KazMunaiGas Exploration Production Joint Stock Company

Consolidated Financial Statements

For the year ended December 31, 2008

Contents

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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 31 December 2008, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

27 February 2009

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Balance Sheet

Tenge thousands

		As at December 31,	
	Notes	**2008**	**2007**
ASSETS			
Non-current assets			
Property, plant and equipment	4	248,920,924	246,673,657
Other financial assets	6	5,108,021	1,953,799
Receivable from jointly controlled entity	7	18,862,017	18,478,228
Intangible assets	5	2,831,782	5,548,240
Investments in associates and joint ventures	7	121,910,766	102,999,132
Deferred tax asset	16	1,428,948	–
Other assets		3,519,908	4,045,763
Total non-current assets		**402,582,366**	**379,698,819**
Current assets			
Inventories	8	14,405,863	11,583,258
Taxes prepaid and VAT recoverable		8,352,503	5,378,089
Prepaid and deferred expenses		6,562,709	4,845,333
Trade and other receivables	6	37,819,473	50,083,867
Other financial assets	6	264,677,096	378,603,924
Cash and cash equivalents	6	285,131,743	21,658,451
Total current assets		**616,949,387**	**472,152,922**
Total assets		**1,019,531,753**	**851,851,741**
EQUITY			
Share capital	9	259,724,847	259,365,914
Other reserves		1,308,839	580,988
Retained earnings		586,058,950	386,494,710
Total equity		**847,092,636**	**646,441,612**
LIABILITIES			
Non-current liabilities			
Borrowings	11	5,532,332	14,135,480
Deferred tax liability	16	–	7,784,439
Provisions	12	38,716,666	48,157,460
Total non-current liabilities		**44,248,998**	**70,077,379**
Current liabilities			
Borrowings	11	14,905,744	18,713,954
Income taxes payable		55,806,901	59,356,770
Trade and other payables		32,380,235	35,184,485
Provisions	12	25,097,239	22,077,541
Total current liabilities		**128,190,119**	**135,332,750**
Total liabilities		**172,439,117**	**205,410,129**
Total liabilities and equity		**1,019,531,753**	**851,851,741**

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

Consolidated Statement of Income

Tenge thousands

	Notes	For the year ended December 31, 2008	2007
CONTINUING OPERATIONS			
Revenue	13	604,993,422	486,974,879
Operating expenses	14	(297,167,473)	(210,834,485)
Profit from operations		**307,825,949**	**276,140,394**
Finance income	15	45,374,578	27,336,231
Finance costs	15	(3,146,631)	(6,093,363)
Foreign exchange gain (loss)		696,455	(8,042,582)
Gain on sale of subsidiaries		–	859,828
Share of result of associates and joint ventures		57,623,884	17,429,850
Profit before tax		**408,374,235**	**307,630,358**
Income tax expense	16	(167,091,866)	(150,511,277)
Profit for the year		**241,282,369**	**157,119,081**
EARNINGS PER SHARE			
Basic and diluted	10	3.26	2.12

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

Consolidated Statement of Cash Flows

Tenge thousands

	Notes	For the year ended December 31, 2008	2007
Cash flows from operating activities			
Profit before income tax		408,374,235	307,630,358
Adjustments to add (deduct) non-cash items			
Depreciation, depletion and amortisation		34,368,825	34,663,502
Share of result of associates and joint ventures		(57,623,884)	(17,429,850)
Settlement of crude oil under the terms of a pre-export financing agreement		(17,862,800)	(18,173,826)
Loss on disposal of property, plant and equipment (PPE)		852,909	2,992,114
Impairment of PPE		183,086	1,863,910
Recognition of share-based payments		354,612	1,579,975
Impairment of investments in joint venture		2,396,198	–
Accrual of allowance for doubtful receivables		1,057,105	–
Gain on disposal of subsidiaries		–	(859,828)
Unrealised foreign exchange (gain) loss		(464,941)	7,906,399
Other non-cash income and expense		5,840,391	4,049,298
Add interest expense		3,146,631	5,787,911
Deduct interest income relating to investing activity		(45,374,578)	(27,030,779)
Working capital adjustments			
Change in other assets		(10,008)	(202,451)
Change in inventories		(2,607,882)	2,552,904
Change in taxes prepaid and VAT recoverable		(2,587,032)	114,467
Change in prepaid and deferred expenses		(1,815,510)	(999,296)
Change in trade and other receivables		11,241,450	(13,303,022)
Change in trade and other payables		1,241,412	(5,496,872)
Change in provisions		(3,578,130)	(2,455,217)
Income tax paid		(173,277,182)	(110,228,229)
Net cash generated from operating activities		**163,854,907**	**172,961,468**
Cash flows from investing activities			
Purchases of PPE		(41,891,804)	(40,095,396)
Proceeds from sale of PPE		545,183	65,759
Purchases of intangible assets		(227,771)	(26,464)
Purchases of joint venture interests and loan receivable from jointly controlled entity		(1,816,093)	(137,157,588)
Dividends received from joint ventures and associates		39,164,528	36,179,141
Sale (purchases) of financial assets held-to-maturity, net		91,555,956	(138,309,725)
Sale (purchases) of available-for-sale financial assets, net		6,449,113	(6,767,606)
Loan repayments received from related parties		2,036,327	97,540,000
Proceeds related to disposal of subsidiaries		–	10,346,935
Interest received		44,724,319	13,546,118
Net cash generated from (used in) investing activities		**140,539,758**	**(164,678,826)**
Cash flows from financing activities			
Exercise of share-based options		299,279	–
Purchase of treasury shares		(521,318)	–
Proceeds from borrowings		30,000	1,995,378
Repayment of borrowings		(311,960)	(8,174,960)
Dividends paid to Company's shareholders		(39,504,759)	(35,705,178)
Interest paid		(968,822)	(3,089,296)
Net cash used in financing activities		**(40,977,580)**	**(44,974,056)**
Net change in cash and cash equivalents		263,417,085	(36,691,414)
Cash and cash equivalents at beginning of the year	6	21,658,451	62,459,415
Exchange losses on cash and cash equivalents		56,207	(4,109,550)
Cash and cash equivalents at end of the year	6	**285,131,743**	**21,658,451**

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

Consolidated Statement of Changes in Equity

Tenge thousands

	Attributable to equity holders of the Company					
	Share capital	**Treasury stock**	**Other reserves**	**Retained earnings**	**Minority interest**	**Total equity**
As at January 1, 2007	**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**
Foreign currency translation	–	–	579,154	–	–	579,154
Recognition of share-based payments	–	–	354,612	–	–	354,612
Exercise of employee options	–	880,251	(641,801)	–	–	238,450
Share buy back	–	(521,318)	–	–	–	(521,318)
Realised loss on available-for sale financial investments reclassified to statement of income	–	–	435,886	–	–	435,886
Dividends	–	–	–	(41,718,129)	–	(41,718,129)
Profit for the year	–	–	–	241,282,369	–	241,282,369
As at December 31, 2008	**263,094,581**	**(3,369,734)**	**1,308,839**	**586,058,950**	**–**	**847,092,636**

The notes on pages 5 to 33 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 58.19% of the Company's outstanding shares as at December 31, 2008 (2007: 57.95%). From June 2006 NC KMG was 100%-owned by joint stock company Kazakhstan Holding for Management of State Assets "Samruk" ("Samruk") which is in turn 100% owned by the government of the Republic of Kazakhstan (the "Government"). In October 2008 Samruk was merged with the Government owned Sustainable Development Fund «Kazyna» and formed joint stock company SamrukKazyna National Welfare Fund.

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 7). 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 non-core interests represented approximately 1% of the Company's net assets at December 31, 2008 (2007: 2%).

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 3.

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.

- IAS 23 Borrowing costs - amendment
- IFRIC 11 / IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 14 / IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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 11 / IFRS 2 – Group and Treasury Share Transactions

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The amendment of its accounting policy had no impact on the financial position or performance of the Company.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRIC 12 Service Concession Arrangements

The IFRIC issued IFRIC 12 in November 2006. This interpretation applies to service concession operators and explains how to account for the obligations taken and rights received in service concession arrangements. The Company has no such concessions, therefore this interpretation has no impact on the Company.

IFRIC 14 / IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Company amended its accounting policy accordingly. The Company's defined benefit schemes have been in deficit, therefore the adoption of this 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, 2008:

- IFRS 2 Share-based Payment – Vesting Conditions and Cancellations - amendment
- IFRS 3R Business Combinations
- IFRS 8 Operating Segments
- IAS 1 Presentation of Financial Statements - amendment
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation – amendments
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items - amendment
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-Cash Assets to Owners
- IFRIC 18 Transfer of Assets from Customers

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. Summary of significant accounting policies (continued)

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 recognized based on the substance of the transaction. When the Company purchases assets from the joint ventures, the Company does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

2.3 Foreign currency translation

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

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. Summary of significant accounting policies (continued)

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, and all licenses and approvals are obtained from the appropriate regulatory bodies, then 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, fuel and energy 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 then, 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 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.

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

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

2.6 Impairment of non-financial assets

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

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

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

2.7 Intangible assets

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

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

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

2.8 Financial assets

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

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

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.

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

Held-to-maturity investments

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

Trade and other receivables

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

Available-for-sale financial investments

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

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

Derecognition of financial assets

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

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

2.9 Inventories

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

2.10 Value added tax (VAT)

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

2.11 Cash and cash equivalents

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

2.12 Share capital

Share Capital

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

2. Summary of significant accounting policies (continued)

2.12 Share capital (continued)

Treasury Shares

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

Dividends

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

2.13 Trade payables

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

2.14 Borrowings

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

2.15 Deferred income tax

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

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

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

2.16 Employee benefits

Pension scheme

The Company withholds 10% from the salary of its employees as the employees' contribution to their designated pension funds. The pension deductions are limited to 75 minimal monthly salary levels of 10,515 Tenge per month in first six months of 2008 and 12,025 Tenge per month in last six months of 2008 (2007: 9,752 Tenge). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits.

2. Summary of significant accounting policies (continued)

2.17 Revenue recognition

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

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

2.18 Income taxes

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

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

3. Significant 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. 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, which are also used by management for their investment decisions, 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.

3. Significant accounting estimates and judgments (continued)

Oil and gas reserves (continued)

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

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The Company calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company reviews site restoration provisions at each balance sheet date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 11.5% and 12.7% of the provision at December 31, 2008 and 2007 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, 2008 were 5.0% and 7.9% respectively (2007: 5.0% and 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 12.

3. Significant accounting estimates and judgments (continued)

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. As the 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 2009. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology.

Further uncertainties related to environmental remediation obligations are detailed in Note 20. Movements in the provision for environmental remediation obligations are disclosed in Note 12.

Taxation

The Company accrues and pays CIT at a rate of 30% of taxable income in 2008. Taxable income is computed in accordance with stabilized tax legislation of each subsoil contract. 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 CIT and EPT. Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates that were enacted by the new tax code of Kazakhstan on January 1, 2009. Both deferred CIT and EPT bases are calculated under the terms of the tax legislation enacted in the above mentioned new tax code disclosed in Note 16.

Notes to the Consolidated Financial Statements (continued)

Tenge thousands unless otherwise stated

4. Property, plant and equipment

	Oil-and-gas properties	Other assets	Construction work-in-progress	Total
2007				
Opening net book amount at January 1, 2007	202,670,160	46,267,153	10,396,059	259,333,372
Additions	882,535	3,905,958	37,259,086	42,047,579
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)
Impairment / reversal	553,868	149,460	(2,567,238)	(1,863,910)
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**
2008				
Opening net book amount at January 1, 2008	206,451,279	36,892,418	3,329,960	246,673,657
Additions	962,924	371,751	42,062,732	43,397,407
Change in ARO estimate	(6,769,655)	−	−	(6,769,655)
Disposals	(1,208,967)	(1,162,411)	(810,685)	(3,182,063)
Transfers from work-in-progress	30,036,378	3,226,796	(33,263,174)	−
Internal transfers	5,602,827	(5,626,288)	23,461	−
Depreciation charge	(26,885,283)	(4,130,053)	−	(31,015,336)
Impairment / reversal	(186)	(759,145)	576,245	(183,086)
Closing net book amount at December 31, 2008	**208,189,317**	**28,813,068**	**11,918,539**	**248,920,924**
At December 31, 2008				
Cost	332,724,973	41,972,079	11,918,539	386,615,591
Accumulated depreciation	(124,535,656)	(13,159,011)	−	(137,694,667)
Net book amount	**208,189,317**	**28,813,068**	**11,918,539**	**248,920,924**

As at December 31, 2008, construction work-in-progress included exploration and evaluation assets with a net book value in the amount of 472,037 thousand Tenge (2007: 467,479 thousand Tenge). Additions of these assets during 2008 amounted to 517,613 thousand Tenge (2007: 666,300 thousand Tenge) and disposals amounted to 513,055 thousand Tenge (2007: 933,334 thousand Tenge).

5. Intangible assets

	2008	2007
At January 1		
Opening net book amount	**5,548,240**	**7,921,252**
Additions	641,198	1,074,150
Disposals	(4,167)	(27,337)
Amortization charge	(3,353,489)	(3,419,825)
Closing net book amount at December 31	**2,831,782**	**5,548,240**
At December 31		
Cost	12,575,142	11,938,752
Accumulated amortization	(9,743,360)	(6,390,512)
Net book amount	**2,831,782**	**5,548,240**

6. Financial assets

Other financial assets

	2008	2007
US dollar-denominated term deposits	3,863,736	–
Tenge-denominated term deposits	613,815	706,456
Other	630,470	1,247,343
Total non-current	**5,108,021**	**1,953,799**
Tenge-denominated term deposits	129,292,592	184,767,036
US dollar-denominated term deposits	124,625,296	187,559,204
Held-to-maturity financial assets	10,758,938	–
Available-for-sale financial assets	–	6,277,414
Other	270	270
Total current	**264,677,096**	**378,603,924**
	269,785,117	**380,557,723**

The weighted average interest rate on US dollar-denominated term deposits in 2008 was 8.9% (2007: 8.5 %). The weighted average interest rate on Tenge-denominated term deposits in 2008 was 10.2% (2007: 9.1%).

Trade and other receivables

	2008	2007
Trade receivables	37,640,937	51,213,760
Other	1,467,613	511,192
Allowance for doubtful receivables	(1,289,077)	(1,641,085)
	37,819,473	**50,083,867**

As of December 31, 2008 US dollar-denominated trade and other receivables represented 94% of total receivables (2007: 98%). The remaining balances are Tenge-denominated. Trade receivables are non-interest bearing and are generally on 30 - 60 days' terms.

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

	2008	2007
Current	31,684,394	48,927,795
0 – 30 days overdue	6,134,596	1,125,816
60 – 90 days overdue	483	30,256
	37,819,473	**50,083,867**

6. Financial assets (continued)

Cash and cash equivalents

	2008	2007
US dollar denominated term deposits with banks	241,278,281	818,040
Tenge-denominated term deposits with banks	42,926,389	19,824,415
Cash in bank and on hand	927,073	1,015,996
	285,131,743	**21,658,451**

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 2008 was 3.6% (2007: 4.1%). The weighted average interest rate on Tenge-denominated deposits in 2008 was 8.6% (2007: 5.7%). Approximately 85% of total cash and cash equivalents at year end 2008 are US dollar-denominated (2007: 5%). The remaining balances are Tenge-denominated.

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

Investments in associates and jointly controlled entities

	2008	2007
Interest in JV Kazgermunai LLP ("Kazgermunai")	120,814,950	100,757,096
Other	1,095,816	2,242,036
	121,910,766	**102,999,132**

JV Kazgermunai

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.

The Company's share of joint venture's assets and liabilities are as follows:

	2008	2007
Cash	5,797,262	7,212,286
Current assets	8,971,883	12,811,469
Non-current assets	131,413,798	139,900,055
	146,182,943	159,923,810
Current liabilities	4,470,120	5,785,528
Non-current liabilities	20,897,873	53,381,186
	25,367,993	59,166,714
Net assets	**120,814,950**	**100,757,096**

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

Investments in associates and jointly controlled entities (continued)

JV Kazgermunai (continued)

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

	2008	2007
Revenues	106,058,916	56,436,402
Operating expenses	(48,216,992)	(26,625,703)
Profit from operations	57,841,924	29,810,699
Finance income, net	55,335	821,556
Profit before tax	57,897,259	30,632,255
Income tax benefit (expense)	872,844	(12,720,687)
Profit for the period	**58,770,103**	**17,911,568**
Foreign currency translation gain (loss) recognized directly in equity	**579,154**	**(655,350)**

Receivable from jointly controlled entity

	2008	2007
Receivable from CITIC Canada Energy Limited ("CCEL")	18,862,017	18,478,228

CCEL investment

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.

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 778.8 million US dollars (94,056,389 thousand Tenge) as at December 31, 2008 (2007: 782.5 million US dollars or 94,106,228 thousand Tenge). 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 153.5 million US dollars (18,533,003 thousand Tenge) (2007: 150 million US dollars equivalent of 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.

On November 17, 2008 the Company signed an amendment to the PA, which revised the guaranteed payment to 26.87 million US dollars and set the annual dates of payment as one half due not later than June 12 and December 12, respectively for each year. However, as at December 31, 2008 interest has been accrued since September 12, 2008. After the above amendment the effective interest rate on the receivable is 15% per annum (2007: 14%).

Notes to the Consolidated Financial Statements (continued)

Tenge thousands unless otherwise stated

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

Receivable from jointly controlled entity (continued)

The Company's share of jointly controlled entity's assets and liabilities are as follows:

	2008	2007
Current assets	35,420,789	24,881,950
Non-current assets	121,482,925	132,980,689
	156,903,714	157,862,639
Current liabilities	39,822,436	29,012,554
Non-current liabilities	117,081,278	128,850,085
	156,903,714	157,862,639
Net assets	–	–

8. Inventories

	2008	2007
Materials	5,832,084	7,666,214
Crude oil	8,573,779	3,917,044
	14,405,863	**11,583,258**

As at December 31, 2008 the Company had 498,293 tons (2007: 224,590 tons) of crude oil in storage and transit.

9. Share capital

	Shares outstanding (number of shares)				
	Common shares	Preferred shares	Common shares	Preferred shares	Total share capital
As at January 1, 2007	**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**
Reduction of treasury stock due to exercise of share options	78,308	–	880,251	–	880,251
Increase of treasury stock due to share repurchases	(55,748)	–	(521,318)	–	(521,318)
As at December 31, 2008	**69,910,396**	**4,136,107**	**258,690,820**	**1,034,027**	**259,724,847**

9.1 Share capital

Authorized shares

The total number of authorized ordinary and preferred shares is 70,220,935 (2007: 70,220,935) and 4,136,107 (2007: 4,136,107), respectively. 43,087,006 of the outstanding common shares are owned by the Parent as at December 31, 2008 (2007: 43,087,006). Ordinary and preferred shares of the Company have no par value.

9. Share capital (continued)

9.1 Share capital (continued)

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 563 Tenge per share (2007: 500 Tenge per share) for both of the outstanding ordinary and preferred shares as at June 9, 2008, the date of record.

9.2 Employee share option plans

The expense recognized for share option plans related to employee services received during the year is 354,612 thousand Tenge (2007: 1,579,975 thousand Tenge).

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.

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.

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:

	2008		**2007**	
	No.	WAEP	No.	WAEP
Outstanding at January 1	1,340,786	14.88	926,595	9.09
Granted during the year	–	–	502,825	25.39
Exercised during the year	(469,847)	3.91	(50,584)	14.64
Expired during the year	(62,238)	17.04	(38,050)	13.02
Outstanding at December 31	808,701	14.82	1,340,786	14.88
Exercisable at December 31	196,287	15.12	490,617	4.28

The weighted average remaining contractual life for share options outstanding as at December 31, 2008 is 4.36 years (2007: 5.31 years). The range of exercise price for options outstanding at December 31, 2008 was $14.64 -$26.47 US dollars per GDR (2007: $0 -$26.47).

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

Notes to the Consolidated Financial Statements (continued)

Tenge thousands unless otherwise stated

10. Earnings per share

	2008	2007
Weighted average number of all shares outstanding	74,092,287	74,015,512
Profit for the year	241,282,369	157,119,081
Basic and diluted earnings per share	3.26	2.12

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.

11. Borrowings

	2008	2007
Fixed interest rate borrowings	20,438,076	32,849,434
Weighted average interest rates	5.23%	5.74%
Total borrowings	**20,438,076**	**32,849,434**
Tenge-denominated borrowings	–	8,874
US dollar-denominated borrowings	20,438,076	32,840,560
Total borrowings	**20,438,076**	**32,849,434**
Long-term borrowings	5,532,332	14,135,480
Current portion of long-term borrowings	14,905,744	18,713,954

The Company's fixed rate borrowings (2008: 13,241,867 thousand Tenge, 2007: 30,774,074 thousand Tenge), primarily relate to a pre-export financing arrangement which expires in 2009 and requires settlement in crude oil.

12. Provisions

	Environmental remediation	Taxes	Asset retirement obligation	Other	Total
At January 1, 2007	**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**
Additional provisions	–	3,323,015	130,682	945,415	4,399,112
Unused amounts reversed	–	(2,120,138)	–	–	(2,120,138)
Unwinding of discount	–	–	1,647,715	–	1,647,715
Changes in estimate	–	–	(6,769,655)	–	(6,769,655)
Used during the year	(2,737,510)	–	(603,290)	(237,330)	(3,578,130)
Current portion	4,882,783	18,840,500	1,120,014	253,942	25,097,239
Non-current portion	20,622,556	–	14,063,689	4,030,421	38,716,666
At December 31, 2008	**25,505,339**	**18,840,500**	**15,183,703**	**4,284,363**	**63,813,905**

Notes to the Consolidated Financial Statements (continued)

Tenge thousands unless otherwise stated

13. Revenue

	2008	2007
Export:		
Crude oil	552,120,489	437,551,117
Domestic (Note 20):		
Crude oil	36,933,575	37,401,142
Gas products	5,288,097	4,804,395
Other sales and services	10,651,261	7,218,225
	604,993,422	**486,974,879**

14. Operating expenses

	2008	2007
Export customs duty	68,796,006	–
Transportation	53,135,541	48,247,039
Employee benefits	43,117,573	39,389,555
Depreciation, depletion and amortization	34,368,825	34,663,502
Royalties	25,312,574	17,948,868
Repairs and maintenance	24,653,917	20,496,194
Materials and supplies	12,717,118	13,878,706
Energy	9,291,579	7,633,700
Management fees and commissions (Note 17)	8,439,633	8,002,198
Other taxes	5,690,873	4,830,875
Fines and penalties	1,808,845	2,735,535
Social projects	1,649,078	3,660,170
Loss on disposal of fixed assets	852,909	2,992,114
Change in crude oil balance	(4,656,735)	(1,489,717)
Other	11,989,737	7,845,746
	297,167,473	**210,834,485**

15. Finance income / costs

15.1 Finance income

	2008	2007
Interest income on term deposits with banks	39,451,659	24,118,397
Interest income on receivable from jointly controlled entity	2,851,148	–
Gain from restructuring of borrowings	2,467,162	–
Interest income on held-to-maturity financial assets	508,358	2,912,382
Other	96,251	305,452
	45,374,578	**27,336,231**

15.2 Finance costs

	2008	2007
Unwinding of discount on asset retirement obligation	1,647,715	1,725,248
Interest expense	1,152,326	3,853,199
Other	346,590	514,916
	3,146,631	**6,093,363**

16. Income taxes

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

	2008	2007
Corporate income tax	116,119,081	99,361,566
Excess profit tax	60,186,172	54,080,973
Current income tax	**176,305,253**	**153,442,539**
Corporate income tax	(5,997,466)	(1,598,601)
Excess profit tax	(3,215,921)	(1,332,661)
Deferred income tax	**(9,213,387)**	**(2,931,262)**
Income tax expense	**167,091,866**	**150,511,277**

The following table provides a reconciliation of the Kazakhstan income tax rate (30% in 2008 and 2007) to the effective tax rate of the Company on profit before tax. The law on the enactment of the new tax code decreased the CIT rate from 20% in 2009 to 17.5% in 2010 and to 15% in 2011 and onwards. The mechanism for calculating EPT was also changed in 2009. The impact of the changes in tax rates was not significant.

	2008	2007
Profit before tax	408,374,235	307,630,358
Income tax	167,091,866	150,511,277
Effective tax rate	**41%**	**49%**
	% of profit before tax	
Statutory income tax	30	30
Increase (decrease) resulting from		
Excess profit tax	14	17
Share of result of associates and joint ventures	(4)	(2)
Non-deductible expenses	1	4
Income tax expense	**41**	**49**

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

	Fixed assets	Provisions	Other	Total
At January 1, 2007	**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**
Income statement effect	(13,428,407)	1,079,503	3,135,517	(9,213,387)
At December 31, 2008	**2,855,336**	**(1,284,424)**	**(2,999,860)**	**(1,428,948)**

Notes to the Consolidated Financial Statements (continued)

Tenge thousands unless otherwise stated

17. Related party transactions

Halyk Bank of Kazakhstan is a related party due to the bank being controlled by a member of the management board of the joint stock company SamrukKazyna National Welfare Fund, who was appointed on November 3, 2008.

	2008	2007
Sales of goods and services (Note 13)		
Entities under common control	467,588,108	385,216,748
Other state-controlled entities	827,958	21,235
Joint ventures	257,207	155,780
Associates	13,131	2,490
Purchases of goods and services (Note 14)		
Entities under common control	26,067,031	24,365,343
Parent Company	8,014,300	7,819,477
Other state-controlled entities	9,289,979	1,633,186
Joint ventures	–	1,754
Associates	272,630	432,979
Halyk Bank of Kazakhstan affiliates	148,427	525,214
Interest earned on financial assets		
Halyk Bank of Kazakhstan	2,203,602	1,225,246
Average interest rate on deposits	8.88%	4.44%
Parent Company	–	2,933,230
Trade and other receivables (Note 6)		
Entities under common control	36,569,465	41,302,095
Other state-controlled entities	798,591	147,874
Joint ventures	19,214,446	18,509,130
Associates	4,567	7,254
Halyk Bank of Kazakhstan affiliates	189,910	–
Trade payables		
Entities under common control	444,739	823,812
Parent Company	1,132,020	2,439,600
Other state-controlled entities	251,657	104,525
Joint ventures	48,600	–
Associates	120,785	215,036
Financial assets (Note 6)		
Halyk Bank of Kazakhstan – term deposits	93,843,547	–
Halyk Bank of Kazakhstan – cash and cash equivalents	91,888,302	–
Salaries and other short-term benefits		
Members of the Board of Directors	83,686	166,525
Members of the Management Board	143,631	273,003
Share-based payments		
Members of the Board of Directors	–	131,987
Members of the Management Board	61,850	265,838

17. Related party transactions (continued)

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 5,212,638 tons of crude oil in 2008 (2007: 5,559,108 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 83,797 Tenge in 2008 (2007: 62,404 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. Those supplies to the domestic market represented 2,071,729 tons of crude oil production in 2008 (2007: 2,230,463 tons). Prices for the local market sales are determined by agreement with NC KMG. For deliveries to the local market in 2008 the Company received an average price per produced crude oil ton of around 17,812 Tenge (2007: 16,710 Tenge). Trade and other receivables from related parties principally comprise amounts related to export sales transactions.

At December 31, 2008 the Company had commitments under a government directive to deliver 1.9 million tons of crude oil to local markets in 2009 (2.2 million tons in 2008).

Purchases and payables

Management fees to the Parent Company amounted to 8,014,300 thousand Tenge in 2008 (2007: 7,490,000 thousand Tenge). Agency commissions for crude oil sales amounted to 425,333 thousand Tenge in 2008 (2007: 512,198 thousand Tenge). Transportation services related to the shipment of 6,972,820 tons of crude oil in 2008 (2007: 7,478,521 tons) were purchased from a KMG group entity for 20,845,471 thousand Tenge in 2008 (2007: 18,084,913 thousand Tenge). The remaining services purchased from KMG group entities include primarily payments for demurrage, sales commissions and electricity.

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.

18. Financial risk management objectives and policies

The Company's principal financial liabilities comprise 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 held-to-maturity 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 and liquidity 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 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.

At December 31, 2008 the Company does not have any floating rate debt.

18. Financial risk management objectives and policies (continued)

Foreign currency risk

As a result of investments 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 from thirty to sixty days of sale. Therefore, exposure to movement in the exchange rate on these amounts is limited at any one time to two months of sales. Management monitors but historically has not taken any action to mitigate this exposure.

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

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

	Increase / decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2008		
US dollar	+ 25%	101,465,921
US dollar	+ 40%	162,345,473
2007		
US dollar	+ 5%	12,462,850
US dollar	- 5%	(12,462,850)

Credit risk

The Company endeavors to trade 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. However, the Company's credit concentration risk is significant as the vast majority of the receivables are from an affiliate of the Parent. Management believes that no provision is required to be made from the overdue balance of 6,130,724 thousand Tenge as at December 31, 2008 (2007: nil).

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and held-to-maturity financial investments, 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.

18. Financial risk management objectives and policies (continued)

Credit risk (continued)

The Company's treasury policy limits the amount of financial assets held at any one bank to the lower of a stipulated maximum threshold or a percentage of the bank's Tier I capital, which is linked to the banks long term counterparty credit rating, as measured by Standard and Poor's rating agency, (e.g. not greater than 40% for a BB rated bank at December 31, 2008). This policy also stipulates that banks with credit ratings less than two levels below that of the Kazakhstan government's sovereign credit rating, cannot be used to deposit financial assets. However as a result of delays in the Company's acquisition program, the Government's requirement to hold the majority of the Company's financial assets in Kazakhstan banks (see Note 20) and a lack of banks within the requisite credit rating, the Company, as at December 31, 2008, is in violation of its treasury policy. The financial assets held at Kazkommertsbank and Halyk Bank both exceed the maximum threshold and maximum percentage of Tier I capital as at September 30, 2008, their latest published accounts.

As the result of the current lack of liquidity caused by the ongoing global financial crisis the Company may not be able to withdraw significant sums of cash without causing severe disruption in the banks.

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 ratings.

Banks	Location	Rating[1]			
		2008	2007	2008	2007
Kazkommertsbank	Kazakhstan	BB (negative)	BB (negative)	242,112,054	146,091,167
Halyk Bank	Kazakhstan	BB+ (negative)	BB+ (negative)	184,726,459	187,909,655
ATF Bank	Kazakhstan	Rating recalled	BB+ (stable)	42,667,028	16,686,036
BTA Bank	Kazakhstan	BB (negative)	BB (negative)	39,155,075	33,746,786
HSBC	Kazakhstan	AA-	AA-	21,617,317	7,778,463
RBS Kazakhstan	Kazakhstan	A+	AA-	8,702,495	–
Credit Suisse	British Virgin Islands	A+	AA-	3,439,832	818,040
ING Bank	The Netherlands	AA	AA	341,780	354,524
Other	Kazakhstan			765,142	1,306,476
				543,527,182	**394,691,147**

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 and 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.

[1] Source: Interfax – Kazakhstan, Factivia, official sites of the banks as at December 31 of the respective year

18. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2008 based on contractual undiscounted payments:

Year ended December 31, 2008	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	4,680,905	10,840,351	4,361,042	4,508,649	24,390,947
Trade and other payables	32,380,235	–	–	–	–	32,380,235
	32,380,235	**4,680,905**	**10,840,351**	**4,361,042**	**4,508,649**	**56,771,182**

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**

Commodity price risk

The Company is exposed to the effect of fluctuations in the price of crude oil, which is quoted in US dollars on 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 has historically not hedged 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.

19. Financial instruments

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

	Carrying amount		Fair value	
	2008	**2007**	**2008**	**2007**
Current financial assets				
Cash and cash equivalents	285,131,743	21,658,451	285,131,743	21,658,451
Held-to-maturity financial assets	10,758,938	–	10,710,003	–
Available-for-sale financial assets	–	6,277,414	–	6,277,414
US dollar-denominated term deposits	124,625,296	187,559,204	124,625,296	187,559,204
Tenge-denominated term deposits	129,292,592	184,767,036	129,292,592	184,767,036
Other financial assets	270	270	270	270
Non-current financial assets				
Receivable from jointly controlled entity	18,862,017	18,478,228	18,862,017	18,478,228
US dollar-denominated term deposits	3,863,736	–	3,863,736	–
Tenge-denominated term deposits	613,815	706,456	613,815	706,456
Other financial assets	630,470	1,247,343	630,470	1,247,343
Financial liabilities				
Borrowings fixed rate interest	20,438,076	32,849,434	20,438,076	32,849,434

19. Financial instruments (continued)

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of other financial assets have been calculated using market interest rates.

20. Commitments and contingencies

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets and commodity price instability, significant deterioration of liquidity in the banking sector and tighter credit conditions within Kazakhstan. Consequently, the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting finance for Kazakhstan banks and companies. As part of these measures the Government of Kazakhstan, which is the ultimate controlling shareholder of the Company, has directed the Company to continue to deposit its cash and short-term investments with Kazakhstan banks (see note 18). This limits the Company's ability to diversify the majority of its credit risk beyond Kazakhstan.

While management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Company's results and financial position in a manner not currently determinable.

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 2,071,729 tons of oil (2007: 2,230,463 tons) and joint venture Kazgermunai have delivered 380,000 tons of oil (2007: 370,000 tons) 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, 2008. As at December 31, 2008 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 12).

Environment

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 civil litigation or changes in legislation cannot be reasonably estimated. Other than those amounts provided for in provisions (Note 12) 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.

20. Commitments and contingencies (continued)

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.

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

Commitments arising from oilfield licenses and contracts

Year	Capital expenditures	Operational expenditures
2009	36,586,977	4,735,461
2010	841,000	3,834,857
2011	841,000	3,834,857
2012	–	3,834,857
2013	–	3,834,857
2013-2021	–	22,564,721
Total	**38,268,977**	**42,639,610**

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 17).

20. Commitments and contingencies (continued)

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2008:

Year	Capital expenditures
2009	10,740,257
Total	**10,740,257**

Contingencies of Kazgermunai

The tax authorities have commenced legal action against Kazgermunai in respect of obligations related to rates applied on the computation of fines for flaring gas in volumes above permitted amounts. In relation to this matter, in 2008, Kazgermunai appealed the assessment of the tax authorities with the Kyzylorda regional economic court and prevailed. However, the tax committee appealed this verdict with the Supervisory Panel of the Kyzylorda oblast court and the previous verdict was overturned in favor of the tax committee. Kazgermunai is in the process of filing a further appeal to the Supreme Court of the Republic of Kazakhstan. Management of Kazgermunai believes that they will ultimately prevail in this matter and therefore no amounts have been accrued in the financial statements for the year ending December 31, 2008. Should Kazgermunai not prevail in their appeal the maximum amount of their liability is estimated by Kazgermunai's management is 9,873,360 thousand Tenge, inclusive of fines and penalties.

21. Subsequent events

Related parties

On February 2, 2009 the Government represented by joint stock company SamrukKazyna National Welfare Fund agreed to become a major shareholder of Alliance Bank and BTA Bank with 76 and 78 percent of total shares, respectively. From the above date the Company, treats each bank as a related party for financial accounting and reporting purposes.

Tenge devaluation

On February 4, 2009 the Tenge devalued against the US dollar and other major currencies. The exchange rate before and after devaluation were 120 Tenge / US dollar and 150 Tenge / US dollar respectively. As at February 27, 2009 the official exchange rate, as set by the National Bank of Kazakhstan. was 150.26 Tenge / US dollar.

Revision of Kazakhstan Banks credit rating

On February 17, 2009 Standard and Poor's lowered its long term counterparty credit rating for a large number of Kazakhstan Banks including Kazkommerts bank, Halyk bank and BTA Bank. Under these new ratings both Kazkommerts bank and BTA bank fail to meet the treasury policy requirement to have a credit rating of no more than two levels below that of the Kazakhstan government's sovereign credit rating (see Note 18).

These consolidated financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on February 27, 2009:

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

Contact information

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