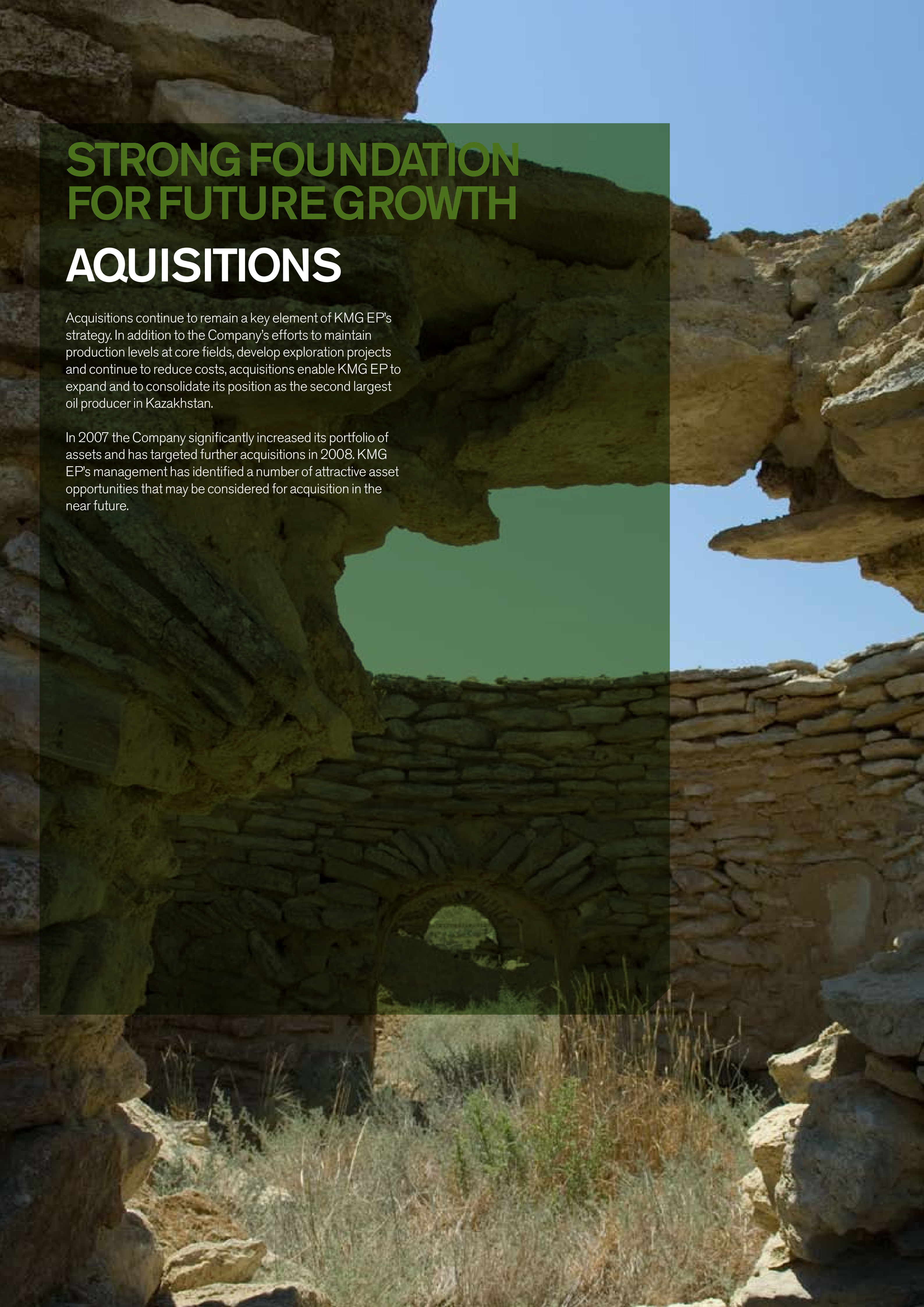
Nurlan Utenov, CFM
Joined the Company in May 2004 as Executive Director on Economics and Finance and has held the post of Managing Director on Economics and Finance since September 2006. After gaining MBA degree from the KIMEP he gained extensive experience in oil and gas industry. Since 1998 he worked in various companies including Schlumberger's Dowell subdivision in Mexico, KazTransOil CJSC. He holds an International Certification as a Financial Manager (CFM certificate).

STRONG FOUNDATION FOR FUTURE GROWTH

AQUISITIONS

Acquisitions continue to remain a key element of KMG EP's strategy. In addition to the Company's efforts to maintain production levels at core fields, develop exploration projects and continue to reduce costs, acquisitions enable KMG EP to expand and to consolidate its position as the second largest oil producer in Kazakhstan.

In 2007 the Company significantly increased its portfolio of assets and has targeted further acquisitions in 2008. KMG EP's management has identified a number of attractive asset opportunities that may be considered for acquisition in the near future.



AQUISITIONS

KEY EVENTS IN 2007
Acquisition of 50% in Kazgermunai in April.
Memorandum of understanding to acquire a 33% stake in PetroKazakhstan Inc. signed with NC KMG.
Acquisition of 50% in CCEL in December.

One of the main objectives of KMG EP in 2007 was to retain and consolidate its position as a leading oil and gas producer in Kazakhstan and to build a strong platform for future growth. This was partly achieved by utilising the Company's strong relationships with its parent company, NC KMG, which gives KMG EP preferential access to onshore assets in Kazakhstan and helps build its portfolio of assets through its acquisition strategy.

Acquisitions in particular became the main focus of the Company after its IPO on the LSE and KASE in September 2006, following which, in 2007, the company acquired a 50% interest in Kazgermunai and a 50% interest in holding company CCEL that owns oil and gas assets in Western Kazakhstan, in particularly, Karazhanbasmunai.

The Kazgermunai acquisition, for US$969 million, was completed in April 2007 and made KMG EP Kazakhstan's second largest oil producer. The acquisition was approved by the Company's Independent Non-Executive Directors and the minority shareholders. NC KMG did not participate in voting as an interested party to this transaction.

The acquisition also significantly added to the Company's reserves. According to the recent estimate of Gaffney, Cline & Associates, Kazgermunai's proved and probable resources attributed to KMG EP are estimated at 20.3 million tonnes. The fields are at a much earlier stage in their life cycle than KMG EP's core producing assets, and there is good access to export routes.

As a result of this acquisition the production attributed to KMG EP from the total production level of Kazgermunai was 1,062 thousand tonnes. Dividends received from Kazgermunai by KMG EP since acquiring the 50% interest were US$375 million.

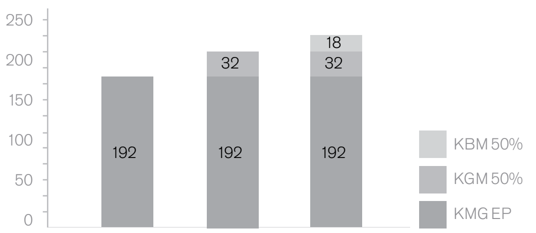
The integration of Kazgermunai's management structure into KMG EP's business processes was successful both from a financial and operational standpoint. The current management structure of Kazgermunai consists of representatives from both companies. The advanced integration process between KMG EP and Kazgermunai showed the Company's determination to adhere to the best international practices of corporate governance and financial controls.

The second large transaction – the acquisition of a 50% interest in CCEL was completed on December 12, 2007. CCEL operates in the Karazhanbas oil and gas field in the Mangistau region in Western Kazakhstan. The deal utilised an innovative financial solution for the benefit of the Company and its shareholders. The Company paid US$150 million in cash from its own funds, and received funding for the remaining US$780 million on competitive terms. Furthermore, the Company also receives an annual priority income of US$26.2 million.

According to Miller & Lents, Karazhanbasmunai's proven and probable reserves now attributed to KMG EP are 32.8 million tonnes. By acquiring this asset, the Company added a further 10% to its production levels. Karazhanbasmunai has favourable access to export markets through the Aktau port via the Caspian Sea, through the KazTransOil and Transneft pipeline systems to the Atyrau oil refinery and Western markets.

The consolidated production level of the Company increased considerably as a result of the acquisitions in Kazgermunai and Karazhanbasmunai. The current total production level is approximately 240 thousand barrels per day, which is a 25% increase compared to the production level prior to the acquisitions being carried out.

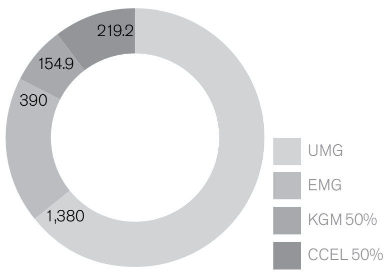
Production: impact of acquisitions, kbopd*



* Based on the full year 2007 average production of KGM and KBM

50% in KGM was acquired in April 2007
50% in KBM was acquired in December 2007

KMG EP 2P reserves, mln bbl



The reserves are as of 31.12.2007 for KMG EP, as of 30.09.06 for Kazgermunai, as of 31.12.06 for Karazhanbasmunai.

AQUISITIONS
CONTINUED

The acquisitions-led strategy still remains important in 2008. The Company is interested in acquiring a 33% stake in PetroKazakhstan Inc., which operates in various locations at the Turgai basin in south of Central Kazakhstan. The 2P reserves of PetroKazakhstan Inc. are 75 million tonnes whilst its total production for 2007 was 6.8 million tonnes. This potential addition to KMG EP's domestic portfolio is still being carefully considered by the Company and is expected to be completed in 2008.

The Company is also considering the possible acquisition of a 50% interest in Kazakhoil Aktobe and a 51% share in Kazakhturkmunai from its parent company. The Company also has a potential interest in an acquisition of a significant share of Mangistaumunaigas. This is currently being evaluated by NC KMG.

It is important to stress that any potential acquisitions and additions to KMG EP assets are always thoroughly analysed by the Company's management and that the deals are completed according to market prices and in the best interest of all shareholders.

A strong financial position, good knowledge of local markets and excellent managerial expertise enable the Company to expand its domestic portfolio on favourable terms. The company is also considering acquisitions and joint partnership opportunities on a number of assets both in and outside Kazakhstan.

In 2007 the Company delivered on the promises made to its shareholders and clearly proved the effectiveness of its acquisition-led strategy.

// KMG EP is confident of successfully continuing its acquisition strategy in 2008. The company is interested in a number of attractive assets in Kazakhstan and will also be looking to diversify its portfolio into neighbouring countries. //

ACQUISITION OF CCEL

On completion of the acquisition in December 2007 KMG EP owns 50% of CCEL, a holding company involved in development of Karazhanbas field in Western Kazakhstan. In 2007 Karazhanbas field produced over 1.9 million tonnes of oil (35.5 kbopd). According to the information supplied by Miller and Lents 2P oil reserves of CCEL as at the end of 2006 were 66 million tonnes.

The deal also has an interesting financial structure attractive to KMG EP. Only US$150million was paid in cash on completion and the Company enjoys US$26.2 million annual priority return on this investment. A further $780 million plus interest will be passed to CITIC from future cash flows of CCEL without recourse to KMG EP.

Shortly after completion of the deal a group of KMG EP managers launched a detailed review of the production and investment programs of CCEL with the goal to improve the long-term performance of this asset. As a result of this acquisition, KMG EP added 219 million barrels of 2P reserves to its portfolio and increased combined production level by 10%.

01

02

03

01 Gas processing unit. Kazgermunai.

02 Equipment assembling. Kazgermunai.

03 Drilling rig. Karazhanbas field.

STRONG FOUNDATION FOR FUTURE GROWTH

AQUISITIONS

EXPLORATION AND RESERVES

One of the main objectives for KMG EP is to ensure the growth of oil reserves . This growth is achievable through the acquisition of assets, exploration activity and the optimisation of core fields.

The company's commercial and operational progress this year has significantly added to the reserves base by increasing the level of 2P reserves by 22.8% and recording a reserves replacement ratio of 490%. In order to continue to build on the significant successes of previous years, it is important to maintain progress on the programme for the sustained development of the Company's core assets. This programme has been successfully reviewed and progressed at the Uzen field.

EXPLORATION AND RESERVES

KEY EVENTS IN 2007
Reviewing of Uzen field development plan.
Establishment of Engineering center.
Extension of oil-bearing area at Uaz and Nurzhanov fields through exploration drilling.

KMG EP pursues its core aims of growing and replacing reserves through a three-tiered strategy - selective acquisitions, exploration and development and enhancing its existing activities at its core producing fields.

In 2007 the Company successfully acquired a 50% share in Kazgermunai and a further 50% share in Karazhanbasmunai, thereby increasing its production levels and its reserves.

The most recent estimates of 2P reserves from the interests in Kazgermunai and Karazhanbasmunai are 20.3 million tonnes and 32.8 million tonnes respectively. The Company reserves are expected to grow even further following the acquisitions planned for 2008 and the continuous exploration and optimisation works on existing fields.

The Company significantly developed its ability to carry out a wide range of exploration activities. The main facet of the Company's scheduled exploration work is the search for hydrocarbons at deeper subsalt horizons, as the suprasalt horizons have already been explored in detail.

Previous seismic studies highlighted prospective subsalt structures on Liman and R-9 blocks, and the Company is planning to complete a detailed seismic survey on these blocks in the second and the third quarters of 2008. The results of the survey will be analysed in order to evaluate the resource base of these blocks and select exploration target areas, planned for drilling in 2009.

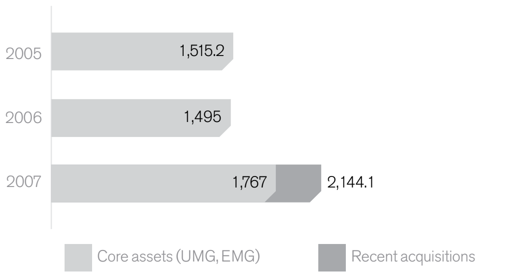
The Company is currently progressing the exploration of the neighbouring Uzen and Karamandybas fields, further exploration of the Nurzhanov area, and also in Kamyshitovoye South East and South West as well as other fields.

Effective exploitation of the core oilfields provides the Company with stable production and, along with other exploration activity leads to an increase in the Company's reserves.

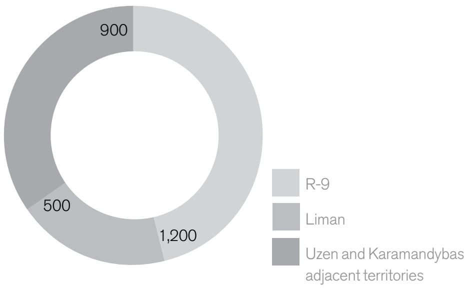
The Company has managed to maintain stable production levels and increase reserves at mature fields such as Uzen, Karamadybas, Nurzhanov, Moldabek East and Botakhan as a result of the repair and return into operation of idle wells, as well as the use of up-to-date methods of geostatistical and hydrodynamic modelling which enhance oil recovery.

In order to ensure stable production levels at the Uzen and Karamadybas oilfields, the Company has reviewed the development plan for these oilfields. The new plan will enable the Company to maintain the current production levels for approximately 10 years, at least five years longer than originally envisioned. The production extension on the main oilfields will be achieved through additional drilling, transfer to a closer well spacing to facilitate efficient oil extraction in areas of low permeability, efficient use of a pattern water-flooding system, and hydro fracturing. As a result, the oil recovery ratio at these fields is expected to grow as well as the overall growth of oil recovery at Uzen and Karamandybas.

KMG EP 2P reserves, mln bbl



2D seismic in 2007, r. km



The Company continuously monitors its reserves and according to the audit conducted at the end of 2007 by Gaffney, Cline & Associates, the independent energy consulting firm, its proved and probable reserves at the end of 2007 were 240.0 million tonnes (1,767 million barrels), excluding the Company's interests in Kazgermunai and Karazhanbasmunai. This represents an 18% increase in 2P oil reserves compared to the end of 2006. According to information at the end of 2007 and taking into account the production level for 2007, the 2P category reserves increased by 22.8% (342.3 million barrels). The reserve replacement ratio for 2P reserves in 2007 was 490%.

The Company has successfully updated Uzen Development Programme which will lead to more efficient reservoir recovery, and extend the production plateau of this field by a further five to ten years.

NEW RESERVES AT MATURE FIELDS

Reserves additions at mature fields in 2007 were not limited to the significant increase in the reserves of the Uzen field.

Another example of such improvement is Botakhan, one of mature fields being developed by Embamunaigas production branch. The Company has optimised the reservoir pressure maintenance system based on the hydrodynamic modelling of the field. Application of flow deviating and insulation technologies helped to stabilise production and watercut at Botakhan. As a result, the Company's reservoir auditor Gaffney, Cline & Associates concluded that the field's potential was higher than had been expected and confirmed a positive adjustment to the 2P reserves of the field by 785 thousand tonnes (approx. 5.7 million barrels, + 29%).

At Northern Nurzhanov and Uaz fields, also developed by Embamunaigas, exploration and appraisal in 2007 resulted in additions of 1.5 million barrels of recoverable reserves.

01

01 Oil storage tank. EMG.

02 Mangistau region.

03 Hydro fracturing fleet. UMG.

02

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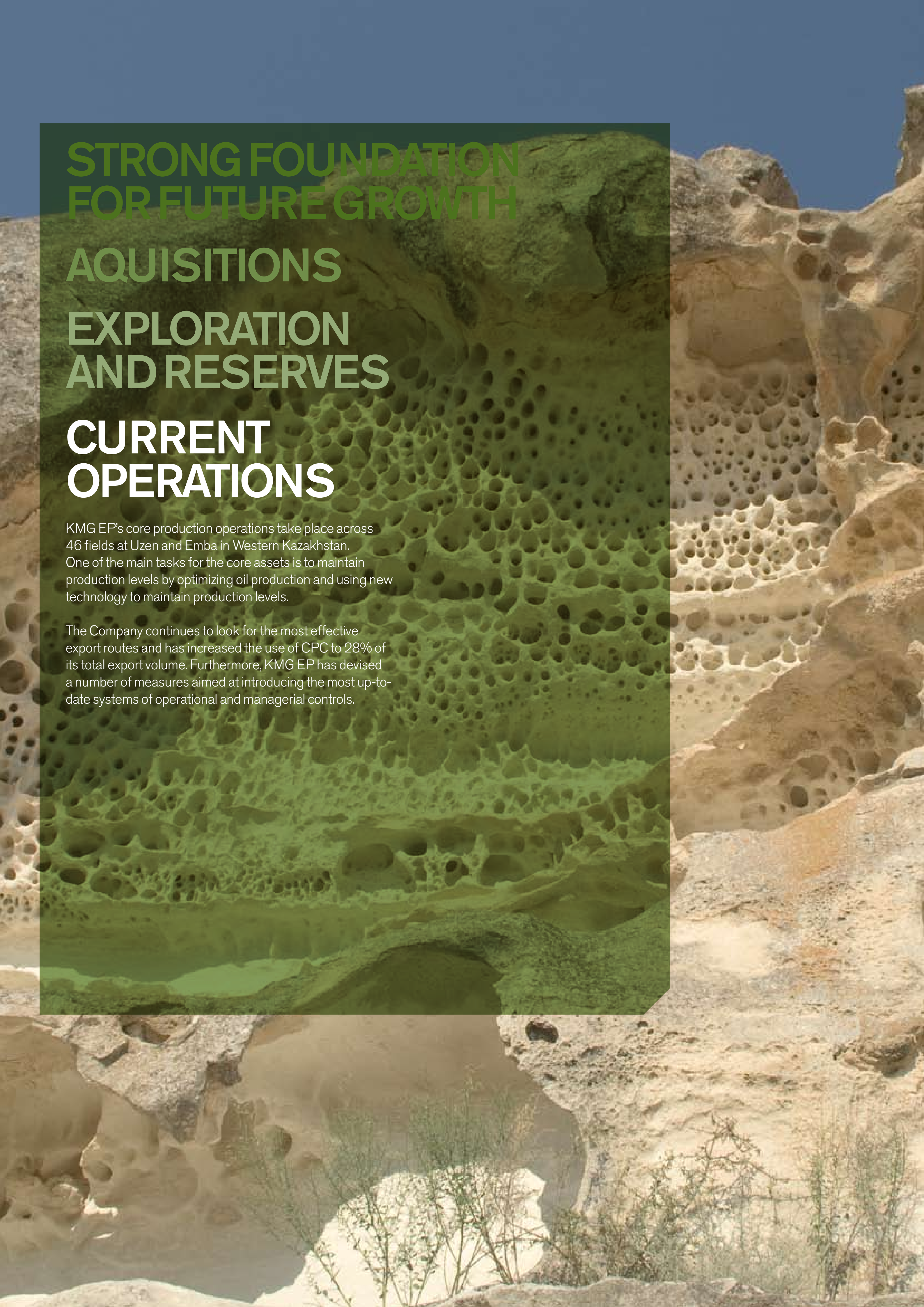


STRONG FOUNDATION FOR FUTURE GROWTH

AQUISITIONS

EXPLORATION AND RESERVES

CURRENT OPERATIONS

KMG EP's core production operations take place across 46 fields at Uzen and Emba in Western Kazakhstan. One of the main tasks for the core assets is to maintain production levels by optimizing oil production and using new technology to maintain production levels.

The Company continues to look for the most effective export routes and has increased the use of CPC to 28% of its total export volume. Furthermore, KMG EP has devised a number of measures aimed at introducing the most up-to-date systems of operational and managerial controls.

CURRENT OPERATIONS

KEY EVENTS IN 2007
Increased sales via CPC pipeline.
Completion of Block 3A Rehabilitation project at Uzen.
SAP ERP implementation.

KMG EP conducts its core production activities at 46 oil and gas fields in Western Kazakhstan. The majority of these fields are at a mature stage of development and this is why one of the main strategic objectives of the Company is to maintain production levels at its 7 fields in the Uzenmunaigas production branch and 39 fields in the Embamunaigas production branch.

To achieve this goal the Company will continue with the implementation of its programme of production optimisation at its core assets by using drilling, workover operations, and sidetrack drilling in order to reduce natural production declines, increase the efficiency of oil extraction and to maintain planned volumes of production.

In order to increase oil production the Company uses methods such as hydro-fracturing, polymer injection fluid flow diverting technologies, electrical formation treatment/electric stimulation (for production enhancement), as well as a number of technologies stimulating wellbottom zones including insulating works, re-perforation, perforation of additional intervals, acid treatment and treatment with other solvents.

The chosen methods continued to be effective in 2007. Excluding new acquisitions the annual volume of oil production reached 9,530 million tonnes. The contribution of newly worked-over wells was 541 thousand tonnes, 28 thousand tonnes more than planned. Production achieved from new wells was 290 thousand tonnes which was 30 thousand tonnes more than planned.

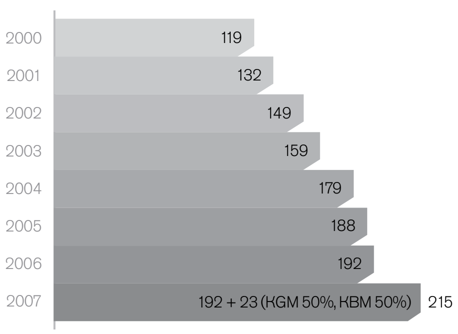
Given the general rise in world oil prices, access to export routes and optimisation of logistics became particularly important. In 2007 export volumes constituted 77.5% of the total volume of KMG EP's sales. This is 9.13% more than in 2006.

Approximately 72% of export oil (5,237 thousand tonnes) was delivered to customers via the Uzen-Atyrau-Samara (UAS) pipeline which belongs to KazTransOil. The CPC pipeline, which belongs to the Caspian Pipeline Consortium, was used to deliver 28% of the total volume of exports (2,117 thousand tonnes of oil). The use of the CPC pipeline is more profitable and in the past three years the KMG EP has increased its usage of the pipeline from 17% to 28% of the Company's export volumes.

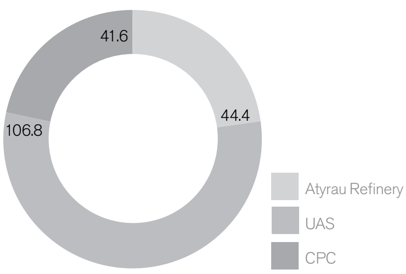
The transport infrastructure of Kazakhstan continues to develop from year to year, and the relationship with the parent company gives KMG EP guaranteed access to export routes.

Optimisation of production is also an integral part of KMG EP's operations. The Optimisation Programme, devised in 2006, aims at more effective exploitation of oil fields. It includes replacing steel pipes with fiberglass, quicker workovers, effective analysis of well exploitation, automation of production processes and the replacement of old equipment. As a result of these measures the increase in operational expenses in 2007 compared with the previous year, barring the effect of a reversed ecological fine, was only 3%. This is against the backdrop of the relatively high inflation in Kazakhstan which reached 18.8% in 2007.

KMG EP production, kbopd



Sales in 2007, kbopd



Moreover, the Company continues to implement the programme of divesting its non-core assets. In 2007 four service companies were sold: Embamunaiautomatica, Burgylau, Autorepairs Bureau, Atyrau Sanatorium, and one company was liquidated - Bricks Factory.

In 2007 KMG EP successfully implemented SAP ERP, a multifunctional automated system of control. This system ensures effective management of the Company's activities in real time and is used in finance, monitoring, planning, sales and other areas of management.

In conclusion, KMG EP's production levels are expected to continue to increase in 2008 as the benefits from recent and forthcoming acquisitions increasingly make contributions and the key optimisation and cost reduction initiatives progress. This in turn will translate into improved financial performance, further strengthening the existing platform for future development.

// The Company continues to look for the most effective and responsible way of conducting its operations in Kazakhstan and is certain it will build on its strong foundations to grow its position as an industry leader in 2008. //

SUCCESSFUL IMPLEMENTATION OF SAP ERP

In October 2007 the Company announced the successful completion of implementing SAP (Systems Applications and Processing). The main objective was the creation of a multifunctional automated system of company management that works in real time and allows KMG EP to maintain efficient record keeping, reporting and monitoring functions of the business. It also allows the Company to analyse all on-going business activities, results, finance management; management of material flows; planning and other activities timely and efficiently. Implementation of SAP optimises and standardises business process ensuring controlled access to Company records and flexibility of approach to information management.

01 Oil pipeline. EMG.

02 Well drilling. Uzen field.

03 Sea port Aktau.

STRONG FOUNDATION FOR FUTURE GROWTH

AQUISITIONS

EXPLORATION AND RESERVES

CURRENT OPERATIONS

SOCIAL RESPONSIBILITY

KMG EP has implemented a diverse social programme across a number of areas, including social partnerships, educational projects, sponsorships and the overall support of its employees and their families. KMG EP also places a strong emphasis on its responsibility towards the environment in the regions of its operations and beyond.

The Company spent the total of US$30 million on various projects in 2007 and it continues to prioritize the promotion of the image of Kazakhstan and its cultural traditions abroad.

SOCIAL RESPONSIBILITY

KEY EVENTS IN 2007

Construction of stadium in Zhanaozen.
Procurement of equipment for the cleansing of polluted soil and waste.
Signing of Collective agreement between the Company and its labour union.
Cultural project «The Energy of the Past».

A commitment to high standards of corporate and social responsibility is a core business priority of KMG EP.

The Company is one of the largest taxpayers in the country, and is very proud of being considered one of the most desirable places to work in Kazakhstan. A key priority of the Company is the health and safety of its employees and the minimisation of any negative environmental impact. KMG EP's Health, Safety, Environment and Security policies aim to achieve this.

The Company operates social policies in several areas – social partnership, sponsorship, work relations, and a programme of support for Company employees and their families.

The social partnership programme enables the Company to realise its obligations in accordance with the Subsoil Use Contracts and contributes to the development of the infrastructure of the regions where KMG EP operates. As part of this programme the Company works with local authorities and provides financial support to a number of social projects including the construction and refurbishment of schools, roads, hospitals, cultural and sports centres. KMG EP also supports a number of social and public organisations in Kazakhstan.

Sponsorship is an integral part of the Company's social programme. KMG EP provides financial support to a range of causes, including aiding low income families, invalids and orphans, assisting artists and sportspeople, and participating in various socially important events sponsored by KazMunaiGas Group companies.

In response to government policy regulating relations between employers and trade unions, the Company made an important step forward in the area of work relations. In December 2007 a Collective Agreement was signed that ensured a high level of social protection for the Company's employees.

KMG EP is a regular sponsor of such annual events as the KIOGE (Kazakhstan International Oil and Gas Exhibition) and the Eurasian Energy Forum.

The Company understands that social responsibility also includes responsibility to the environment in all areas of its operations and makes this a high priority. Every year the financing of environmental projects increases, and KMG EP invests in safe, energy saving and waste reducing technologies.

KMG EP operates programmes targeting waste utilisation, cleaning polluted territories using modern biotechnologies and taking preventative measures against pollution of the Caspian Sea.

In accordance with the government directives on waste minimisation, the Company acquired and assembled new equipment for the cleansing of decades of waste accumulation. Moreover, KMG EP successfully worked towards redeeming the ecological balance in historically polluted areas by using the zeolite-microbiological method of soil cleansing. This process enables the Company to bring large areas of previously unusable territories back into use.

// KMG EP strives to maintain high levels of job satisfaction, as well as environmental and health and safety, standards and remains one of the most desirable places to work in Kazakhstan. //

In September 2007 KMG EP acted as a general sponsor for the Eco Tech 2007 conference, the main specialized event in Central Asia focusing on utilization, refining, and storing of industrial waste; water, air and soil purification; and health and safety regulations. At the event the Company presented a number of projects aimed at eco-regeneration and re-cultivation of polluted areas and also organized a practical seminar for local and foreign journalists on Ecological aspects of the oil and gas industry.

KMG EP also supports cultural projects aimed at the study and preservation of the historical traditions of Kazakhstan and at improving the image of the Republic of Kazakhstan around the world.

In July 2007 KMG EP initiated a large project entitled The Energy of the Past. During the two-week expedition historical, photo and video material about the region, its culture and architecture was collected and a Photographic Exhibition was organised both in Kazakhstan and in the UK. Visited by hundreds of people, the Exhibition presented a different image of Kazakhstan as a country with a rich historical past and an exciting future, a picture of the country that is largely unrecognised in the West. Photographs from this exhibition illustrate this report.

Overall, in 2007 KMG EP spent about US$30 million (3.7 billion tenge) on social purposes. Of this 947 million tenge was allocated in accordance with the subsoil use contracts, 980 million tenge was spent on social sponsorship and 1.8 million tenge on the construction of social facilities.

Whilst building a world class oil company, KMG EP is successfully promoting the Republic of Kazakhstan as a country not only rich in raw materials and natural resources but also as a country with deep, historical and cultural roots and a highly educated population with a strong work ethic.

KMG EP OPEN DAY

The main goal of the KMG EP Open Day in May 2007 was to demonstrate the commitment of the Company to principles of transparency and openness thus adding to the image of the Company beyond is strictly financial and operational activity.

Stock market analysts, representatives of domestic and international media and top management of KMG EP, including its independent Non-Executive Directors, were invited to join the event. The Chief Executive of the Company, Askar Balzhanov, opened proceedings and underlined the overall importance of such events.

Journalists and analysts alike were given the opportunity to talk to the management of KMG EP and were provided with the updated information on the Company's latest financial and operational results as well as information on the Company' s achievements in the areas of Corporate Governance, social and environmental responsibility and implementation of the best international practices and standards.

01

01 Caspian sea. Mangistau region.

02 Caspain sea coast. Aktau.

03 Workshop. UMG.

02

03

CORPORATE GOVERNANCE INFORMATION

Compliance with Combined Code

As an overseas company with GDRs admitted to the Official List, the Company is not required to comply with the provisions of the UK Combined Code on Corporate Governance ("Combined Code"). In addition, it is not required to disclose in its Annual Report whether or not it complies with the corporate governance regime of the Republic of Kazakhstan and the significant ways in which its actual governance practices differ from those set out in the Combined Code. However, the Directors consider high standards of corporate governance to be very important and consider that such information shall be included into Annual Report.

Differences in Kazakhstan Corporate Governance Code and Combined Code provisions

Corporate governance best practice in Kazakhstan is set out in the Kazakhstan Corporate Governance Code. The Kazakhstan Corporate Governance Code is based on existing international best practice in the area of corporate governance and sets out recommendations for applying the principles of corporate governance by Kazakhstan joint-stock companies. It was approved by the Expert Council for Securities Market Matters under the National Bank of the Republic of Kazakhstan in September 2002. The Code was also approved by the Association of Financial experts of Kazakhstan in March 2005 and by the Board of Emitters in February 2005.

The Company currently complies with the provisions of the Kazakhstan Corporate Governance Code in all material respects.

The Company has adopted the Kazakhstan Corporate Governance Code, modified to include certain provisions from the Combined Code, as its Corporate Governance Code. The modifications adopted by the Company impose additional corporate governance obligations on the Company. The Company believes that these additional modifications significantly strengthen the corporate governance regime adopted by the Company. The Company will also take into consideration the provisions of the Combined Code and will seek to improve its standards of corporate governance in the future.

The Directors believe the following to be the significant differences between its Corporate Governance Code and the provisions of the Combined Code.

- The Combined Code provides that the Non-Executive Directors should meet without the Chairman of the Board present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate.

  During 2007 8 (eight) Independent Non-Executive Directors (INED) meetings took place, where all aspects of governance and Board performance were discussed. However, there was no formal appraisal of the Chairman by Non-Executive Directors.

- According to provisions of the Combined Code, the Chairman of the Board of Directors should, when appointed, meet the Combined Code's independence criteria.

  The Company's Corporate Governance Code does not include such provision in relation to the Chairman's appointment and the Directors believe that the Company's Chairman would not meet the independence criteria set out in provision of the Combined Code. However it should be noted that the Combined Code's provisions relating to the independence of not less than one third of the Board, other than the Chairman have been adopted in the Company's Corporate Governance Code.

- The Combined Code provides that at least half of the Board of Directors, excluding the Chairman of the Board, should comprise Non-Executive Directors determined by the Board to be independent. In contrast the Company's Corporate Governance Code provides that at least one third of the members of the Board of Directors shall be Independent Non-Executive Directors.

  The Company currently has three Independent Non-Executive Directors, being Christopher Mackenzie, Paul Manduca and Edward Walshe, who together constitute more than one third of the Board of Directors. The composition of the Board and the requirement for more Independent Non-Executive Directors would be reviewed from time to time.

- Furthermore, the Combined Code states that the Board should appoint one of the Independent Non-Executive Directors to be the Senior Independent Non-Executive Director.

  The Board of Directors has not appointed a Senior Independent Non-Executive Director given the current shareholder structure. The requirement for a Senior Independent Non-Executive Director will be reviewed from time to time.

Directors' responsibility statement

In accordance with Company's Corporate Governance Code the Board of Directors and the Management Board are responsible for reliability of the Annual Report and the financial statements.

In compliance with the UKLA's Disclosure and Transparency Rules each of the Directors, whose names and functions appear on pages 8-9 of this Annual Report, confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Board of Directors structure

As of December 31, 2007 the Board comprised eight members, being the Chairman, Uzakbay S. Karabalin, CEO, Askar K. Balzhanov and six Non-Executive Directors. The following changes in the composition of the Board of Director of the Company were made based on decisions of General Meetings of Shareholders upon proposal of the major shareholder:

- On October 30, 2007 E.K. Ogai was removed and K.N. Ibrashev was elected.
- On January 23, 2008 A.N. Syrgabekova was removed and Z.S. Satubaldina was elected.

MEMBERS OF THE BOARD OF DIRECTORS AS OF DECEMBER 31, 2007:	POSITION WITHIN THE COMPANY
Uzakbay S. Karabalin	Chairman and Non-Executive Director
Askar K. Balzhanov	General Director, CEO
Assia N. Syrgabekova	Non-Executive Director
Yerzhan A. Zhangaulov	Non-Executive Director
Kenzhebek N. Ibrashev	Non-Executive Director
Christopher Mackenzie	Independent Non-Executive Director
Edward T. Walshe	Independent Non-Executive Director
Paul Manduca	Independent Non-Executive Director

In accordance with the provisions of the Corporate Governance Code, consideration has been given to the independence of all the Non-Executive Directors. The Board considers Mr. Mackenzie, Mr. Walshe and Mr. Manduca to be independent of management and free from any business or other relationship that could materially interfere with their exercise of independent judgment.

The Management Board structure

The Company's Management Board comprises senior executives of the Company, including its General Director (CEO), First Deputy General Director and Chief Financial Officer (CFO).

MEMBERS OF THE MANAGEMENT BOARD AS OF DECEMBER 31, 2007:	POSITION WITHIN THE COMPANY
Askar K. Balzhanov	CEO and Chairman of the Management Board
Vladimir Y. Miroshnikov	First Deputy of the CEO
Zhanneta D. Bekezhanova	Deputy CEO, CFO
Askar A. Aubakirov	Deputy CEO, Corporate Development
Kairolla Z. Yerezhepov	Managing Director on Human Resources and Information Policy
Murat I. Kurbanbayev	Director of Uzenmunaigas
Bagitkali L. Biseken	Director of Embamunaigas

* On January 26, 2007 the powers of M.S. Izbasov were terminated, B.L. Biseken was elected.
On February 1, 2008 the powers of Askar A. Aubakirov were terminated.

The Board of Directors and the Management Board responsibilities

Division of powers between the Board of Directors, the Management Board and CEO is defined in Company's Charter, articles 12 and 13.

The Board of Directors is responsible to shareholders for the effective and proper management and control of the Company and has a formal schedule of matters reserved for its decisions. Its primary roles are to determine and review the Company's strategy and policy, consider acquisitions and give consideration to all other significant financial matters. This process is undertaken following discussions in conjunction with the Management Board which in turn is responsible for the day to day conduct of the Company's operations and for reporting to the Board of Directors on the progress being made in meeting the objectives of the Company.

The Board of Directors holds meetings on a regular basis and additionally for specific purposes as and when required. During 2007 the Board of Directors had 23 meetings including seven by voting in person, one - in person by a conference-call and 15 had voting by written resolution. The Directors, in their formal capacity approved the completion of the acquisition of a 50% stake in JV Kazgermunai LLP, transactions related to the acquisition of CCEL (Karazhanbasmunai), and the establishment of a subsidiary of the Company's Engineering Centre. In view of amendments in the legislation of the Republic of Kazakhstan, the Board of Directors has endorsed the updated versions of the Charter of the Company, the Corporate Governance Code, and By-laws governing the Board of Directors, as well as the Procedure for Valuation of Shares of the Company for repurchase by the Company. As part of its formal business the Board of Directors approved the Company's By-laws on Information Policy, By-laws on Housing Loans for the Company's employees, Share Dealing Policy, and Regulations on Business Trips of the Company's employees.

Directors' Attendance at Board and Board Committee Meetings

	BOARD OF DIRECTORS	AUDIT COMMITTEE	NOMINATIONS COMMITTEE	REMUNERATION COMMITTEE	STRATEGIC PLANNING COMMITTEE
Number of meetings	23	7	2	7	1
Uzakbay Karabalin	22	-	2	-	-
Askar Balzhanov	23	-	-	-	1
Yerzhan Zhangaulov	22	-	-	-	-
Kenzhebek Ibrashev*	3	-	-	-	-
Christopher Mackenzie	23	4	1	7	-
Paul Manduca	23	7	-	5	-
Yevgeny Ogay	20	-	-	-	-
Assia Syrgabekova	20	-	-	-	-
Edward Walshe	23	7	2	7	1

* Ibrashev K.N was appointed as a member of the Board of Directors on October 30, 2007 attended a meeting of the Strategic Planning Committee as an invited party before being elected a member of the committee.

The Management Board, as an executive body manages the Company's current activities. The Management Board holds meetings on a regular basis and for specific purposes as and when required. During 2007 there were 36 meetings of the Management Board. During 2007 the following important issues were among those considered by the Management Board: issues concerning regulation of the Company's operational activities, internal procedures and controls, management risk-related issues, as well as rules and standards regulating and determining the internal business processes, including the budgeting and business planning regulations for 2008 and 2008-2012, annual plan for the public goods/works/services procurement, approval of procedures regulating internal activities of the Company in compliance with the integrated management standards, etc.

Also, according to the Company Charter, some issues attributed to the exclusive competence of the Board of Directors are subject to preliminary approval by the Company's Management Board. The Management Board preliminarily approved the annual production program, budget and business plan for 2008-2012 and a number of strategic transactions such as acquisition of 50% stake in Kazgermunai, acquisition of 50% stake in CCEL (Karazhanbasmunai), the establishment of a subsidiary of the Company's Engineering Centre. According to the approved budget based on the Management Board's resolutions, sponsorship was provided (to low income families, athletic facilities, social funds, children and pensioners to recreate in health camps, etc.).

The Management Board makes decisions on other issues not attributed to the exclusive competence of the General Meeting of Shareholder, Board of Directors and officials of the Company.

Board performance evaluation

In 2007 a performance evaluation for the Board of Directors was carried out by an external independent consultant (Center for Corporate Development). The results of performance evaluation were presented at the Board of Directors' meeting on January 31, 2008. Although the performance evaluation results were positive the Board developed an action plan to improve certain processes, such as an increase of the role and responsibility of the Board of Directors in strategic decision making, analysis and comparison of the Board of Directors to other similar companies.

Also, in 2008 the Board plans to conduct a separate performance evaluation for Committees and Directors.

The Board of Directors adopted terms of reference for and formed an Audit Committee (November 28, 2006), a Nominations Committee (September 1, 2006), a Remuneration Committee (September 1, 2006) and a Strategic Planning Committee (September 12, 2007).

Audit Committee

Membership

The Audit Committee is staffed exclusively by the Independent Non-Executive Directors, i.e. Mr. Manduca, Mr. Mackenzie and Mr. Walshe, and it is chaired by Mr. Manduca. Appointments to the Audit Committee are made for a period of up to three years, extendable by no more than two additional three-year periods by resolution of the Board of Directors, as long as the members continue to be independent.

Frequency of meetings

During 2007 there were 7 meetings of the Audit Committee. It is for the Audit Committee Chairman to decide the frequency and timing of Audit Committee meetings. There are as many meetings as the Audit Committee's role and responsibilities require. However, there are no less than four meetings during the year, held to coincide with key dates within the Company's financial reporting and audit cycle (when the audit plans, internal and external, are available for review and when interim financial statements, preliminary announcements and the full Annual Report are near completion).

Role and responsibilities

The Audit Committee has responsibility for, amongst other things, the planning and review of the Company's Annual Report and accounts; half-yearly reports; monitoring the management risk system; the system of internal control and the involvement of the Company's auditors in that process. The Company's Internal Audit also reviews the Company's internal controls. The Audit Committee focuses in particular on compliance with legal requirements, accounting standards, the applicable rules of the UKLA and the KASE and on ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and preliminary approval of the Annual Report as well as the accounts remains with the Board of Directors.

The Audit Committee, where practical, regularly reviews certain major acquisition and disposal transactions and deals with any matters which the Board may refer to the Audit Committee.

Annually, the Chairman of the Audit Committee makes a presentation at the Shareholders General Meeting and answers questions, through the Chairman of the Board, on the report of the Audit Committee's activities and matters within the scope of its responsibilities.

The activities of the Audit Committee for 2007:

Financial reporting

- Preparation of financial statements in compliance with IFRS.
- Approval of quarterly and annual reports submitted to KASE and LSE.

Internal controls and risk management systems

- Review and approval of the programme of the improvement of internal controls.
- Approval of Treasury Policy.
- Discussion of the implementation of the Risk Management system.
- Internal controls and Risk Management effectiveness evaluation.
- Review of the Audit Charter.
- Self-evaluation of the Audit Committee.

Internal audit

- Review and approval of key performance indicators (KPI).
- Review and endorsement of 2008 plans of Internal Audit.
- Internal Audit effectiveness evaluation.

External audit

- Effectiveness evaluation of Ernst & Young Kazakhstan LLP, the external auditor.
- Review and approval of the financial statements for the year presented by the external auditor, Ernst & Young Kazakhstan LLP.
- Ernst & Young Kazakhstan LLP was recommended as the external auditor of the Company by the Audit Committee.
- Monitoring of the processes of addressing material weaknesses in the Company's internal controls identified by the external auditor Ernst & Young Kazakhstan LLP.
- Approval of the requirements for external auditors and appointment schedule for external auditor for 2008.

Remuneration Committee

Membership

The Remuneration Committee is staffed exclusively by the Independent Non-Executive Directors. It is chaired by Mr. Mackenzie with Mr. Manduca and Mr. Walshe as members. The terms of office of the Committee members are the same as the terms of office for the relevant members of the Board of Directors.

Frequency of meetings

During 2007 the Remuneration Committee met seven times. The meetings are held as and when they are necessary, but never less than twice a year. The meetings can be initiated by any member of the Remuneration Committee.

Role and responsibilities

The Remuneration Committee is responsible for monitoring the current corporate system of the remuneration of all members of the Board of Directors including the CEO, the members of the Management Board and other employees of the Company, as well as remuneration policies benchmarking analysis.

The Remuneration Committee also has responsibility for developing recommendations to the Board of Directors on determining the amount and conditions of remuneration for members of the Board of Directors, CEO and senior executives, as well as approval of conditions of option plan of the Company and other long term stimulation programs for the management and other employees of the Company.

The Remuneration Committee monitors the appropriateness of the Company's remuneration criteria, based on the Company's development strategy, financial position, and major trends in the labor market.

In addition, the Remuneration Committee monitors proper disclosure of information regarding remuneration and compensation for the members of the Management Board and the Board of Directors of the Company in compliance with the requirements of the laws of the Republic of Kazakhstan, Listing Rules and internal documents of the Company.

Moreover, the Remuneration Committee exercises control over the General Meeting of Shareholders regarding decision of assessment of amount and fulfillment of remuneration procedures for members of the Board of Directors.

The Terms of Reference also set out reporting responsibilities before the Board of Directors, and analysis of compliance of the Committee's activities with the Remuneration Committee Charter. The full Terms of Reference for the Remuneration Committee are available upon request at Company's head office during usual business hours.

Remuneration Committee activities in 2007

During 2007 the Remuneration Committee reviewed such issues as:

- Option awards in 2007.
- Strategy and system of remuneration within the Company.
- Review of set of key performance indicators (KPI) for the members of the Management Board of the Company.
- Review and approval of the Company's Option Plan Rules.
- Bonus payment to the Company's employees.
- Increase of bonuses for the top management of the Company.

Non-Executive Directors (except Non-Executive Independent Directors) do not receive any fee in respect of his/her role as a member of the Board of Directors but is entitled to reimbursement for costs and expenses associated with the position. Non-Executive Independent Directors are entitled to an annual fee, a fee for each separate meeting of the Board of Directors that he physically attends, a fee for a meeting through telephone or video conference, and an annual fee in respect of his duties as chairman of the committee of the Board of Directors.

The total amount of remuneration paid to the Non-Executive Independent Directors for the year ending December 31, 2007 is specified in the table below:

	ANNUAL FEE 000 $US	PHYSICAL ATTENDANCE FEE 000 $US	TELEPHONE/ VIDEO LINK ATTENDANCE 000 $US	INED MEETING FEE 000 $US	AUDIT COMMITTEE FEE 000 $US	STRATEGIC PLANNING COMMITTEE FEE 000 $US	RENUMERATION COMMITTEE FEE 000 $US	TOTAL 2007 000 $US	TOTAL 2007 000 KZT
Paul Manduca	100	70	5	17.5	25	0	0	217.5	29,476
Edward Walshe	100	70	5	17.5	0	3.8	0	196.3	26,703
Christopher Mackenzie	100	70	5	17.5	0	0	15	207.5	28,123
Total	300	210	15	52.5	25	3.8	15	621.3	84,302

The total amount of remuneration paid to the members of the Management Board for the year ending December 31, 2007 is specified in the table below:

NAME	POSITION	SALARY 000 KZT	OTHER ANNUAL COMPENSATION[1] 000 KZT	TOTAL 2007 000 KZT	TOTAL 2006 000 KZT	TOTAL 2007 000 $US	TOTAL 2006 000 $US
Askar Balzhanov	CEO	25,539	56,683	82,221	18,691	671	148
Vladimir Miroshnikov	First Deputy Director	19,848	49,488	69,336	67,446	566	535
Zhanneta Bekezhanova	CFO	18,086	49,018	67,104	63,673	548	505
Askar Aubakirov	Deputy General Director on Corporate Development	14,699	8,241	22,940	42,138	187	334
Kairolla Yerezhepov	Managing Director on Personnel and information policy	11,286	6,626	17,912	92,591	146	734
Murat Kurbanbayev	Director OMG	10,778	43,484	54,262	71,714	443	569
Bagitkali Biseken	Director EMG	14,359	4,235	18,594	–	152	–
Maxim Izbasov [3]	Director EMG	559	22,295	22,854	17,591	186	140
Total		115,154	240,070	355,224	373,845	2,899	2,965

[1] Compensation covers benefits including medical insurance; quarter bonus; and annual bonus (the 'premia') according to the Rules on remuneration of labor, which were approved by the Board of Directors' decision #7 dated June 24, 2004.

[2] The amounts are shown in the currency which the payments have been made.

[3] On January 26, 2007 the powers of M.S. Izbasov were terminated, B.L. Biseken was elected.

Nominations Committee

The Nominations Committee is chaired by Uzakbay Karabalin and the other members are Christopher Mackenzie and Edward Walshe. During 2007 the Committee met twice.

The Nominations Committee is focused on improvement of the Board's efficiency and performance while staffing the Company's governing bodies with appropriate candidates and ensuring rotation of officers and executives of the Company's bodies, determining criteria for selection of candidates for the posts of Non-Executive Directors, CEO, members of the Management Board and Corporate Secretary of the Company.

The Nominations Committee also addresses issues related to changes in the composition of the Board of Directors, retirement and appointment of additional and acting directors, as well as making relevant recommendations to the Board of Directors.

Strategic Planning Committee

The Strategic Planning Committee was established on September 12, 2007.

In December 2007 the Strategic Planning Committee held 1 meeting where the plans for the Company's development for 2008-2012 were discussed.

The Committee's members are Askar Balzhanov, Kenzhebek Ibrashev and Edward Walshe who also chairs the Committee.

The Strategic Planning Committee is focused on making recommendations to the Board of Directors on the Company's priority directives and its development strategy.

Risk Management Committee

Following the best international practice, the Company has introduced the risk management system. The main objective of the risk management system is the Company's sustaining the optimal balance between the Company's growth, its profitability and risks.

In order to facilitate the introduction of the risk management system, the Management Board of the Company established the Risk Management Committee on December 27, 2007. The Committee is staffed by the CEO, First Deputy General Director, CFO, Managing Director of Economy and Finance, Managing Director of Project Development, Managing Director of Information Technology, Managing Director of Personnel and Social Policy, Head of the Internal Audit Department, Director of Health, Safety and Environmental Department.

On January 17, 2008 the Committee approved the Risk Management Policy which is awaiting further approval by the Board of Directors. The risk management procedures plan 2008 was also approved by the Committee.

Directors', senior executives' and others' interests

Directors' and members of the Management Board's Interests

The interests of the Directors and the members of the Management Board in the ordinary shares, preference shares and GDRs of the Company all of which are beneficial unless otherwise stated are as follows:

NAME	NUMBER OF ORDINARY SHARES	NUMBER OF GDRS	NUMBER OF PREFFERED SHARES
Balzhanov A.K.	-	23,158	-
Zhangaulov Y.A.	-	8,681	-
Syrgabekova A.N.	796	-	-
Christopher Mackenzie	1,166	-	-
Edward Walshe	1,138	-	-
Paul Manduca	1,138	-	-
Miroshnikov V.Y.	1,163	9,494	-
Bekezhanova Z.D.	8,900	8,207	-
Aubakirov A.A.	565	12,442	34
Kurbanbayev M.I.	2,497	-	1,236
Biseken B.L.	-	-	280

Subject to the Option Plan of the Company, options over GDRs have been granted to Directors and members of the Management Board as follows:

NAME	DATE OF OPTION AWARD	NUMBER OF GDRS OVER WHICH OPTIONS GRANTED	EXERCISE PRICE	VESTING DATE
Askar Balzhanov	4 October 2006	38,916	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
	29 December 2006	10,662	US$0.00	29 December 2007
	4 December 2007	15,300	US$26.47	4 December 2010
Vladimir Miroshnikov	4 October 2006	33,844	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
	29 December 2006	9,935	US$0.00	29 December 2007
	4 December 2007	12,240	US$26.47	4 December 2010
Zhanneta Bekezhanova	4 October 2006	29,262	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
	29 December 2006	8,590	US$0.00	29 December 2007
	4 December 2007	10,880	US$26.47	4 December 2010
Kairolla Yerezhepov	4 October 2006	22,025	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
	29 December 2006	6,465	US$0.00	29 December 2007
	4 December 2007	4,604	US$26.47	4 December 2010
Murat Kurbanbayev	4 October 2006	27,044	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
	29 December 2006	7,938	US$0.00	29 December 2007
	4 December 2007	6,347	US$26.47	4 December 2010
Askar Aubakirov	4 October 2006	27,044	US$14.64	One-third on each of 4 October 2007, 2008 and 2009
	29 December 2006	7,938	US$0.00	29 December 2007
	4 December 2007	7,616	US$26.47	4 December 2010
Bagitkali Biseken	18 May 2007	16,968	US$20.00	One-third on each of 18 May 2008, 2009 and 2010
	4 December 2007	6,347	US$26.47	4 December 2010
Yerzhan Zhangaulov	29 December 2006	9,154	US$0.00	29 December 2007
Assia Syrgabekova	29 December 2006	12,190	US$0.00	29 December 2007

Principal Shareholders and/or GDR holders

According to the Listing Rules of Kazakhstan Stock Exchange JSC below are details of each shareholder who holds directly or indirectly 5% or more of the ordinary or preferred shares as of December 31, 2007:

SHARESHAREHOLDER	NUMBER OF ORDINARY SHARES	NUMBER OF PREFERENCE SHARES	TOTAL SHARE CAPITAL
Total number of shares issued [1]	70,220,935	4,136,107	74,357,042
Held by NC KMG	43,087,006	–	43,087,006
Percentage of total number of shares issued	61.36%	0.00%	57.95%

[1] Including GDRs purchased for implementation of the Company's Option Plan and trust GDRs (as of 31.12.2007 — 1,998,596 GDRs)

Interaction with Shareholders

The Board recognises the importance of constant effective communication with shareholders.

Besides the reports distributed between shareholders, there is a constant dialogue with institutional investors as well as general presentations to analysts at the time of the release of the annual and interim results. The shareholders are also offered an opportunity to personally visit production facilities each year.

Every six months general presentations are held which cover current financial results. Implementation of the above actions allows shareholders to keep abreast of current developments, and to react promptly to processes taking place.

The information that the shareholders may require is available on the Company's web-site www.kmgep.kz

Directors' service agreements and letters of appointment

Directors' Service Contracts

Uzakbay S. Karabalin is engaged by the Company as a member of the Board of Directors and Chairman. He was appointed Director at an Extraordinary General Meeting of the Shareholders on November 24, 2006. On November 28, 2006, the Board of Directors of the Company elected Mr. Karabalin as Chairman. Mr. Karabalin does not receive any fee in respect of his role as a member of the Board of Directors but is entitled to reimbursement for costs and expenses associated with the position.

Askar Balzhanov is engaged by the Company as a member of the Board of Directors and CEO of the Company. He was appointed CEO on June 7, 2006 and appointed a Director at a General Meeting of the Shareholders held on June 12, 2006. Mr. Balzhanov does not receive any fee in respect of his role as a member of the Board of Directors but is entitled to reimbursement for costs and expenses associated with the position.

Yerzhan Zhangaulov is engaged by the Company as a member of the Board of Directors. He was appointed Director at a General Meeting of the Shareholders held on June 12, 2006. Mr. Zhangaulov does not receive any fee in respect of his role as a member of the Board of Directors but is entitled to reimbursement for costs and expenses associated with the position.

Assia Syrgabekova's powers were terminated on January 23, 2008. The decision was reviewed and accepted by the EGM.

Zhannat Satubaldina is engaged by the Company as a member of the Board of Directors. She was appointed Director at a General Meeting of the Shareholders held on January 23, 2008. Ms. Satubaldina does not receive any fee in respect of her role as a member of the Board of Directors but is entitled to reimbursement for costs and expenses associated with the position.

Kenzhebek Ibrashev is engaged by the Company as a member of the Board of Directors. He was appointed Director at a General Meeting of the Shareholders held on October 30, 2007. Mr. Ibrashev does not receive any fee in respect of his role as a member of the Board of Directors but is entitled to reimbursement for cost and expense associated with the position.

Christopher Mackenzie was appointed as a Non-Executive Director on August 28, 2006 for the term of the Board of Directors' existence until March 30, 2007. After that he was re-elected together with the Board of Directors by the decision of EGM on April 12, 2007 for a 3-year term starting from March 30, 2007 until March 29, 2010.

Paul Manduca was appointed as a Non-Executive Director on August 28, 2006 for the term of the Board of Directors' existence until March 30, 2007. After that he was re-elected together with the Board of Directors by the decision of EGM on April 12, 2007 for a 3-year term starting from March 30, 2007 until March 29, 2010.

Edward T. Walshe was appointed as a Non-Executive Director on August 28, 2006 for the term of the Board of Directors' existence until March 30, 2007. After that he was re-elected together with the Board of Directors by the decision of EGM on April 12, 2007 for a 3-year term starting from March 30, 2007 until March 29, 2010.

Service contracts with members of the Management Board

All members of the Management Board have entered into service contracts with the Company which generally provide for business travel insurance, reimbursement for expenses incurred while travelling on the Company business, and for a car and driver. Other than set out in this section there are no existing or proposed service contracts between the Directors or members of the Management Board and any member of the Company.

United Kingdom tax considerations

The comments below are of a general nature and are based on current United Kingdom law and HM Revenue & Customs practice at the date of this document, both of which are subject to change, possibly with retrospective effect. Except as otherwise stated, the summary only discusses certain UK tax consequences of holding the shares or the GDRs (1) for individuals who are resident or ordinarily resident in the UK for tax purposes; (2) who are not resident for tax purposes in any other jurisdiction; and (3) who do not have a permanent establishment or fixed base in Kazakhstan with which the holding of the shares or the GDRs is connected ("UK holders").

In addition, the summary (1) only addresses the tax consequences for UK holders who hold the shares and the GDRs as capital assets, and does not address the tax consequences which may be relevant to certain other categories of UK holders, for example, dealers; (2) assumes that the UK holder does not either directly or indirectly control 10% or more of the voting power of the company; (3) assumes that a holder of the GDRs is beneficially entitled to the underlying shares and to the dividends on those shares; and (4) does not address the tax consequences of UK holders that are insurance companies, collective investment schemes or pensions connected with the Company.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular UK holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and HM Revenue & Customs practice, of the acquisition, ownership and disposal of the shares or the GDRs in their own particular circumstances.

Withholding Tax
Assuming that the income received under the GDRs does not have a United Kingdom source, there should be no United Kingdom withholding tax on payment of any such income. Dividend payments in respect of the shares will not be subject to UK withholding tax.

Taxation of Dividends
A UK holder that receives a dividend on the shares or the GDRs may be subject to UK income tax or corporation tax as the case may be, on the gross amount of any dividend paid before the deduction of any Kazakhstan withholding taxes, subject to the availability of any credit for Kazakhstan tax withheld. A UK holder who is an individual resident and domiciled in the UK will generally be subject to UK income tax on the dividend paid on the shares or the GDRs. A UK holder who is an individual resident but not domiciled in the UK will generally be subject to UK income tax on the dividend paid on the shares or the GDRs to the extent that the dividend is remitted, or treated as remitted, to the UK. A corporate UK holder will generally be subject to UK corporation tax on the dividend paid on the shares or the GDRs. A corporate holder of the shares or the GDRs that is not resident in the UK will generally be subject to UK corporation tax on the dividend paid on the shares or the GDRs where the shares or the GDRs in question are attributable to a trade carried on by the holder in the UK through a permanent establishment.

Taxation of Disposals or Deemed Disposals
The disposal by a UK holder of interests in the shares or the GDRs may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK holder's circumstances and subject to any available exemption or relief. A UK holder who is an individual and domiciled in the UK will generally be liable to UK capital gains tax on chargeable gains made on the disposal of an interest in the shares or the GDRs. A UK holder who is an individual but not domiciled, in the UK will generally be liable to UK capital gains tax to the extent that the chargeable gains made on the disposal of an interest in the shares or the GDRs are remitted or treated as remitted to the UK. In particular, dealings in the GDRs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to UK capital gains tax liability.

An individual holder of the shares or the GDRs who ceases to be resident or ordinarily resident in the UK for UK tax purposes for a period of less than five years and who disposes of such shares or GDRs during that period may also be liable on returning to the UK for UK tax on capital gains despite the fact that the individual may not be resident or ordinarily resident in the UK for UK tax purposes at the time of the disposal.

A corporate UK holder will generally be subject to UK corporation tax on any chargeable gain arising from a disposal of the shares or the GDRs.

Effect of Kazakhstan Withholding Taxes
Dividend payments in respect of the shares and the GDRs will be subject to Kazakhstan withholding taxes. A UK holder should generally be entitled to a credit for Kazakhstan tax properly withheld from such payments against such investor's liability to income tax or corporation tax on such amounts, subject to UK tax rules for calculation of such a credit.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")
Assuming that any document effecting a transfer of, or containing an agreement to transfer, one or more of the shares or the GDRs is neither (1) executed in the UK nor (2) relates to any property situate, or to any matter or thing done or to be done, in the UK (which may include involvement of UK bank accounts in payment mechanics), then no UK ad valorem stamp duty should be payable on such a document.

Even if a document effecting a transfer of, or containing an agreement to transfer, one or more of the shares or the GDRs is (1) executed in the UK and/or (2) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK ad valorem stamp duty on such a document unless the document is required for any purposes in the UK. If it is necessary to pay UK ad valorem stamp duty, it may also be necessary to pay interest and penalties.

As the GDRs relate to stock expressed in a currency other than sterling, no "bearer instrument" stamp duty should be payable on either the issue of the GDRs or any transfer of stock transferable by means of the GDRs.

Assuming that the shares are neither (1) registered in a register kept in the UK nor (2) paired with shares issued by a company incorporated in the UK, no SDRT should be payable in respect of any agreement to transfer the shares or the GDRs.

OPERATING AND FINANCIAL REVIEW

The following document is intended to assist in the understanding and assessment of the trends and significant changes in the Group's results of operations and financial condition.

Overview

JSC "KazMunaiGas EP" (the "Company" or "KMG EP") is a key subsidiary of the National Company KazMunaiGas ("NC KMG") which owns approximately 61% of the Company's ordinary shares. The Company's principal business is exploration for and production of oil onshore in Kazakhstan. The Company conducts its core production activities at 46 oil and gas fields including production branch "Uzenmunaigas" (hereinafter – UMG) – 7 fields and production branch "Embamunaigas" (hereinafter – EMG) – 39 fields.

In 2007 the Company has significantly expanded its activities through two acquisitions: a 50% share in JV Kazgermunai LLP ("Kazgermunai" or KGM) and a 50% share in CCEL (CITIC Canada Energy Limited), the 100% owner of CCPL (formerly Nations Energy Company Ltd.), with its principal asset - the JSC "Karazhanbasmunai"). The combined impact of these two acquisitions on the daily production, based on the Company's working interest and the average daily production of KMG EP, was approximately 48 kbopd or 25% of the Company's core production of 192 kbopd. The impact of the acquisitions on the proved and probable (2P) reserves is estimated to be approximately 20% of the reserves attributed to the core fields.

The above two acquisitions are explained in more details in the section Overview of Associates' Operations. Elsewhere in this Operating and Financial Review the discussion is limited to the core assets of the Company unless indicated otherwise.

Business Environment and Outlook

Economic factors affecting the Company's financial performance during the year under review include movements in crude oil prices, foreign exchange, particularly the Tenge-US dollar rate, and domestic inflation rates.

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

Business Environment in 2007

The price for Brent averaged US$72.39 per barrel in 2007, an increase of US$7.25 per barrel from 2006 average price.

		YEAR ENDED DECEMER 31	
AVERAGE FOR THE YEAR INDICATED	2007 (US$/BBL)	2006 (US$/BBL)	CHANGE %
Brent	72.39	65.14	11%
CPC blend	73.02	65.23	12%
Urals	69.53	60.99	14%

Most of the Company's revenues and borrowings are denominated in US dollars, while most of the Company's operating expenses are denominated in Tenge. The impact of foreign currency fluctuations on the Company's results of operations depends on the Company's net foreign currency position and the magnitude and direction of the fluctuation.

Tenge-US dollar exchange rates and domestic inflation, as measured by the consumer price index ("CPI") for the periods presented, were as follows:

			YEAR ENDED DECEMBER 31
AVERAGE FOR THE YEAR INDICATED	2007 (US$/BBL)	2006 (US$/BBL)	CHANGE %
KZT/US$ average exchange rate	122.55	126.09	-3%
CPI	18.8%	8.4%	124%
Source: National Bank of Kazakhstan			

In 2007 Tenge has strengthened against the US dollar from 126.09 KZT/US$ in 2006 to 122.55 KZT/US$ in 2007. The CPI has reached the level of 18.8% in 2007, compared to 8.4% in 2006. The appreciation of the Tenge during 2007 has tended to dampen the positive effect of higher crude oil prices and to depress the Company's revenue expressed in Tenge. In addition, most of the Company's expenses are affected by the increased local inflation rate which may not be offset by inflation related increases in the Company's revenues.

Outlook for Business Environment and Operating Risks in 2008

The crude oil price environment remains favourable in early 2008. WTI futures at NYMEX reached a record level of almost US$108 per barrel on March 10, 2008.

During the first two months of 2008 the Tenge continued to strengthen against the US dollar and averaged 120.34 Tenge/US$ for the period, an appreciation of more than 2.21 Tenge above the 2007 average rate of 122.55 Tenge/US$. The National Bank of Kazakhstan forecasts CPI for 2008 to be between 7.9% and 9.3% which is significantly lower than the actual level of 18.8% in 2007. The CPI increased by 1.1% and 0.8% for January and February 2008, respectively, to the same level as in the respective months of 2007.

At the time of this review , the Government of Kazakhstan is considering introduction of customs duties on the export of crude oil as well as a revision of the tax code. As a result of these changes the fiscal burden on the Company may increase.

The Company does not expect significant changes in route capacities, availability of production, finance and human resources. From 1 January 2008 the tariff for crude oil transportation for export by the UAS pipeline in Kazakhstan increased to 24.6 US$/tonne per 1,000 kilometers, or 24.9%. As a result of such increases, transportation expenses by the UAS pipeline are expected to rise by 13%.

An overview of the principal market risks can be found at the end of this Operating and Financial Review. In addition, the Company's financial risks are discussed in Note 19 of the audited consolidated financial statements for the year ended December 31, 2007.

Operational activity in 2007

The Company achieved its targeted production goals for 2007 with oil production of 9.53 million tonnes which was at the same level as 2006 oil production. Of this total oil production 6.72 million tonnes were produced by UMG and 2.81 million tonnes by EMG.

CRUDE OIL PRODUCTION (MILLION TONNES)			
PRODUCTION BRANCH	2007 (US$/BBL)	2006 (US$/BBL)	CHANGE %
Uzenmunaigas	6.72	6.73	-0.1%
Embamunaigas	12.81	2.80	0.4%
Total	9.53	9.53	-

(1) This document is prepared on the date of publication of KMG EP 2007 Financial Statements in March 2008. On April 8, 2008 the Government of Kazakhstan officially declared the introduction of oil export duty that will come into force on May 17, 2008.

As at December 31, 2007 the Company's total well stock consisted of 5,925 production wells and 1,682 injection wells.

The majority of the Company's existing oilfields are at the mature stage of development, characterized by high watercut and oil production declines. The Company performed production drilling, workover operations, enhanced recovery and sidetrack drilling in order to mitigate natural production decline and to maintain the planned volume of oil production in 2007.

In 2007 the Company constructed 179 wells which contributed 290.01 thousand tonnes to production. Workovers were conducted on 1,137 wells and provided an incremental production of 541.74 thousand tonnes. Sidetrack drilling operations were performed on 14 wells resulting in an incremental production of 8.94 thousand tonnes. The Company applied enhanced recovery techniques, including hydro-fracturing and polymer systems. As a result an additional 561.23 thousand tonnes were recovered following 396 well operations.

In 2007 the Company conducted exploration activities on the following blocks/fields: Taisoigan (Uas, Kondybai), R-9 (Koikara, Akingen North, Akingen West), Liman (Baksai, Novobogatinskiy, Sorochinka etc.), territories adjacent to the Uzen and Karamandybas fields, S. Nurzhanov, Prorva West and Trias complex on the Uzen and Karamandybas fields.

During 2007 five exploration wells were completed, none of which were dry. Overall exploration drilling in 2007 amounted to 6,060 meters.

The 2D seismic field surveys were performed over 2,600 running km on the Uzen and Karamandybas fields, and the Liman and R-9 blocks. Seismic surveys on the Uzen and Karamandybas fields provided encouraging data including the identification of prospective horizons in the following sectors: Uzen East, Chukuroy, Tenge West and an area between the Karamandybas and Beke-Bashkuduk fields. On block R-9 prospective sectors on the south and north wings of the Koikara salt dome and the western flank of the Western Kyzylkol salt dome were identified. At the Liman block a prospective sector was identified at the Novobogatinskiy salt dome.

Planned activity in 2008

Crude oil production in 2008 is expected to reach 9.5 million tonnes, excluding production by KGM and Karazhabasmunai, approximately the same level as in 2007. In order to offset the natural production decline in 2008 the Company is planning to drill 162 development wells, as well as to perform operations on the existing wells, including reservoir recovery improvements, well workovers, bottomhole zone treatment and the rehabilitation of previously abandoned wells.

In 2008 the Company is planning increased exploration activities in prospective blocks focusing on identification of geological structures and drilling candidates. In particular, the Company is planning exploration works on the R-9, Taisoigan and Liman blocks and on territories adjacent to the Uzen and Karamandybas fields. In addition, supplementary exploration works on the Nurzhanov North and Kamyshitovy South-West fields are planned. In 2008 850 km of 2D seismic field surveys are planned. The drilling of eight exploration and structural wells is planned in 2008, with a total drilling depth of 12,600 meters.

The Company's consolidated capital expenditures in 2008 are expected to be KZT45 billion (US$367 million).

The Company is planning to continue implementing its acquisition strategy in 2008.

On July 3, 2007 the Company and NC KMG signed a protocol of intentions to buy a 33% stake in JSC PetroKazakhstan Inc. (PKZ), a company developing oil and gas fields in the Turgai basin in Central Kazakhstan with annual production of 6.8 million tonnes of crude oil in 2007. In the first quarter 2008 the Company initiated due diligence and valuation of the asset and expects this acquisition to be completed in 2008.

The Company is also planning to acquire a 50% stake in Kazakhoil Aktobe and a 51% stake in Kazakhturkmunai from NC KMG. The two companies are involved in crude oil exploration and production in Western Kazakhstan. The combined total production of the two entities (before working interest adjustments) was over 1 million tonnes in 2007.

The Company is interested in other producing assets as well as exploration blocks that become available in Kazakhstan and will consider such investment opportunities as they become available.

Considering the possible increase of the fiscal burden the Company may revise its production and investment plans to take into account a reduction in cash flow available for operating and investment activities.

Results of Operations

Amounts shown in US dollars are included solely for the convenience of the reader at the average rate over the applicable period. This rate is based on information derived from the consolidated statements of income, cash flow and from the consolidated balance sheets. See "Business Environment and Outlook".

			YEAR ENDED DECEMBER 31	
AVERAGE FOR THE YEAR INDICATED	2007 (US$ THOUSANDS) UNAUDITED	2007 (KZT THOUSANDS) AUDITED	2006 (US$ THOUSANDS) UNAUDITED	2006 (KZT THOUSANDS) AUDITED
Revenue	3,973,683	486,974,879	3,269,155	412,207,787
Operating expenses	1,720,396	210,834,485	1,533,808	193,397,788
Operating expenses (KZT/US$ per bbl produced)[1]	24,53	3,006	21,87	2,757
Profit from operations	2,253,288	276,140,394	1,735,348	218,809,999
Net income[2]	1,282,081	157,119,081	972,014	122,561,217
Oil Production and other cost[3]	716,068	87,754,184	698,132	88,027,440
Oil Production and other costs (KZT/US$ per bbl produced)[1][3]	10,21	1,251	9,95	1,255
Capital expenditures	327,176	40,095,396	390,876	49,285,538
Consolidated net cash	3,070,380	369,366,740	1,821,812	231,370,078

[1] Converted at 7.36 barrels per tonne of crude oil.

[2] Profit for the period.

[3] Oil production and other costs represent an aggregate of the following operating expenses line items (as presented in the Company's audited consolidated financial information for the year ended December 31, 2007, (see Company website for a copy): employee costs, materials expense, repair, maintenance and other services, energy and other costs. These include costs related to gas producing and processing activities, oil processing activities and general and administrative costs which are not directly related to oil production and which increased the US dollar cost per barrel by approximately US$1.66 to US$1.58 for both the year ended December 31, 2007 and for the year ended December 31, 2006. Oil production and other costs exclude royalties (production tax) and all other taxes.

Continuing Operations

Transport Routes

The Company delivers its crude oil through three principal routes: export markets via the pipeline owned by the Caspian Pipeline Consortium (hereinafter – CPC), Uzen-Atyrau-Samara pipeline (hereinafter – UAS) owned by JSC KazTransOil (in Kazakhstan) and the domestic market, as outlined in the following table:

	YEAR ENDED DECEMBER 31	
	2007	2006
Exports via UAS		
Volume of crude oil (in million tonnes)	5.2	5.1
% total crude oil sales volume	55%	55%
% total of crude oil sales	64%	66%
Exports via CPC		
Volume of crude oil (in million tonnes)	2.1	1.7
% total crude oil sales volume	22%	18%
% total of crude oil sales	28%	23%
Other		
Volume of crude oil (in thousand tonnes)[1]	2.2	2.6
% total crude oil sales volume	23%	27%
% total sales of oil and oil products	8%	11%

[1] Volume of crude oil delivered for processing (in 2006) and domestic crude oil sales.

Relative profitability of the two export routes depends on the quality of oil shipped by the Company, prevailing international market prices and applicable pipeline tariffs. Specifically, CPC tends to be more advantageous for shipments of higher quality crude oil in a higher oil price environment even after taking into account quality bank payments. Although it has been more profitable for the Company in recent periods to ship crude oil through the CPC pipeline rather than the UAS pipeline, the Ministry of Energy and Mineral Resources of Kazakhstan (hereinafter – MEMR) controls the volumes of crude oil that can be shipped through these pipelines and the Company's ability to allocate exported volume to different pipelines is therefore constrained.

Revenue

The following table shows sales volumes and realised prices for the periods ended December 31, 2007 and 2006:

		YEAR ENDED DECEMBER 31
	2007 (KZT THOUSANDS, UNLESS OTHERWISE STATED)	2006
EXPORT SALES OF CRUDE OIL		
UAS pipeline		
Net sales	305,100,869	266,393,555
Volume (in thousand tonnes)	5,237	5,075
Average price (KZT/tonne)	58,260	52,486
Average price (US$/bbl)(1)	65.75	57.57
CPC pipeline		
Net sales	132,450,248	92,993,153
Volume (in thousand tonnes)	2,117	1,663
Average price (KZT/tonne)	62,559	55,903
Average price (US$/bbl)(1)	70.61	61.32
Total sales of crude oil—exported	437,551,117	359,386,708
OTHER SALES OF CRUDE OIL AND OIL PRODUCTS		
Net domestic sales of crude oil and total oil products	37,401,142	44,705,552
Volume (in thousand tonnes)(2)	2,230	2,551
Average price (KZT/tonne)	16,768	17,525
Average price (US$/bbl)(1)	18.93	19.22
Total domestic sales of crude oil and total oil product sales	37,401,142	44,705,552
TOTAL SALES OF CRUDE OIL AND OIL PRODUCTS		
Total net sales of crude oil and oil products	474,952,259	404,092,260
Total volume (in thousand tonnes)	9,585	9,290
Average price (KZT/tonne)	49,554	43,498
Average price (US$/bbl)	55,93	47,71
Other sales	12,022,620	8,115,527
Total revenue	486,974,879	412,207,787

(1) Converted at 7.23 barrels per tonne of crude oil.
(2) Volume of crude oil delivered for processing (in 2006) and domestic crude oil sales.

Sales of crude oil exported via the UAS pipeline in 2007 remained relatively similar to 2006 levels. Volumes of domestic sales of crude oil and oil products decreased compared to 2006. At the same time export volumes via the CPC pipeline were significantly increased.

In 2007 sales of exported crude oil via the UAS pipeline increased by KZT 38.7 billion, or 14.5%. The increase in sales in 2007 compared to 2006 was due to increases in both volume and price.

Sales of crude oil via the CPC pipeline increased by KZT39.5 billion, or 42.4%, in 2007 compared to 2006. The increase in sales in 2007 was due to increase in volumes and prices.

Other sales of oil and oil products decreased by KZT 7.3 billion, or 16.3%, in 2007 due to the decrease in volumes of domestic sales of crude oil. The following table shows the Company's realised sales prices adjusted for oil and oil products' transportation as well as other expenses for the periods ended December 31, 2007 and 2006:

	YEAR ENDED DECEMBER 31, 2007		
	UAS (US$ BBL)	CPC (US$ BBL)	OTHER (US$ BBL)
Benchmark end-market quote[1]	69.53	73.02	-
Realized price[2]	65.75	70.61	18.93
Transportation	(6.13)	(6.89)	(0.83)
Sales commissions	(0.07)	(0.07)	-
Processing fees	-	-	-
Adjusted realised price	59.55	63.65	18.10

[1]The following quoted prices are used as benchmarks: Urals blend (FOB Odessa) for shipments through the UAS pipeline and CPC blend (FOB Novorossiysk) for shipments through the CPC pipeline.
[2]Converted at 7.23 barrels per tonne of crude oil.

	YEAR ENDED DECEMBER 31, 2006		
	UAS (US$ BBL)	CPC (US$ BBL)	OTHER (US$ BBL)
Benchmark end-market quote[1]	60.99	65.23	-
Realized price[2]	57.57	61.32	19.22
Transportation	(6.16)	(5.93)	(0.80)
Sales commissions	(0.07)	(0.07)	(0.02)
Processing fees	-	-	(0.55)
Adjusted realised price	51.34	55.32	17.85

[1]The following quoted prices are used as benchmarks: Urals blend (FOB Odessa) for shipments through the UAS pipeline and CPC blend (FOB Novorossiysk) for shipments through the CPC pipeline.
[2]Converted at 7.23 barrels per tonne of crude oil.

The difference between the benchmark quote and realized price on the sales through the CPC pipeline mainly comprises CPC quality bank payments, port charges, customs fees, certain sales commissions and averaging effects. The difference between the benchmark quote and realized price on the sales through the UAS pipeline mainly comprises port charges, customs fees and certain sales commissions. The price received for other sales of oil and oil products is determined primarily by agreement with NC KMG; this price is significantly below market prices.

Operating Expenses

The Company's operating expenses relate primarily to the cost of producing crude oil. The following table presents the components of the Company's operating expenses:

		YEAR ENDED DECEMBER 31	
	2007 (KZT THOUSANDS)	2006 (KZT THOUSANDS)	CHANGE (KZT THOUSANDS)
Transportation	48,247,039	44,060,096	4,186,943
Employee benefits	39,389,555	37,512,548	1,877,007
Depreciation, depletion and amortization	34,663,502	30,843,711	3,819,791
Repairs, maintenance and other services	20,496,194	18,988,262	1,507,932
Royalties	17,948,868	15,850,891	2,097,977
Materials	13,878,706	11,661,063	2,217,643
Management fees and sales commissions	8,002,198	7,678,179	324,019
Energy	7,633,700	7,009,945	623,755
Taxes other than on income	4,830,875	8,088,268	(3,257,393)
Social infrastructure projects	3,660,170	7,850,402	(4,190,232)
Loss on disposal of fixed assets	2,992,114	2,062,402	929,712
Fines and penalties	2,735,535	363,994	2,371,541
Release of environmental fine	-	(11,427,662)	11,427,662
Other	6,356,029	12,855,622	(6,499,593)
Total operating expenses	210,834,485	193,397,788	17,436,697

Operating expenses in 2007 increased by KZT17.4 billion, or 9%, mainly due to the release of a provision for an environmental fine of KZT11.4 billion in the first half of 2006. Other factors included an increase in transportation, depreciation, depletion and amortization, fines and penalties and stock option expenses. Excluding the environmental fine reversal, operating expenses were 3% or 6.0bn Tenge higher in 2007 versus 2006.

The most significant amounts and movements are explained as follows:

Transportation expenses for 2007 went up by 10% mostly due to the KZT3.9 billion increase in transportation cost of oil exported as a result of the 9% increase in export volumes of oil supplied and a rise in transportation tariffs by the CPC pipeline of 25.7% from October 1, 2007.

Employee benefit expenses for 2007 increased by 5% due to an accrual of share based option expenses to the amount of KZT1.6 billion and the KZT415 million increase due to the implementation of the new health insurance scheme for employees.

Depreciation, depletion and amortization (DD&A) increased by 12%. The main reasons were: recalculation of assets retirement obligation DD&A and reversal of DD&A excess accrual in 2005 due to changes in reserve estimates in 2006 of KZT1.5 billion. The KZT1.5 billion increase in DD&A expenses due to significant growth of fixed assets' book value, resulting from an acquisition of fixed assets in 2H 2006 and the KZT433 million increase of amortization of the Liman license due to the fact that in 2007 the license was amortised for twelve months instead of eleven months as in 2006.

Repairs, maintenance and other service expenses and materials expenses increased in 2007 mainly due to growth of operations completed for third parties by subsidiaries.

Royalty expenses increased by KZT2.0 billion, or 13%, in 2007. This increase is due to the general increase of average market prices for crude oil by US$7.25 and growth of the average rate of royalty payments by 1.4% in 2007.

Management fees and commissions are paid according to the management services agreement with NC KazMunaiGaz adjusted for budgeted inflation rate of 7% (KZT7.49 billion in 2007 comparing to KZT7.00 billion in 2006).

Energy expenses for 2007 went up as a result of an increase in average tariffs of 17%.

Taxes other than on income decreased by 40% in 2007 mainly due to the change in tax legislation, which now allows the Company to issue invoices on domestic supplies of crude oil at the stabilised VAT rate (the expense of funding the difference in VAT rates in 2006 was in the amount of KZT1.9 billion) and the derecognizing of reserves for tolling VAT in the amount of KZT2.1 billion in 2007. The effect of these factors was partly diminished by the growth of the property tax expense (KZT689 million) due to growth of fixed assets book value in 2007 and road fund tax expense (KZT301 million) due to growth of the Company' aggregate gross revenue in 2007.

The decrease in social infrastructure expenses in 2007 was mainly due to a reduction in financing of social construction projects.

The increase in fines and penalties expenses in 2007 was due to the accrual of transfer pricing reserve for fines and penalties for corporate income tax, excess profit tax and royalties of KZT1.6 billion, accruals of fines on excess profit tax for the period 2002-2004 at PB EMG in the amount of KZT608 million and accrual of reserve for social tax in the amount of KZT317 million.

Other expenses decreased by 51% in 2007 primarily due to a change in crude oil balance for a total amount of KZT2.19 billion; a decrease of cost of consulting services in 2007 in comparison with significant expenses on consulting services in 2006 due to the IPO for the amount KZT2.08 billion; a decrease of processing expenses in 2007 of KZT1.22 billion due to the shift of KMG EP from processing of oil products to direct sales of crude oil on domestic market.

Finance Income (Expense)

The Company's financial income in each of the periods relates mainly to interest on deposits. The Company's financial expense in each of the periods mainly comprises interest on borrowings and the unwinding of a discount relating to asset retirement obligations.
The net financial income for 2007 was KZT14.1 billion in comparison with a net financial loss of KZT0.1 billion in 2006. This was mainly due to the KZT14.7 billion growth in income which was partly offset by the KZT4.0 billion loss caused by the appreciation of KZT against US$ from 126.09 KZT/US$ average exchange rate for 2006 to 122.55 KZT/US$ for 2007.

Income Tax Expense

Income tax expenses in 2007 increased by KZT54.7 billion, or 57%, to KZT150.5 billion. The Company's overall effective tax rate increased from 44% in 2006 to 49% in 2007.

	YEAR ENDED DECEMBER 31	
NAME	2007 (KZT THOUSANDS)	2006 (KZT THOUSANDS)
Profit before tax	307,630,358	218,366,330
Income tax	150,511,277	95,805,113
Effective tax rate	49%	44%

The increase in the overall income tax rate in 2007, compared to the 2006, was a result of obtaining clarification from the relevant Government authorities that the maximum excess profit tax rate payable, for its Uzen field, should be calculated at 30% instead of the 50% rate used in previous years. As a result 2006 year contains the cumulative effect of a decrease in EPT expense for the several previous periods.

The Company's non-deductible items for tax purposes relate primarily to non-core activities, as defined by the relevant hydrocarbon contracts and tax legislation, and IFRS adjustments that are not allowed for deduction in the tax legislation applicable to the Company.

The normalized effective tax rate for both 2006 and 2007 remained flat and was approximately 51%. Normalized effective tax rate is calculated by removing extraordinary items such as: the EPT one-off decrease in 2006 and non-taxable revenue from KazGerMunai participation under equity method.

Profit for the period

As a result of the factors described above, in 2007 the Company's profit for the period increased by 28% to KZT157.1 billion.

Overview of Associates' Operations

JV Kazgermunai LLP

JV Kazgermunai LLP' key financial and operational indicators are shown below:

	YEAR ENDED DECEMBER 31		
	2007	2006	CHANGE %
Revenue, US$ thousands	1,250,766	1,038,304	20%
Operating expenses, US$ thousands	267,316	261,601	2%
Income tax expense, US$ thousands	424,059	313,574	35%
Net income, US$ thousands	573,255	468,360	22%
Crude oil production, thousands tonnes	3,055	2,884	6%
Crude oil sales, thousands tonnes	2,717	2,653	2%
Export via Aktau	1,435	1,680	-15%
Export via Kazakh-Chinese pipeline	932	295	216%
Other export	-	358	n/a
Domestic market	349	320	9%

The Company's share (50%) in JV Kazgermunai LLP oil production in 2007 was 1,062 thousand tonnes. The share of results of the joint venture included in the consolidated financial statements of the Company in 2007, is a profit in the amount of KZT 17.9 billion, representing a 50% share of Kazgermunai 27.6bn Tenge net income for the corresponding period, adjusted for non-cash fair value differences, reflecting IFRS accounting of the Kazgermunai acquisition. KMG EP received $300 million and a further $75 million in dividends from Kazgermunai in November, 2007 and February, 2008 respectively.

In 2008 JV Kazgermunai LLP plans to produce 3.1 million tonnes of crude oil and to drill 18 development and 3 exploration wells. Capital expenditures in 2008 are expected to be US$176 million.

CCEL

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 a holding company, CCEL, whose investments are involved in oil and natural gas production in western Kazakhstan, in particular from the Karazhanbas field. The participation was acquired for fifty US cents. In addition, the Company has invested US$150 million of its own funds and agreed that a further US$782.5 million (which includes the original obligation plus interest on that amount of Libor plus 1.45% per annum) will be paid from the loan from CITIC and repaid out of CCEL cash flows without recourse to KMG EP. The company is entitled to a US$26.2 million priority annual return on its US$150 million investment.

The Company has recognized the amount of US$150 million (18, 478 million Tenge) as a receivable from jointly controlled entity.

CCEL' key financial and operational indicators are shown below:

	YEAR ENDED DECEMBER 31		
	2007	2006	CHANGE %
Revenue, KZT thousands	94,523,178	103,519,617	-9%
Operating expenses, KZT thousands	44,035,141	41,712,591	6%
Income tax expense, KZT thousands	24,039,341	30,556,046	-21%
Net income, KZT thousands	22,254,169	28,555,044	-22%
Crude oil production, thousands tonnes	1,942	2,324	-16%
Crude oil sales, thousands tonnes	1,884	2,331	-19%
Export via Aktau	1,654	2,071	-20%
Domestic market	230	260	-12%

In 2008 CCEL plans to produce 2.1 million tonnes of crude oil and drill and place in production 250 development wells. Capital expenditures in 2008 are expected to be US$220 million.

Liquidity and Capital Resources

Summary of Cash Flows

The Company's liquidity requirements arise principally from the need to finance its existing operations (working capital) and the need to finance investment (capital expenditure). The management believes that the Company has adequate liquidity to meet its short-term obligations.

	YEAR ENDED DECEMBER 31				
	2007 (US$ THOUSANDS) UNAUDITED	2007 (KZT THOUSANDS) AUDITED	2006 (US$ THOUSANDS) UNAUDITED	2006 (KZT THOUSANDS) AUDITED	2007/2006 CHANGE %
Net cash generated from operating activities	1,411,354	172,961,468	969,232	122,210,461	46%
Net cash generated from investing activities	(1,343,768)	(164,678,826)	(2,366,480)	(298,389,467)	-43%
Net cash used in financing activities	(366,985)	(44,974,056)	1,738,914	219,259,624	-121%

In 2007 net cash generated from operating activities was KZT173.0 billion, KZT50.8 billion more compared to 2006. This increase was mainly due to the increase of cash generated from sales of crude oil to KZT59.2 billion.

Net cash used in investing activities decreased from KZT298.4 billion in 2006 to KZT164.6 billion in 2007. The decrease was due to following:

- KZT60.5 billion increase in cash inflows from return of loan repayments from related parties;
- KZT36.2 billion increase of cash inflows from dividends received from joint ventures and associates;
- KZT6.8 billion increase in cash inflows from interest received;
- KZT6.7 billion increase in cash inflows from disposal of subsidiaries;
- KZT118.3 billion reduction of cash outflows for loan granted to related parties;
- KZT32.0 billion decrease in net cash outflows for purchase of financial assets held to maturity, and
- KZT18.0 billion reduction of cash outflows for purchase of property, plant and equipment and intangible assets.

These were partly offset by a KZT137.2 billion cash outflow for acquisition stakes in JV Kazgermunai LLP and CCEL and the KZT6.8 billion increase of cash outflows for purchases of available-for-sale financial assets.

In 2007 and 2006, the Company's capital expenditures, calculated on a cash basis, was KZT40.1 billion and KZT49.3 billion which represented 8.2% and 12.0% of sales respectively.

Net cash outflows from financing activities were KZT45.0 billion in 2007 compared to inflows of KZT219.3 billion in 2006. The increase of cash outflow was mainly due to IPO proceeds in 2006, net of transaction costs, which amounted to about KZT144.6 billion along with the proceeds from bonds issued by Munaishy Finance B.V.

Borrowings

The following table below sets forth the Company's net cash:

	AS AT DECEMBER 31	
	2007 (KZT THOUSANDS)	2006 (KZT THOUSANDS)
Current portion	18,713,954	21,695,307
Maturity over 1 year	14,135,480	37,972,387
Total borrowings	32,849,434	59,667,694
Cash and cash equivalents	21,658,451	62,459,415
Other current financial assets[1]	378,603,924	226,523,024
Non-current financial assets[1]	1,953,799	2,055,333
Net cash	369,366,740	231,370,078

[1] Current and non-current financial assets, respectively, which comprise US dollar and Tenge-denominated deposits and bonds and exclude loans receivable from NC KMG, as at December 31, 2006 of KZT100.8 billion.

Esomet Arrangement. On August 16, 2004 the Company entered into a crude oil sale agreement with Esomet and received a US$600 million long term advance with interest at Libor plus 1.75% per annum. On July 24, 2006 Esomet and the Company amended the Esomet Arrangement to include an additional payment of US$50.0 million, a reduction of the interest margin from 1.75% to 1.1% and release of the existing NC KMG guarantee. As of December 31, 2007 the outstanding principal amount owned by the Company to Esomet amounted to US$260 million, or approximately KZT31 billion.

Risks

The Company has previously described the risks and uncertainties that impact its business in the Prospectus which was published in relation to the initial public offering of ordinary shares and GDRs of the Company dated 29 September, 2006. Notes 19 to the IFRS Consolidated Financial Statements of the Company for 2007 contain description of the principal financial risks.

Below is the additional list of the risks which the Company believes are principal but not exhaustive.

Risk Factors relating to the global financial crisis

As a result of the global financial crisis, Kazakhstani banks suffer from a lack of liquidity. Foreign sources of financing which are primary ones for resident banks have suddenly increased loan interest rates, and have reduced the amounts of available loans.

In the process of its investment activity, the Company, in general, deposits cash to Kazakhstani banks (about USD3.5 billion). The Company's management is periodically reviews financial statements and credit rating of such banks, and conducts transactions with those resident or non-resident banks rated at least BB by Standard & Poors for long-term deposits in USD.

The Company's management believes that the recent global financial crisis and the lowering of the credit ratings of local banks that followed create an excessive credit risk for the Company. As of the end of 2007, the Company has no reserve for investment depreciation, reflecting the risks the Company may be subjected to as a result of low liquidity level of local banks.

To manage the above stated risk the Company develops and plans to introduce the Treasury Policy.

Legal Risks Related to Changes in the Tax and Customs Legislation

Currently, the Company calculates and pays taxes and other levies according to the current sub-soil use contracts. The Government is considering the possibility of changing the tax treatment of oil companies, in particular, by introducing or changing oil export duties as well as by modifying the Tax Code of the Republic of Kazakhstan.

Some individual contracts of the Company, including the Uzen development contract, lack any obvious provision on unchangeable customs duties. Besides that, the Company is unaware of whether the current regime of tax stability in respect of the sub-soil use contracts will remain after the modification of the Tax Code. Therefore, there is a risk of tax and customs regimes alteration that may lead to increase of the Company's fiscal burden, decrease of its financial results and shortage of the available investment resources. Determining the taxation level as well as other aspects of oil industry regulation is Government prerogative and the Company will follow all the applicable requirements and legislation. Depending on tax and customs modifications the Company may analyze its operational and investment plans and change them accordingly if necessary.

Additional Agreement #2 to Contract No 40 of 31 May 1996 on Uzen and Karamandybas oil field development in Mangystau Oblast, Republic of Kazakhstan, has been effective since January 1, 2008. The Agreement envisages a number of amendments concerning the rates and calculation of some taxes (road fund taxes; social tax, royalty, excess profit tax, etc.). The Ministry of Finance of the Republic of Kazakhstan envisages a breach of the balance of economic interests in these amendments and invited the Company to participate in additional negotiations on this issue. However, according to the information available to the Company, the Ministry of Finance has not provided either Company or the Ministry of Energy and Mineral Resources with any calculations or recommendations on the restoring of the allegedly broken balance of economic interests. Currently, no binding decisions have been made by the authorities on this issue. The Company believes that any amendments made by Agreement #2 are economically relevant and legally justified and there is no basis to cancel or change any provisions in Agreement #2.

In case of the Agreement # 2, cancellation the Company may have to recalculate the taxes paid in the past periods, in particularly EPT that had significant negative effect on the Company's financial results.

Risk connected with the purchase of 50% stake in CCEL (JSC Karazhanbasmunai)

On January 28, 2008 the Agency of Economic and Corruption Crime Control of the Republic of Kazakhstan (fiscal police) initiated criminal proceedings against previous owners of Nations Energy Company Ltd (NECL) for tax evasion in the sale of 100% stake in NECL to CITIC Canada Energy Ltd. NECL (renamed afterwards CITIC Canada Petroleum Ltd.) owns 100% stake of JSC Karazhanbasmunai voting shares. In December 28, 2006 the Multi-agency and Expert Commission of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan approved the transaction between CITIC Group and NECL owners according to Subsoil legislation (Article 71) and Oil legislation (Article 53) on condition that the seller – the previous owners of NECL should pay capital gain tax arising from the transaction. Up to date the abovementioned condition has not been executed. In case the capital gain tax is not paid, there is a theoretical possibility of the transaction being cancelled between the owners of NECL and CITIC Group or one way cancellation of sub-soil use contract Karazhambasmunai from MEMR side.

The Agency of Economic and Corruption Crime Control of the Republic of Kazakhstan (fiscal police) also initiated criminal proceedings against previous management of Nations Energy Company Ltd (NECL) for overproduction of crude oil in 2002 in the amount of 463, 523 tonnes valued at 9.1 bn tenge. The investigation has not yet been completed and the amount of 9.1 bn tenge of income allegedly obtained in violation of laws and regulations is therefore preliminary. So far, the former managers of NECL under investigation have not been charged or found guilty by a court decision. KBM denies that it obtained illicit income and does not accept the amount allegedly unpaid to the State. Moreover, given that KBM paid taxes, in full, on the entire volume of the produced crude oil, the state received additional tax payments due to the overproduction of crude oil. The Company believes that under such circumstances it is unlikely that KBM will be found liable for any compensation under civil law.

Should the authorities be able to successfully claim any significant amounts from Karazhanbasmunai, the Company's return from its investment in KBM may be reduced accordingly.

Risk Factors relating to exploration activities

In July 2007, an Intergovernmental Agreement was signed between the Republic of Kazakhstan and the Russian Federation on renewal of the lease of the site for military training, Russian GLITS 929, which partially crosses the territory of the Taisogan exploration block. Therefore, oil operations are restricted at the area of the Taisogan exploration block, which is at the same time being used for military training purposes, and the capital works on construction of surface field facilities inside the military training area (which is de facto the territory of the Russian Federation) are prohibited by the Land Management Committee of the Republic of Kazakhstan. Therefore, there is a risk that in the event of an oil field discovery within the military training area it may not be developed for the reason stated above.

The Company is conducting exploration works on two blocks (Liman and R-9) which, in the closing stages of the project, provides for drilling of exploration wells. Subject to obtained G&G survey results wells are to be drilled at 5000-7000m depth setting conditions meaning a high cost for exploration wells, that may run up to $50 million. For mitigation of the risk connected with exploration works there is a set of G&G explorations conducted besides the traditional seismic tests which include: geochemical surveys, high-resolution electric explorations, as well as special methods for seismic and gravity data processing. However, according to the world practice in exploration there is always a risk of non-commercial discovery and/or carrying a dry hole.

Environmental risk

The requirements on associated gas recovery, oil contamination disposal and waste management have been strengthened due to the reforms in the Kazakhstan environmental legislation.

As a result of the increase of gas flaring rates 8-10 fold on average, the recurring fees payable by the Company as well as by both Kazgermunai and Karazhanbasmunai for pollutant emissions have increased.

Currently the Government is considering the issue of the replacement of numerous payments for environmental emissions which are subject to annual re-approval by the introduction of a single environmental tax that may significantly increase the Company' s payments, associated with the environment.

As of today the Company cannot assess risks related to environmental tax payments.

The Company and its affiliates have obligations on the recovery of oil contaminated territories including oil-storage pits and reduction of waste generation and accumulation volumes. In order to meet the obligations the Company develops annual environmental management plans and other programs agreed with authorized environmental agencies. These measures allow the reduction of the risk of claims by supervision authorities.

In view of the fact that the environmental legislation is continuing to develop, the Company is not able to foresee possible amendments, however, all the current environmental risks have been identified, reviewed and monitored in a timely manner.

Personnel Risk

Based on some reviews, the Company's current salary level is lower than that of the companies comparable by the capitalization level.

This situation may result in outflow of highly skilled personnel in the near future. To reduce this risk, the Company introduced an incentive scheme to increase salaries in order to motivate and retain highly skilled personnel.

Today, a number of the Company's specialists have been certified by leading international educational centres: 2 CFM (Certified Financial Manager), 1 CFA (Certified Financial Analyst), 1 CMA (Certified Management Accountant), 2 employees have the certificates of the UK Certified Accountants Associations (ACCA), 1 CPA (Certified Public Auditor), 4 CIA (Certified Internal Auditor), 1 Chartered Auditor (Canada).

Forward-looking statements

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including, but not limited to, the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “target”, “will”, or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They include, but are not limited to, statements regarding the Company’s intentions, beliefs and statements of current expectations concerning, amongst other things, the Company’s results of operations, financial condition, liquidity, prospects, growth, potential acquisitions, strategies and as to the industries in which the Company operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that may or may not occur. Forward-looking statements are not guarantees of future performance and the actual results of the Company’s operations, financial condition and liquidity and the development of the country and the industries in which the Company operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. The Company does not intend, and does not assume any obligation, to update or revise any forward-looking statements or industry information set out in this document, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved.

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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' judgement, 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

CONSOLIDATED FINANCIAL STATEMENTS

KazMunaiGas Exploration Production JSC
for the year ended December 31 2007

CONSOLIDATED BALANCE SHEET

TENGE THOUSANDS

As at December 31	NOTES	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 paid 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 56 to 79 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME
TENGE THOUSANDS

For the year ended	NOTES	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 56 to 79 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
TENGE THOUSANDS

For the year ended December 31	NOTES	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

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 56 to 79 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

TENGE THOUSANDS UNLESS OTHERWISE STATED

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.

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.

2.2 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.

2.2 Consolidation (continued)

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 recognised 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.

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.

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 recognised for the asset in prior years. Such reversal is recognised 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 Summary of significant accounting policies (continued)

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 recognized 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.

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 toquoted 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 amortized 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 (i.e 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 recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized 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 derecognized when they are assessed as uncollectible.

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 amortization) and its current fair value, less any impairment loss previously recognized 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 recognized 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 derecognized 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.

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.

2 Summary of significant accounting policies (continued)

2.15 Deferred income tax (continued)

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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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.

2.17 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.

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 subclassified 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.

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

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.

7 Intangible assets (continued)

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.

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.

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).

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

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

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 (continued)

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 No.	2007 WAEP	2006 No.	2006 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 EOP 1	2007 EOP 2	2006 EOP 1	2006 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

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

	NOTES	2007	2006
Sales of goods and services	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	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	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
Cash and cash equivalents	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	7	–	100,786,068
Loans payable	13		
Parent Company		–	5,720,113
Financial assets	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.

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.

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.

19 Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

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.

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

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 2007	Carrying amount 2006	Fair value 2007	Fair value 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.

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

REFERENCE INFORMATION

1P category	Proved Reserves.
2P category	Proved and Probable Reserves.
3P category	Proved, probable and possible oil reserves.
Bottomhole zone	The lowest or deepest part of a well.
Caspian Pipeline Consortium	Crude oil pipeline that runs from the Tengiz oil field in Kazakhstan to the Russian Black Sea port of Novorossiysk. This is a key East-West pipeline that will carry from the Caspian Sea region to international markets.
CCEL	CCEL (CITIC Canada Energy Limited, the 100% owner of CCPL formerly Nations Energy Company Ltd, with its principal investment in the development of Karazhanbas field).
Condensate	Light hydrocarbon fractions produced with natural gas, which condense into liquid at normal temperatures and pressures associated with surface production equipment.
EMG (EmbaMunaiGas)	One of the KMG EP's core production divisions operating on 37 fields in Atyrau region in Western Kazakhstan.
Gaffney Cline & Associates	Independent, international advisory firm focused on the provision of integrated technical and managerial advisory services to all sectors of the oil and gas industry.
Hydraulic Fracture	A method of stimulating production from a low-permeability formation by creating fractures and fissures by applying very high fluid pressure.
IPO	Initial Public Offering — The initial sale by a company of shares of its stock to the public in the financial market.
Karachaganak	One of the most important gas-oil-condensate fields in the North-West region of Kazakhstan discovered in 1979.
Karazhanbasmunai (KBM)	JSC Karazhanbasmunai holds 100% of the mineral rights until June 2020 to develop the Karazhanbas oil and gas field in the western part of Kazakhstan. 2P reserves as at the end of 2006 are 66 million tonnes. 50% interest in this company was acquired by KMG EP.
Kashagan	An off-shore field located off the northern shore of the Caspian Sea, near Atyrau. In June 2000 it was announced to be the largest oil and gas field discovered in the past 30 years.
KazakhOil Aktobe	A company that operates in Alibekmola and Kozhasai fields and is owned by NC KMG (50%) and by Lukoil (50%).
KASE	Kazakhstan Stock Exchange.
Kazgermunai (KGM)	Kazgermunai is the 8th largest Kazakh oil and gas producing company with nearly 3 mmt/year (64 thousand bopd) of crude oil production in 2007 and 40.7 mmt (310 mmbbl) of proved and probable reserves at the end of September 2006. PetroKazakhstan Kumkol Resources is the other shareholder in KGM.

Kazakhturkmunai	A company that operates on 9 oil and gas condensate fields in Aktobe and Mangistau regions. It is 51% owned by NC KMG and 49% by Turkish National Oil Company.
KazTransOil (KTO)	State company, established in 1997, that oversees the running and the management of the entire system of pipelines on the territory of Kazakhstan.
KIOGE	Kazakhstan International Oil and Gas Exhibition – annual event held in Almaty.
KMG group	NC KMG and its other subsidiaries, including KMG EP, KTO, KTG.
Kurmet Order	This award was introduced in 1993 for contributions to economy and culture of Kazakhstan and for exemplary service in state organisations
LSE	London Stock Exchange.
NC KMG	National Company KazMunaiGas.
Nurzhanov	Exploration area in Western Kazakhstan by the North Eastern part of the Caspian Sea
Parasat Order	'Parasat' award was introduced in 1993 and is given to individuals in science and culture for contribution to intellectual and cultural achievements in Kazakhstan.
PetroKazakhstan Inc.	Operates on 11 fields in the South Turgai Basin. 2P reserves as at the end of 2004 550 million barrels of oil.
Plateau	The level of optimal production maintained on an oil or gas field for a few years.
Re/Perforation	Holes punched in the casing of a well at the pay zone to be produced, to allow oil or gas to enter the well. A Perforating Gun is a cylindrical tool loaded with explosives that are triggered opposite the pay zone, the explosions perforate the casing in many places.
Seismic	Data that is acquired by reflecting sound from underground strata and is processed to yield a picture of the sub-surface geology of an area.
Southern Mangyshlak	Part of Mangyshlak peninsula .
Southern Turgai Depression	Geographical location in Kazakhstan (south-west).
Uzen – Atyrau – Samara	Pipeline that transports oil from fields in the Atyrau and Mangistau regions to Russia and runs for approximately 1,500 km.
UzenMunaiGaz (UMG)	KMG EP's main production division that operate of 7 core fields in Mangistau Region.

SHAREHOLDER INFORMATION

Annual general meeting

The AGM will be held at 12:00am on May 28, 2008 at
The Radisson SAS Hotel,
1st floor, conference-hall "Sary-Arka 3"
2, Tauelsizdik str., Left Bank,
Astana, 010000, Republic of Kazakhstan

Shareholders' enquiries

For information about proxy voting, dividends and to report changes in personal details, shareholders should contact the Company's registrar/depositary:

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Website

A wide range of information on the Company is available at www.kmgep.kz including details of activities, press releases and annual and interim reports.

NUMBER OF SHARES IN ISSUE (1)

Common shares	70,220,935
Preferred shares	4,136,107
Total share capital (2)	74,357,042

(1) Including 333,099 of treasury stock and 43,087,006 common shares or 61.36% owned by JSC NC KazMunaiGas. The information is provided as of December 31 2007.
(2) The Company's shares are listed on Kazakhstan Stock Exchange and the GDRs are listed on the London Stock Exchange. Each GDR corresponds to one sixth of an ordinary share.

CONTACT INFORMATION

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FINANCIAL CALENDAR FOR 2008 (1)

17 March 2008
2007 Financial Results Announcement

May 2008
1Q 2008 Financial Results Announcement

28 May 2008
Annual General Meeting

9 June 2008
Dividends record date

September 2008
2Q 2008 Financial Results Announcement

November 2008
3Q 2008 Financial Results Announcement

(1) Dates correct at time of print, but subject to change

IMAGE GLOSSARY

cover: Cultural monuments at Sultan-epe
(Mangistau region)

p. 1: Cultural monument at Karashungil
(Atyrau region)

p. 2-3: Cultural monuments at Shakpak-ata
(Mangistau region)

p. 12: Cultural monuments at Kanga-baba
(Mangistau region)

p. 16: Cultural monument at Saraishyk
(Atyrau region)

p. 20: Cultural monuments at Shakpak-ata
(Mangistau region)

p. 24: Cultural monuments at Beket-ata, Oglandy
(Mangistau region)